- REVISED EDITION : 2019

- **Publisher :-**
  Commissioner for Co-operation & Registrer of
  Co-operative societies, Maharashtra State, Pune.

  New Central Building, Opp. Sasoon Hospital,
  Pune-411 001.

- **Printer :-**
  The Manager,
  Government Press, Kolhapur.

- **Price :-** Rs.

SUBHASH DESHMUKH

MINISTER

CO-OPERATION, MARKETING AND TEXTILES

MAHARASHTRA STATE, Mantralaya, Mumbai 400 032

www.maharashtra.gov.in

Outward No./ Min./Co-op., Mkt. & Tex./ VIP/ 1680/2018 Date: 27 November, 2018

The Father of the Nation Mahatma Gandhi had famously said ***"Development of India can be achieved only when our villages are developed".*** The fundamental objective of our government is to ensure inclusive development of all our villages, thereby empowering our farmers' community economically; by strengthening the operational effectiveness of Co-operative institutions. To lay emphasis to achieve this goal, it is imperative to bring in standardization in procedures, professional approach and best practices to be followed in Co-operative sector.

With 97th Constitutional amendment, the expanse of myriad activities for all stakeholders in the Co-operative sector has widened in true sense. An efficient Co-operative sector, therefore, necessitates an effective audit mechanism in practice. The prudent audit mechanism has always enhanced the productivity of any organisation, as it ensures the inherent checks and balances within the organisation. Therefore, greater responsibility falls on the shoulders of auditors of Co-operative Department for smooth and sustainable functioning of any Co-operative organisation. The success of our Co-operative movement greatly relies upon the extent to which audit of each Co-operative organisation is carried out, both in letter and in spirit. Any lethargy displayed in the process of audit will prove to be detrimental to the very purpose of the Co-operative movement. A far-sighted approach and systematic pursuance of procedures will go a long way in helping build a discreet audit apparatus for Co-operative institutions.

In this context, the novel initiative of publication of revised Co-operative Audit Manual is a welcome step in the right direction by the Commissioner for Co-operation and Registrar of Co-operative Societies, Maharashtra State. Further, I place on record my appreciation for the efforts and hard work put in by the entire team, especially by the Committee under the Chairmanship of C.A. D. A. Chougule and other members.

I am sure that the Audit Manual will prove beneficial to the Co-operative Auditors as well as the Officers of Co-operative Department and different Co-operative institutions, I sincerely hope that adoption of such best audit practices will improve overall standards of Co-operative sector in general and strengthen the Co-operative movement in particular.

(Subhash Deshmukh)

Co-operation, Marketing & Textiles Dept.
Mantralaya, Mumbai-400 032.
Dated : 14th December, 2018

Abha Shukla,
Principal Secretary (Co-operation)

PREFACE

Co-operative movement in India is over 112 years. Maharashtra is one of the leading state across India who has set an example in many initiatives in the development of co-operative sector including e-governance and professionalism. The auditor plays very vital role of friend, philosopher and guide in empowering the management to function. The proper professional guidance, supervision, verification control and reporting by the auditor in the functioning of the society and the regulatory compliance goes a long way in the systematic growth of the co-operative business enterprise. This helps the members as well as the regulators to take necessary timely remedial actions.

Initially, the Co-operative Audit Manual was prepared and published way back in 1974 with the view to provide guidance to the Co-operative Societies, auditors and officers of the Co-operative Department. Since then, the Co-operative movement in the State has witnessed a voluminous and multifaceted growth. There has been tremendous growth in every aspect viz. types and quantum of societies, deposits, members, turnover, working capital of societies, etc. Over the period the working capital of cooperative banks, co-operative credit societies, co-operative processing units, etc. has increased manifold.

In view of the changed scenario as mentioned above, it was the need of the hour to have Revised Audit Manual (RAM). The importance and utility of this Revised Audit Manual is vital for maintaining the accounts of the societies as per the Accounting Standards by the management and to carry out the audit tasks as per the prescribed auditing standards by the auditors. The Autonomy entrusted to the Co-operative societies for appointing the Statutory Auditors vide the Amended Maharashtra Co-operative Societies Act, 1960 and Rule, 1961 has substantially augmented the accountability and responsibility of the statutory auditors. In this context, the important aspects like internal check and control, vouching depreciation, book keeping, duties and responsibilities, powers and liabilities of an auditor, planning and audit programs, checklists for the audit of the different types of co-operative entities, etc. have been incorporated in the Revised Audit Manual, the significance of this Revised Audit Manual is remarkable. This manual embodies various important aspects like Accounting and Auditing Standards, important ratio analysis, informing and applicability of various allied Laws, verification and validation of assets, etc. with a special emphasis on guidance on drafting Specific Reports and filing of FIR's for administrative violations and financial irregularities.

I congratulate Shri. S. S. Sandhu, former Additional Chief Secretary,(Co-operation), Shri. Chandrakant Dalvi, IAS, Dr. Vijay Zade, IAS, former Commissioners and Shri. Satish Soni, Commissioner for Co-operation and Registrar of co-operative societies, Maharashtra State and his team members for their valuable contributions in bringing out such a comprehensive Revised Audit Manual as a landmark publication of the department. Strict adherence to and implementation of the principles laid down in this Revised Audit Manual will surely help in ensuring smooth and orderly development of Co-operative movement in Maharashtra.

Mumbai.
Date :14th December, 2018

(Abha Shukla)

Commissioner for Co-operation &
Registrar of Co-operative societies,
Maharashtra State, Pune.

PREFACE

It gives me an immense pleasure to present the revised of Co-operative Audit Manual replacing the earlier version of 1974 .

The vast and diversified Co-operative movement in Maharashtra has played a significant role in the social and economic development of the State. At present, there are around 2 lakhs functioning different types of Co-operative societies registered in the State, that include sugar factories, co-operative banks, credit societies, spinning mills, consumer societies, housing societies, service provider societies, dairies, P.A.Cs etc. The 97th Constitutional amendment is aimed to encourage economic activities of Co-operatives which in turn help progress of Rural India. It is expected not only to ensure autonomous & democratic functioning of Co-operatives but also accountability of management and other stakeholders.

After the 97th Constitutional amendment due to vital revisions in the Maharashtra Co-operative Societies Act, 1960 and owing to gradual changes in the other allied Acts over the period, it was but necessary to induct a detailed Revised Audit Manual to assist the Auditors in their audit functions. Audit has always been an essential, effective and mandatory tool for the cross controll on the management.

This Revised Audit manual contains detailed guidelines and procedures to be followed by the auditors for conducting audit of Co-operatives and also for preparation of audit reports. In this manual, the role of audit personnel has been designed as a friend, philosopher and guide of the Co-operatiave societies for strengthening the existing financial management system of Co-operative sector in Maharashtra. This revised audit manual outlines the professional standards of audit to be maintained by the auditors. The manual also incorporates standardised formats, detailed checklists and ratio analysis for planning, conducting, reporting and monitoring of the co-operative audit functions. It also embodies concepts of planning audits, concepts for ensuring audit quality and scientific procedures for qualitative audits. Besides it also manifests important Auditing and Accounting Standards and anciliary laws applicable to Co-operative movement in Maharashtra.

I am confident that this Revised Audit Manual will bring out a uniform procedure and help in achieving the objectives of Co-operative Audit in a much streamlined and efficient manner. This manual is to be followed specifically by all auditors on the panel and office bearers of Co-operative Societies at large. This revised audit manual will provide guidance for conducting statutory audit, re-audit and test audit of Co-operative of societies. This manual is also intended to guide the auditors and office bearers of the societies in the post audit compliance procedures.

I am thankful to the Shri. Chandrakant Dalvi, IAS and Dr. Vijay Zade, IAS, former Commissioner for Co-operation and Registrar of Co-operative Societies, and Revised Audit Manual Committee, headed by C.A., D.A. Chougule Retd. Joint Registrar, Co-operative Societies, (Audit) and his team for their committed and conscientious contribution for Developing and shaping this Revised Audit Manual.

Place : Pune
Date: 27th November, 2018

(Satish Soni)
Commissioner for Cooperation, and Registrar of Co-operative Societies Maharashtra State, Pune.

INDEX

VOLUME No. I

CO-OPERATIVE AUDITING

1. INTRODUCTORY

1.1	Background and Objectives	1
1.2	Historical Retrospect	1
1.3	Need for Compulsory Statutory Audit	1
1.4	Developments during 1974-2016	1
1.5	97th Constitutional amendment	2

2. AUDITING

2.1	Financial accounting and auditing	3
2.2	Auditing as a tool of management	3
2.3	Financial auditing is a review of the results of past actions	3
2.4	Cost auditing	3
2.5	Operational efficiency and Ratio analysis	4
2.6	Various types of audit	4
2.7	Recent changes in Co-operative Audit	4

3. MANUAL

3.1	Need for updating manual	5
3.2	Objectives of the Manual	6
3.3	Scope of the Manual.	6

4. AUDIT : MEANING AND SCOPE

4.1	Meaning of Audit	7
4.2	Definition of Audit	7
4.3	Purpose of Audit : - Detection of frauds and errors	8
4.4	Advantages of Audit.	9

5. DUTIES AND RESPONSIBILITIES OF AUDITORS

5.1	Duties of the Co-operative Auditor	10
5.2	Responsibilities of the Auditor	10
5.3	Auditor's powers to go beyond the books of accounts.	11
5.4	Auditor to assist and advice management of Societies.	11

6. CO-OPERATIVE SOCIETIES AUDIT : FEATURES AND DIFFERENCES

6.1	Difference between the audit of Co-operative Societies and of joint stock companies Auditor's responsibility to the Registrar and society	12
6.2	Other distinguishing features	12
6.3	Special features of Co-operative Audit	13
6.4	Examination of overdue debts	13
6.5	Valuation of assets and liabilities	13
6.6	Adherence to Co-operative principles	13
6.7	Observance of the provisions of the Act, Rules and Byelaws	13
6.8	Furtherance of public welfare and safeguarding of public funds.	13
6.9	Personal verification of members and examination of their pass books	14

		Page No.
6.10	Assessment of damages	14
6.11	Certification of Bad debts	14
6.12	Awarding audit classification to the society	15
6.13	System of Accounting & Policies	15
7.	**QUALITIES OF AUDITOR**	
7.1	Auditor :- A friend, Philosopher and Guide	16
7.2	Qualities required of an Auditor	16
7.3	Attitude towards non-officials	16
7.4	Honesty, Integrity and sincerity	16
7.5	Independence of the Auditor	17
8.	**POWERS AND LIABILITIES OF AUDITOR**	
8.1	Powers of the Auditor	18
8.2	Acts and omissions which constitute offences under the Co-op. Society Act	18
8.3	Additional Powers	18
8.4	Audit Report to be considered by Annual General Body Meeting	19
8.5	Auditor's right to receive notice of and attend Annual General Body Meeting	19
8.6	Auditor to be a "Public Servant"	19
8.7	Authority of Auditor as public servants	19
8.8	Consequences of disobedience of summons	20
8.9	Failure to produce documents	20
8.10	Consequences of refusal to answer questions and giving false evidence	20
8.11	Causing obstruction to public servant	21
8.12	Need for extra powers	21
8.13	Liability of the Auditor :- Nature and extent of liability	21
8.14	Responsibility of the auditor to the Registrar / Society	21
8.15	Auditor's responsibility in certifying balance sheet and profit and loss account	21
8.16	Opinion from an expert (SA 620)	22
8.17	Need to carry out further probe when necessary	22
8.18	Responsibility for detection of frauds	22
8.19	Criminal liabilities of auditors	22
8.20	Civil liabilities of auditors	22
8.21	Auditor must apply due skill and care	23
8.22	Auditor's duty in regards to stock in trade and book debts	23
8.23	Liability for damages	23
8.24	Responsibility for work done by clerk / subordinate / article	23
8.25	Extent of detailed scrutiny and enquiry	23
9.	**ARRANGEMENTS FOR AUDIT OF CO-OPERATIVE SOCIETIES**	
9.1	Statutory responsibility of the Registrar / Society for annual audit of Co-operative Societies	24
9.2	Audit of Co-operative Societies by auditors appointed by the Registrar / Society	24
9.3	Preparation of Panel of Auditor	24
9.4	Online compliances by the auditor	28
9.5	Specimen letter of communication to the previous auditor on letter head of Auditors	29
9.6	Specimen of appointment letter on letter head of Co-operative Society	30
9.7	Removal of auditor from panel	31

Page No.

10. Scope of Audit

10.1 Scope of Audit 32
10.2 Appointment of auditor 33
10.3 Submission of Audit report 33
10.4 Opinion by the auditor 33
10.5 Qualified opinion 34
10.6 Appointment letter by society 34
10.7 General terms and conditions of appointments of auditor 34
10.8 Duties of the auditor 35
10.9 Powers of auditor 35
10.10 Responsibilities of the auditor 36
10.11 Remuneration of auditor 36

11. DIFFERENT TYPES OF AUDITS

11.1 Annual audit or Statutory audit 37
11.2 Internal audit 37
11.3 Concurrent Audit 37
11.4 Re-audit 37
11.5 Test audit under Section 81 (3) (c) 37
11.6 Special audit 38
11.7 Cost audit 38
11.8 Definition of cost audit 38
11.9 Objects of the cost audit 38
11.10 Performance audit 38
11.11 Cost audit records 39
11.12 Social audit 39
11.13 Energy Audit 39
11.14 EDP Audit / System Audit 39
11.15 Snap Audit 39

12. PREPARATION FOR AUDIT AND FRAMING OF AUDIT PROGRAMMES

12.1 Intimation of audit 40
12.2 Need to give prior intimation 41
12.3 When prior intimation need not be given 41
12.4 Procedure to deal with complaints 42
12.5 Preparation of statements of accounts and information required for audit under Rule 69 (8) of the M.C.S.Rules 42
12.6 Additional information to be obtained in respect of certain types of Societies 43
12.7 Working papers to be maintained by the auditor 43
12.8 Account books and records to be maintained by Co-operative Societies 44
12.9 Special books and registers to be maintained by certain types of Societies 44
12.10 Duty of auditor to see that necessary account books are maintained 45
12.11 Powers of the Registrar to get accounts written, Procedure to be followed when accounts are incomplete 45
12.12 Responsibility for maintainance of accounts 45
12.13 Power of the Registrar to get account written 46
12.14 Preparation for audit 46
12.15 Need to obtain clarification and explanations 47
12.16 Need to study process of various systems 47

		Page No.
12.17	Auditor not to approve entries in audit without proper understanding	47
12.18	Audit evidence	48
12.19	Reliability of audit evidence	49
13.	**INTERNAL CONTROL**	
13.1	Internal control	50
13.2	Internal control, internal check and internal audit	50
13.3	Management of Co-operatives and internal control	50
13.4	Points to be considered while determining quantum of detailed checking	50
13.5	Difficulties in evolving suitable arrangements for internal control in Co-operative Societies	50
13.6	Basic principles of internal control	51
13.7	Internal control where the accounts are maintained on computer	52
13.8	Bank Reconciliation	53
13.9	Evaluation of the system of internal control	53
13.10	Auditing in depth	54
13.11	Test or percentage checking	54
13.12	Sample checking	54
13.13	Ledger scrutiny	55
14.	**AUDIT PROGRAMME**	
14.1	Preparation of the programs for audit	56
14.2	Need to prepare programs of audit	56
14.3	Standard audit programs	57
14.4	Audit programme to be revised from time to time	57
14.5	Allocation of work amongst the assistants	57
14.6	Method of working and training of audit assistants	59
14.7	Responsibility of auditor for proper conduct of audit	59
14.8	Control of the quality of audit work	59
14.9	Maintainance of worksheets	60
14.10	Technique of audit - use of ticks or check marks	60
14.11	Type of ticks or check marks	61
14.12	Use of coloured pencils	61
14.13	Calling out figures and description	61
14.14	Corrections and overwriting in accounts	62
14.15	Entries in pencil to be got inked before checking	62
14.16	Account books to be got written up completely before commencement of audit	62
15.	**ROUTINE CHECKING AND HIGHER AUDIT**	
15.1	General	63
15.2	Importance of routine checking	63
15.3	Vouching	64
15.4	Vouching of cash transactions - control over cash	65
15.5	Vouching of receipt - Internal control over receipts	65
15.6	Nature of documentary evidence available for checking receipts	67
15.7	Method of checking receipts	67
16.	**CHECKING OF DIFFERENT TYPES OF RECEIPTS**	
16.1	Share and entrance fees	68

		Page No.
16.2	Recovery of shares by installments	68
16.3	Share capital of newly registered Societies	68
16.4	Treatment of deemed member shares	68
16.5	Audit of accounts of Societies prior to their registration	69
16.6	Checking of members register	69
16.7	Refund of shares	69
16.8	Admission of new member, points to be noted	71
16.9	Receipt of Government share capital, loan and subsidy	71
16.10	Accounting of subsidies granted by Govenrment	72
16.11	Indian Accounting Standard for Government grants	72
16.12	Related provisions of Co-op. Society Act related to Government grants	73
16.13	Deposits	74
16.14	Receipts of loans from central banks and other financing agency	74
16.15	Repayment of loans by members	74
16.16	Special receipts :- Sale proceeds of Government securities and other investments	74
16.17	Capital Receipts :- Sale of immovable property and other fixed assets	74
16.18	Disposal of fixed assets	75
16.19	Replacement of Machinery	75
16.20	Income received - Cash sales	75
16.21	Interest received on loans and advances	75
16.22	Interest received	75
16.23	Rents received from properties	75
16.24	Hire charges of trucks, tractors and other vehicles and machines	76
16.25	Miscellaneous receipts	76
17.	**VOUCHING PAYMENTS**	
17.1	General considerations	77
17.2	Control over payments	77
17.3	Nature of documentary evidence available	78
17.4	Checking payments-points to be noted	78
17.5	Sanction for payments	79
17.6	Petty cash book :- Control over petty cash	79
17.7	Method of checking petty cash book	80
17.8	Payment of advances	80
17.9	Anamat or Tasalmat	80
17.10	Procedure for checking payment voucher	81
17.11	Notes to be taken of usual and irregular items	81
17.12	Vouching diiferent types of payment	82
17.13	Payments of savings deposits	82
17.14	Payment of interest on deposits and loans	83
17.15	Payment of dividend and bonus	83
17.16	Refund of suspense amounts	83
17.17	Repayment of bank loan, cash credit and overdraft	83
17.18	Managements expenses :- Payment of sitting fees and travelling expenses to members of the committee	83
17.19	Payment of conveyance charges	84
17.20	Travelling expenses of staff	84

		Page No.
17.21	Expenses over maintainance of vehicles	84
17.22	Expenses over maintainance of guest house	84
17.23	Payment of honorarium	84
17.24	Payment of salaries	85
17.25	Payment of donations and charities	85
17.26	Payment of Rent, rates and taxes	85
17.27	Payment of electricity and water charges	86
17.28	Telephone and Internet charges	86
17.29	Postage charges	86
17.30	Stationary and printing charges	86
17.31	Payment of insurance premium	87
17.32	Advertising charges	87
17.33	Website development and software expenses	87
17.34	Miscellaneous :- Trade expenses, general charges, office expenses, expenses on meetings and ceremonials, etc.	87
17.35	Observation of budgetary provisions	87
17.36	Expenses which should be objected to in audit	88
17.37	Checking of journal	88
18.	**VOUCHING TRADING TRANSACTIONS**	
18.1	Purchase	90
18.2	Organisation of the store section	92
18.3	Auditor's responsibility for proper organisation of the store	93
18.4	Store accounting	93
18.5	Valuation of inventories	94
18.6	Sales	94
18.7	Consignment accounts	95
18.8	Sales on approval or return	95
18.9	Goods lying with third parties	95
18.10	Goods received on consignment	95
19.	**PAYMENT OF WAGES**	
19.1	Internal control over payment of wages	96
19.2	Principal Features of internal control in respect of wages	96
19.3	Method of checking pay rolls	97
19.4	Payment of overtime	97
20.	**LOANS TO MEMBERS**	
20.1	Restrictions on lending by Co-operative Societies	98
20.2	Finance with collaboration and partnership	98
20.3	Restrictions on lending operation of certain type of Societies	99
20.4	Transactions with non members	99
20.5	Checking of loan operations : - Procedure and appraisal	99
20.6	Documents	100
20.7	Checking of loan bonds	101
20.8	Additional points to be noted while checking loan bonds	101
20.9	Scrutiny and verification of loans and advances	102
20.10	Loans against different kinds of securities	102
20.11	Loans against security of fixed deposits	102

		Page No.
20.12	Loans on the security of insurance policies	103
20.13	Advances against gold and silver ornaments and gold silver bars etc	103
20.14	Advances against pledges of Government and other trustee securities, shares, bonds and debentures	104
20.15	Advances against pledge of goods	104
20.16	Advance against hypothication of goods	105
20.17	Advance against mortgage of immovable property	106
20.18	Discounting of bills and hundies	106
21.	**INVESTMENT OF FUNDS**	
21.1	Investment in shares of Co-operative Societies	108
21.2	Restrictions on investment in shares of other Societies	108
21.3	Method of checking investments in shares	108
21.4	Investment in fixed or call deposit with bank	108
21.5	Purchase of national plan loans, saving certificates and other Government and trustee securities, bonds and debentures	108
21.6	Purchase and sales of investments	109
21.7	Purchase and sales of securities on behalf of customers	109
21.8	investment in treasury bills	109
21.9	Switching operations	109
21.10	Badla transactions	109
22.	**INVESTMENTS IN IMMOVABLE PROPERTY, PURCHASE OF LANDS AND BUILDINGS**	
22.1	Purchase of lands buildings	110
22.2	Investments of Reserve Fund in immovable property	110
22.3	Construction of buildings, approval of layout / building plans	111
22.4	Appointment of contractors	111
22.5	Payments to contractors	111
22.6	Final bills and completion certificates	112
22.7	Construction of buildings departmently	112
22.8	Construction of godowns by Co-operative Societies	113
23.	**CAPITAL AND REVENUE EXPENDITURE**	
23.1	Treatment of capital expenditure	114
23.2	Apportionment of expenditure between capital and revenue	114
23.3	Vouching of capital expenditure	114
24.	**PREPARATION OF THE PROFIT AND LOSS ACCOUNT**	
24.1	Checking of posting into ledger	116
24.2	Checking of the General ledger	116
24.3	Calling over of opening balances from previous year's ledger	117
24.4	Drawing up of the Trial balance	117
24.5	Checking of journal	117
24.6	Closing of nominal account	118
24.7	Adjustment of nominal accounts	119
24.8	Adjustment of outstanding expenses	119
24.9	Interest payable	119
24.10	Outstanding expenses	119

		Page No.
24.11	Prepaid expenses	120
24.12	Income receivable	120
24.13	Deferred Revenue expenditure	120
25.	**DRAWING UP OF THE PROFIT AND LOSS ACCOUNT**	
25.1	Division of the Profit and Loss account into three sections	121
25.2	Manufacturing account	121
25.3	Trading account	121
25.4	Profit and loss account proper	122
25.5	Revenue account of Income and Expenditure account	122
25.6	Profit appropriation account	123
25.7	Auditor's responsibilities as regard profit and loss account	123
25.8	Principles governing preparation of profit and loss account	123
25.9	Prior period items or changes in accounting policies in respect of profit and loss account	124
25.10	Guidelines issued by the Institute of Chartered Accountants of India	124
25.11	Form of the profit and loss account	124
25.12	Amounts to be charged to profit	125
25.13	Rule 51 - Further amounts to be charged to profit	126
25.14	Form N	126
25.15	Income side of profit and loss account	127
25.16	Income and Expenditure not related to accounting year	128
26.	**PREPARATION OF BALANCE SHEET - VERIFICATION OF ASSETS AND LIABILITIES**	
26.1	Balance sheet	129
26.2	Valuation of assets for the purpose of Balance sheet	129
26.3	Meaning of valuation	129
26.4	Going concern principle	130
26.5	Verification	130
26.6	Form of balance sheet Form N	130
26.7	Auditor's responsibility regarding form and contents of balance sheet	131
26.8	Classification of assets for purposes of valuation	131
26.9	Verification of fixed assets	132
26.10	Accounting standard for fixed assets (AS 10)	132
26.11	Cost and valuation of fixed assets	132
26.12	Revaluation of assets	133
26.13	Disclosure	133
26.14	Disclosure as per Co-operative Societies Act	133
26.15	Current assets - Classification of current assets	133
26.16	Fixed assets	134
26.17	Depreciation	134
26.18	Accounting standard - Depreciation accounting (AS 6)	134
26.19	Valuation of different types of assets	135
27.	**VERIFICATION AND VALUATION OF CURRENT ASSETS**	
27.1	Investment	139
27.2	Accounting standard - Accounting for Investment (AS 13)	141
27.3	Disclosures	141
27.4	Disclosures as per Co-operative Act	142

		Page No.
27.5	Stocks and works in progress	142
27.6	Verification of physical stocks	142
27.7	Method of stock taking, Annual stock taking	143
27.8	Observance of stock taking	143
27.9	Checking of store sheets	143
27.10	Valuation of stock in trade	144
27.11	Accounting Standard - Valuation of Inventory (AS 2)	144
27.12	Auditor's duty as regards valuation	146
27.13	Valuation of By-products	147
27.14	Points to be noted while valuing stocks	147
27.15	Verficiation of works in progress	147
27.16	Stock valuation certificate to be obtained from management	148
27.17	Sundry debtors	149
27.18	Outstanding advances	149
27.19	Loans outstanding	151
27.20	Loans to committee members	151
27.21	Confirmation of debit balance	152
27.22	Examination loans outstanding	154
27.23	Procedure for classification of debts	156
27.24	Worksheet for estimating the bad and doubtful debits at Central banks for the purpose of writing off	156
27.25	Procedure for writing off of bad debts	157
27.26	Prepaid expenses	159
27.27	Deferred Revenue expenditure	159
27.28	Investment amortization	159
27.29	Accounting standard (AS 8) - Research and development	159
27.30	Fictitious assets	160
27.31	Verification of cash on hand and in bank	161
27.32	Arrangement and grouping of assets in Form N and disclosures	165
28.	**VERIFICATION AND VALUATION OF LIABILITIES**	
28.1	Classification of liabilities - Owned capital and borrowed capital	166
28.2	Valuation of shares	168
28.3	Reserves and provisions - Statutory reserve fund	169
28.4	Investment Reserve and other funds	170
28.5	Funds created out of profits	170
28.6	Assessment and treatment of Doubtful and Bad debts - Auditor's responsibility as regards adequacy of provisions	171
28.7	Writing off of bad debts	172
28.8	Depreciation in the value of investments - Investments fluctuation fund	172
28.9	Sinking fund	173
28.10	Bonus equalization fund	173
28.11	Dividend equalization fund	173
28.12	Other funds and provisions - Funds to be charged to profits and to be created out of profits	173
28.13	Legal provisions regarding creation and maintenance of certain funds- Funds created by charging to profit and loss account	174
28.14	Funds created by appropriation of net profit	175

		Page No.
28.15	Charity fund	175
28.16	Provision for overdue interest	175
28.17	Contingent liabilities	175
28.18	Arrangement and grouping of liabilities and disclosures	176
29.	**ACCOUNTING STANDARDS**	
29.1	Introductory	177
29.2	Applicability to Co-operative Societies	177
29.3	Accounting standards	177
29.4	Applicability of accounting standards	179
29.5	Accounting Standard AS 1 - Disclosure of accounting policies	179
29.6	Accounting Standard AS 3 - Cash flow statement	180
29.7	Accounting Standard AS 4 - Contingencies and events occuring after the balance sheet date	180
29.8	Accounting Standard AS 5 - Net profit or loss for the period, prior period items and changes in accounting policies	181
29.9	Accounting Standard AS 7 - Accounting for construction contracts	182
29.10	Accounting Standard AS 9 - Revenue recognition	183
29.11	Accounting Standard AS 12 - Accounting for Government grants	184
29.12	Accounting Standard AS 14 - Accounting for amalgamations	186
29.13	Accounting Standard AS 15 - Accounting for retirement benefits in the financial statements of employees	190
29.14	Accounting Standard AS 16 - Borrowing costs	191
29.15	Accounting Standard AS 17 - Segment reporting	192
29.16	Accounting Standard AS 18 - Related Party transactions	193
29.17	Accounting Standard AS 19 – Leases	194
29.18	Accounting Standard AS 20 - Earning per share	198
29.19	Accounting Standard AS 21 - Consolidated financial statements	198
29.20	Accounting Standard AS 22 - Accounting for taxes on income	199
29.21	Accounting Standard AS 24 - Discontinuing operations	199
29.22	Accounting Standard AS 28 - Impairment of assets	200
29.23	Accounting Standard AS 29 - Provisions, contingent liabilities and contingent assets	200
30.	**AUDITING STANDARDS**	
30.1.	SA 520 – Analytical Procedures	203
30.2.	SA 530 – Audit Sampling	203
30.3.	SA 540 – Auditing Accounting Estimates, including fair value accounting estimates and related disclosures	204
30.4.	SA 550 – Related Parties	205
30.5.	SA 560 – Subsequent event	206
30.6.	SA 570 – Going Concern	207
30.7.	SA 580 – Written Representation	208
30.8.	SA 600 – Using the work of another auditor	209
30.9.	SA 610 – Using the work of Internal auditor	210
30.10.	SA 620 – Using the work of an auditor's expert	211
30.11.	SA 700 – Forming an opinion and reporting on financial statements	212

		Page No.
30.12.	SA 705 – Modifications to the opinion in the independent auditor's report	213
30.13.	SA 706 – Emphasis of matters paragraphs and other matter paragraphs in the independent auditors report	214
30.14.	SA 710 – Comparative information –Corresponding figures and comparative financial statements	215
30.15.	SA 720 – The auditor responsibility in relation to other information in document containing audited financial statements.	215
30.16.	SA 800 – Special considerations – Audit of financial statements prepared in accordance with special purpose framework	216
30.17.	SA 805 – Special considerations – Audits of single purpose financial statements and specific elements, accounts or items of a financial statements.	217
30.18.	SA 810 – Engagements to report on summary financial statements	217
30.19.	SRE 2400 – Engagements to review financial statements	218
30.20.	SRE 2410 – Review of interim financial information performed by the independent auditor of the entity	219
30.21.	SRE 3400 – The examination of prospective financial information	221
30.22.	SRE 3402 – Assurance report on controls at a service organization	221
31.	**AUDIT REPORT AND FOLLOW-UP OF AUDIT**	
31.1	Maintenance of audit files	223
32.	**AUDIT NOTES AND QUERIES**	
32.1	Rectification on the spot	225
32.2	Writing out audit objections - Query sheets	225
32.3	Usual audit objections	226
32.4	Objectionable expenses	226
32.5	Special notes regarding serious objections	227
32.6	Recording information of confidential nature	228
33.	**DRAFTING OF THE AUDIT REPORT**	
33.1	Legal position regarding submission of audit report	229
33.2	Introduction of new query forms	233
33.3	Certification of the Balance sheet and profit and loss account	234
33.4	Contents of audit report	234
34.	**QUALIFYING AUDIT REPORT**	
34.1	Qualification in audit report	244
34.2	Examples of qualifications	244
34.3	Examples of the transaction involving infringement of the provisions of the Act, Rules and Byelaws	245
35.	**DRAFTING OF GENERAL REMARKS**	
35.1	Auditor's report	247
35.2	Draft audit report to be discussed with the management before final report is submitted	248
36.	**AUDIT CLASSIFICATION OF CO-OPERATIVE SOCIETIES**	
36.1	Introductory	249
36.2	Broad principles	250
36.3	Special instruction for certain type of Societies	252
36.4	Appeals against audit classification awarded by auditor	252

		Page No.
37.	**SPECIAL REPORTS (For Administrative Action)**	
37.1	Circumstances in which special reports must be submitted	253
37.2	Instructions for preparation of special reports	253
38.	**SPECIFIC REPORTS (For Criminal Action)**	
38.1	Circumstances in which specific report is required - Indian Penal Code (Offences)	254
38.2	Criminal misappropriation	255
38.3	Misapplication and misappropriation distinguished	255
38.4	Criminal breach of trust	256
38.5	Criminal misappropriation and criminal breach of trust distinguished	256
38.6	Misfeasance, misappropriation and breach of trust distinguished	256
38.7	Dishonest intention	257
38.8	Entrustment	257
38.9	Property	258
38.10	Dominion over property	258
38.11	Hire purchase agreement	258
38.12	Willful ommission to account	259
38.13	Willfully suffers any other person	259
38.14	Evidence	259
38.15	Section 408 of IPC - Criminal breach of trust by clerk or servant	260
38.16	Servant, Master and servant	260
38.17	Violation of legal contract	260
38.18	Section 409 of IPC	260
38.19	Cheating	261
38.20	Deceiving	261
38.21	Wrongful loss or gain	261
38.22	Dishonestly	262
38.23	Section 420 of IPC – Cheating	262
38.24	Forgery	262
38.25	Fraudulently	263
38.26	Document	263
38.27	Forgery of valuable securities	264
38.28	Forgery for cheating	264
38.29	Offence byClerk or servant	265
38.30	Willfully and with intent to destroy, etc.	265
38.31	Falsification	265
38.32	Accounts	265
38.33	Electronic record	266
38.34	Section 192 of IPC - Fabricating false evidence	266
38.35	Section 34 of IPC - Act done by several persons	266
38.36	Criminal Conspiracy	266
39.	**SPECIAL REPORT (REPORT WRITING)**	
39.1	Need to submissions of special report	267
39.2	Contents of specific report	267
39.3	Lodging of Complaint	268
39.4	First Information Report (FIR)	268
39.5	Care to be taken while writing First Information Report	269
39.6	Follow up of case	269
39.7	Care to be taken	269

			Page No.
40.	**FOLLOW-UP AUDIT - RECTIFICATION OF ERRORS POINTED OUT IN AUDIT**		
	40.1	Legal provision	270
	40.2	Action to be taken by District Deputy Registrar and Divisional Joint Registrar	270
41.	**REMUNERATION OF AUDITOR**		
	41.1	Historical retrospect	272
42.	**FLYING SQUAD**		
	42.1	Introduction	273
	42.2	Duties and functions	273
	42.3	Powers of the Special Auditor Class-I (Flying Squad)	273
	42.4	Report by flying squad	273
	42.5	Work to be doen by staff working in the Divisional squads	274
	42.6	Work to be done by the Special Flying Squad for Forest Labourers Societies.	275
43.	**STATE LEVEL ACCOUNTS COMMITTEE**		
	43.1	Introduction	277
	43.2	Functions	277
	43.3	Scope of the functions	277
	43.4	Powers of the Committee	277
	43.5	Procedure	278
	43.6	Instructions to audit staff	278

VOLUME NO. II

CO-OPERATIVE SOCIETIES ACT AND ALLIED LAWS

A)	**IMPORTANT PROVISIONS OF THE MAHARASHTR CO-OPERATIVE SOCIETIES ACT, 1960 AND MAHARASHTRA CO-OPERATIVE SOCIETIES RULES, 1961, AFFECTING AUDIT OF CO-OPERATIVE SOCIETIES**		
1.	1.1	Important provisions of the Act and the Rules made there under	281
2.	**AUDIT AND AUDITORS**		
	2.1	Audit and auditors	317
	2.2	Types of audit included in audit	317
	2.3	Qualification of the auditor	317
	2.4	Remuneration of the auditor	317
	2.5	Rate of audit fees	317
	2.6	Suggestions to the society regarding appointment of auditor	317
3.	**AUDIT REPORT**		
	3.1	Contents of the audit report	318
	3.2	Certification and opinion of the auditor	318
	3.3	Other opinions	318
	3.4	Schedules to be annexed	319
	3.5	Summary of audit report and objectionable nature of audit report	319
	3.6	Forms of audit report	319
	3.7	Audit classification	319

			Page No.
4.	**TYPES AND SCOPE OF AUDIT**		
	4.1	Scope of statutory audit	320
	4.2	Cost or Performance audit	320
	4.3	Flying squad	320
	4.4	Test audit	320
	4.5	Re-audit	320
	4.6	Special audit	320
5.	**POWERS, DUTIES AND RIGHTS OF THE AUDITOR**		
	5.1	Powers to seize records	321
	5.2	Power to impound the books and documents	321
	5.3	Power to access records and property	321
	5.4	Power to summon	321
	5.5	Power to produce record and information	321
	5.6	Power to investigate	321
	5.7	Right to receive notice of AGBM	322
	5.8	Auditor - Public servant	322
	5.9	Submission of Audit report	322
	5.10	Certification of Bad debts	322
	5.11	Submission of Specific report	322
	5.12	Submission of Special report	322
	5.13	Audit of liquidator's account	322
	5.14	Preparation and maintenance of panel of auditors	323
	5.15	Criteria for removal of the name from panel	324
	5.16	Remuneration of the auditor	324
6.	**RECTIFICATION OF DEFECTS DISCLOSED IN AUDIT**		
	6.1	Rectification of defects disclosed in audit - Section 82	326
	6.2	Submission of audit rectification report by the society - Rule 73	326
7.	**ENQUIRY AND INSPECTION**		
	7.1	Enquiry and Inspection - Section 83	327
	7.2	Inspection	327
	7.3	Registrar's powers to inspect working of society - Section 89 (A)	327
	7.4	Assessment of damages	328
	7.5	Powers of officers to enforce attendance	328
	7.6	Supervision over working of Societies - Section 90	328
8.	**OTHER MATTERS RELATED TO AUDIT**		
	8.1	Payment of T. A. and D. A.	329
	8.2	Security to be furnished by officers and employees handling cash, etc.	329
	8.3	Cash balance on hand - Rule 107-C	329
	8.4	Payment to be made by cheque	329
9.	**MISFEASANCE UNDER CO-OPERATIVE LAW**		
	9.1	Section 88 of the Maharashtra Co-operative Societies Act 1960	330
	9.2	Stages of action	330

		Page No.
9.3	Misfeasance	330
9.4	Misfeasance regarding explanation to misfeasance	331
9.5	Act of misfeasance	331
9.6	Actual loss	331
9.7	Recovery of damages - Summary mode	331
9.8	Liability civil or criminal	331
9.9	Criminal and civil action	331
9.10	Misfeasance ingredients	332
9.11	Persons against whom proceeding can be instituted	332
9.12	Officer	332
9.13	Joint tort-feasars - Acts committed jointly by more than one person	333
9.14	Evidence to be collected	333
9.15	Damages must be proved	334
9.16	Trustees	334
9.17	Proof of actual loss	335
9.18	Payment of dividend out of capital	335
9.19	Reliance upon another person	335
9.20	Payment of honararium to managing directors	336
9.21	Satisfaction of the Registrar	337
9.22	Scope of the Section	337
9.23	Principal of natural justice	338
9.24	Procedure under Rule 72 of MCS Rule	338
9.25	Audit report an evidence	338
9.26	Procedure for quasi judicial proceeding	338

B) IMPORTANT PROVISIONS OF OTHER ACTS

10. The Indian Evidence Act, 1872

10.1	Introduction	339
10.2	Interpretations – Fact	339
10.3	Evidence	339
10.4	Relevancy of facts	339
10.5	What evidence to be given when statement forms part of a conversation, document, electronic record, book or series of letters or papers	340
10.6	Opinion of experts	340
10.7	Oral evidence and documentary evidence	340
10.8	Oral evidence	341
10.9	Documentary evidence - Primary evidence	341
10.10	Secondary evidence	341
10.11	Secondary evidence applicability	342
10.12	Hand writing expert's opinion	342
10.13	Attestation of documents	343
10.14	Electronic records	343
10.15	Public document	344
10.16	Certified copies of public documents	345
10.17	Presumption of the document as evidence	345
10.18	Documents produced as record of evidence	345

		Page No..
10.19	Electronic agreements	345
10.20	Electronic records and electronic signature	345
10.21	Electronic messages - Section 88 A	345
10.22	Burden of proof - Section 101	346
10.23	Proof as a particular fact - Section 103	346
10.24	Confidential communications with legal advisers	346
11.	**The Information Technology Act 2000**	
11.1	Objects	347
11.2	Definitions	347
11.3	Authentication of electronic records	347
11.4	Legal recognition	348
11.5	Retention of electronic records	348
11.6	Security of electronic records	349
11.7	Electronic signature certificate	349
11.8	Offences under the Act	349
11.9	Application of the Act to electronic cheque and truncate cheque	349
11.10	Amendments to other Acts	349
11.11	Banker's books evidence Act 1891	349
11.12	Conditions in the printout	350
11.13	Guidelines for security	350
12.	**Indian Penal Code 1860**	
12.1	Related offences	352
12.2	Criminal misappropriation	352
12.3	Misapplication and misappropriation distinguished	352
12.4	Criminal misappropriation	353
12.5	Separate offences	353
12.6	Criminal breach of trust	354
12.7	Misappropriation	355
12.8	Criminal breach of trust	355
12.9	Entrustment	355
12.10	Ratification	356
12.11	Dominion over property	356
12.12	Hire purchase agreement	356
12.13	Dishonest intention	356
12.14	Willful ommission to account	356
12.15	Temporary retention	356
12.16	Evidence	357
12.17	Section 408 - Criminal breach of trust by clerk or servant	357
12.18	Section 409 - Criminal breach of trust by public servant or by banker, merchant or agent	357
12.19	Cheating - Section 415 of IPC	358
12.20	Dishonest or fraudulent execution of deeds	359
12.21	Dishonest or fraudulent removal or concealment of property	359
12.22	Forgery	359
12.23	Making of false document or false electronic records	359
12.24	Forged document	360
12.25	Forgery of valuable securities, wills etc.	360

		Page No.
12.26	Falsification of accounts	361
12.27	Fabricating false evidence - Section 192 of IPC	362
12.28	Act to be done by several person - Section 34 of IPC	363
12.29	Criminal Conspiracy	363
13.	**The Indian Sale of Goods Act,1930**	
13.1	Definition	364
13.2	Sale and agreement to sell	364
13.3	Implied undertaking as to title, etc.	364
13.4	Sale by description	364
13.5	Sale by sample - Section 17(2)	364
13.6	Section 23(2) - Delivery to carrier	364
13.7	Section 24 - Goods sent on approval or on sale of return	365
13.8	Section 25 - Reservation of right of disposal	365
13.9	Defective title	365
13.10	Section 32 - Payment and delivery are concurrent conditions	366
13.11	Acceptance	366
13.12	Seller's right	366
13.13	Section 59 - Remedy for breach of warranty	366
14.	**Transfer of Property Act, 1882**	
14.1	Immovable property	367
14.2	Notice	367
14.3	Transfer of property under Section 5	367
14.4	Conditional transfer - Section 25	367
14.5	Rights - Section 48	367
14.6	Fraudulent transfer - Section 53	367
14.7	Section 53A - Part performance	367
14.8	Sale under Section 54	367
14.9	Mortgages	368
14.10	English mortgage	368
14.11	Mortgage by deposit of title deeds	368
14.12	Registration of mortgage	368
14.13	Redemption of the mortgage	368
14.14	Obligation to transfer to third party instead of re-transference to the mortgagor	368
14.15	Improvement of mortgaged property	369
14.16	Fore closure	369
14.17	Charge - Section 100	369
14.18	Leases of immovable property	369
14.19	Transfer of actionable claims	370
15.	**The Registration Act, 1908**	
15.1	Immovable property	371
15.2	Documents required to be registered	371
15.3	Effects of non-registration	372
16.	**The Mumbai Tenancy and Agricultural Lands Act, 1948**	
16.1	Agriculturist	373
16.2	To hold land	373

			Page No.
	16.3	A permanent tenant	373
	16.4	Sub letting	373
17.	**The Income Tax Act, 1961**		
	17.1	Definitions under the Income Tax Act	374
	17.2	Exemptions under Income Tax Act	374
	17.3	Profits and gains of business or profession	374
	17.4	Section 40 A - Expenses or payments not deductible in certain circumstances	378
	17.5	Section 43 B - Certain deductions to be only on actual payments	379
	17.6	Section 50 - Special provision for computation of capital gains in case of depreciable assets	380
	17.7	Audit of accounts of certain persons carrying on business or profession	380
	17.8	Deductions - Section 80 P	381
	17.9	Section 139 (1) - Return of Income	382
	17.10	Tax deduction at source	383
	17.11	Section 269 SS - Mode of taking or accepting certain loans and deposits	384
	17.12	Section 269 T - Mode of repayment of certain loans or deposits	385
18.	**The Bombay Stamp Act, 1958**		
	18.1	Introduction	386
	18.2	Instruments chargeable with duty	386
19.	**The Professional Tax Act, 1975**		
	19.1	Purpose	391
	19.2	Applicability	391
	19.3	Definition of Salary	391
	19.4	Composition Scheme	391
	19.5	Tax on employees – Registration	391
	19.6	Exemptions	391
	19.7	Penalties and interest	391
	19.8	Refund for excess payments	392
	19.9	Time limits for asessment	392
	19.10	PT information form	392
	19.11	Verfification by auditor	393
20.	**Foreign Exchange Management Act, 1999**		
	20.1	Applicability	394
	20.2	Definitions	394
	20.3	Regulation and management of foreign exchange - Dealing in foreign exchange	395
	20.4	Authorised persons and foreign currency bank accounts	395
	20.5	Types of bank accounts and non-residence indians	395
	20.6	Repatriation basis	396
	20.7	Non-Repatriation basis	399

		Page No.
21.	**Prevention of Money Laundering Act, 2002**	
21.1	Definition	403
21.2	Money laundering Section 3	403
21.3	Obligation on banking companies - To maintain records	403
21.4	Civil action	404
21.5	Procedure for submission of information	404
21.6	Rules under The Prevention of Money Laundering Act 2002	404
22.	**The Benami Transactions (Prohibitions) Act, 1988**	
22.1	Definition	405
22.2	Consideration and another person	405
22.3	Benami Property - Proof of	405
23.	**Indian Contract Act, 1872**	
23.1	Applicability	406
23.2	Contract	406
23.3	Definitions	406
23.4	Essentials of a valid contract	406
23.5	Types of contract	406
23.6	Proposal / Offer	407
23.7	Acceptance	407
23.8	Communication of offer	407
23.9	Communication of acceptance	407
23.10	Revocation of offer and acceptance	407
23.11	Consideration	407
23.12	Legal requirements regarding consideration	407
23.13	Suit by a third party to an agreement	407
23.14	Validity of an agreement without consideration	408
23.15	Other essentials elements of a contract	408
23.16	Factors which should not influence content	408
23.17	Performance of contract	408
23.18	Time and Place for performance of the promise	408
23.19	Impossibility of performance	409
23.20	Appropriation of payments	409
23.21	Contract which need not to be performed	409
23.22	Restoration of benefit under a viodable contract	409
23.23	Discharge of a contract	409
23.24	Breach of contract	409
23.25	Measurement of damages	410
23.26	Liability for damages	410
23.27	How to calculate the damage	410
23.28	Duty to mitigate loss	410
23.29	Compensation for breach of contract where the penalty is stipulated for	410
24.	**Minimum Wages Act, 1948**	
24.1	Introduction	411
24.2	Applicability	411
24.3	Eligibility of employees	411

		Page No.
24.4	Definition of wages	411
24.5	Classification of wages	411
24.6	Fixation and Revision of minimum wages	411
24.7	Other important issues	412
24.8	Penalties for non-compliance	412
24.9	Verfification by auditor	412
25.	**Negotiable Instrument Act, 1881**	
25.1	Introduction	413
25.2	Meaning	413
25.3	Two conditions of negotiability	413
25.4	Characteristics of a negotiable instrument	413
25.5	Presumptions as to negotiable instruments	413
25.6	Types of negotiable instrument	414
25.7	Negotiation	414
25.8	Dishonour of a negotiable instrument	415
25.9	Effect of dishonour	415
25.10	Notice of dishonour	415
25.11	Noting with notary	415
25.12	Noting should specify in the instrument	415
25.13	Protest	415
25.14	Local courts having jurisdiction over the cases of dishonor of cheques	415
26.	**The Payment of Bonus Act, 1965**	
26.1	Applicability	416
26.2	Definitions	416
26.3	Payment of Bonus	418
26.4	Return to be filled	418
26.5	Employee entitled to bonus	418
26.6	Benefits under the Act	418
26.7	Penalties for non-compliance	418
26.8	Verification by auditor	418
26.9	Bonus linked with production or productivity	419
27.	**Employee's Compensation Act, 1923**	
27.1	Introduction	420
27.2	Applicability	420
27.3	Eligibility of employees	420
27.4	Definition of wages	420
27.5	Compensation provisions	420
27.6	Payment of compensation	421
27.7	Returns as to compensation	421
27.8	Other important issues	421
27.9	Time limit for disposal of cases relating to compensation	421
27.10	Penalties for non-compliance	421
27.11	Verification by auditor	421
28.	**Payment of Gratuity Act, 1972**	
28.1	Applicability	422
28.2	Eligibility of employees	422
28.3	Definition of Salary	422

		Page No.
28.4	Computation of Gratuity	422
28.5	Payment of Gratuity	422
28.6	Other important issues	423
28.7	Penalties for non-compliances	423
28.8	Verification by auditor	423
29.	**The Banking Regulation Act, 1949 (AACS)**	
29.1	Applicability	424
29.2	Banking	424
29.3	Primary Co-operative Bank	424
29.4	District Central Bank and State Co-operative Bank	424
29.5	Loans and Advances - Secured and Unsecured	424
29.6	Banking business	424
29.7	Prohibition on trading	425
29.8	Disposal of non-banking assets	425
29.9	Requirement as to minimum paid up capital and reserves	426
29.10	Charge on capital and assets	426
29.11	Cash Reserve and Statutory Liquidity Reserve	426
29.12	Loans and advances	426
29.13	Powers of Reserve Bank to control advance by Co-operative Banks	427
29.14	Banking license	427
29.15	Restrictions on opening of new and transfer of existing, place of business	427
30.	**Employees Provident Fund & Miscellaneous Provisions Act, 1952, Employees' Provident Fund Scheme, 1952, Employees' Pension Scheme, 1995 and Employees' Deposit linked Insurance Scheme, 1976**	
30.1	Applicability	428
30.2	Eligibility of employees	428
30.3	Benefits under the Act	428
30.4	Other provisions	429
30.5	Penalties for non-compliance	429
30.6	Employees Pension Scheme 1995	429
30.7	Employees Deposit linked Insurance Scheme 1976	429
31.	**Securitisation and Reconstruction of Financial Asset and Enforcement of Security Interest Act, 2002 (SARFAESI)**	
31.1	Right of secured lender arises	430
32.	**Sick Industrial Companies (Special provisions) Act, 1985**	
32.1	Definition	431
32.2	Section 24 - Misfeasance proceedings	431
33.	**GOODS AND SERVICES TAX (GST) ACT - 2016**	
33.1	Introduction	432
33.2	GST Replaces the following Acts	432
33.3	Applicability	433
33.4	Registration under GST Act:-	434
33.5	Definitions	434
33.6	Input Tax Credit	436
33.7	Tax invoice (Sec. 31, CGST Act)	437

		Page No.
33.8	HSN Code	437
33.9	Returns	438
33.10	Electronic Ledgers	438
33.11	Tax Deduction at Source	439
33.12	Reverse Charge Mechanism (RCM)(Sec. 2(98)	439
33.13	INTEREST ON DELAYED PAYMENT OF TAX :-	443
33.14	COLLECTION OF TAX AT SOURCE (TCS) :-	443
33.15	REFUND OF TAX :-	443
33.16	EXPORTS :-	443
33.17	ANTI-PROFITEERING MEASURE :-	443
33.18	E-WAY BILL UNDER GST :-	443
33.19	FAQ issued by the Government in respect of applicability of GST in the case of Co-operative Housing Societies :-	444
33.20	State Codes in GST (required to mentioned in Tax Invoice) :-	445
34.	**The Maharashtra Molasses (Control) Act**	
34.1	Objects	446
34.2	Section 2(d) – Molasses	446
34.3	Section 2(g) – Sugar Factory	446
34.4	Section 4 – Molasses Board	446
34.5	Section 6	446
34.6	Section 7	447
34.7	Section 8	447
35.	**The Limitation Act, 1963**	
35.1	Object	448
35.2	Definitions	448
35.3	Limitations for various documents / instruments	448
35.4	Bar of limitation	450
35.5	Extension of period	450
35.6	Continuous running of time	450
35.7	Acknowledgement in writing	450
36.	**The Maharashtra Protection of Interest of depositors (In Financial Establishment) Act, 1999**	
36.1	Definitions	451
36.2	Fraudulent Default	451
36.3	Action against the financial establishment	452
36.4	Manner of action	452
37.	**The Sugarcane (Control) Order 1966**	
37.1	Definitions	453
37.2	Minimum Sugarcane price	453
37.3	Rebate that can be deducted from the price	455
37.4	Additional price for sugarcane	456
37.5	Additional price for sugarcane purchased	457
37.6	Distribution and movement of sugarcane	459
37.7	Restriction on setting up of two sugar factories	459
37.8	Delegation of powers	460

		Page No.
38.	**Maharashtra Ownership Flat Act, 1963**	
	38.1 Objects & Purpose	464
	38.2 Delivery of documents	465
	38.3 Complete his title	465
39.	**Maharashtra Housing and Area Development Act, 1976**	466
40.	**Maharashtra Apartment Ownership Act, 1970**	467
41.	**Foreign Trade (Development and Regulation) Act, 1992 as amended by the Foreign Trad (Development and Regulation) Amendment Bill, 2010**	
	41.1 Objects	468
	41.2 Definitions	468
	41.3 The Importer Exporter Code ('IEC') Number	469
	41.4 Quantitative Restrictions on import	469
	41.5 Penal consequences	469
42.	**Factories Act, 1948 as amended by the Factories (amended) Act, 1987**	
	42.1 Applicability	470
	42.2 Factory Act license is a must	470
	42.3 Circumstances in which the license under the Act needs to get amended	470
	42.4 Returns	470
	42.5 Registers / Documents	470
	42.6 Definition of worker	470
	42.7 Provisions	471
	42.8 Criteria to avail annual leave with wages	471
	42.9 Safety officers	472
	42.10 Welfare provisions for workers	472
	42.11 Penalties	472
43.	**CENVAT Credit Rule (CCR) 2004**	
	43.1 Applicability	473
	43.2 CENVAT credit	473
	43.3 Recent changes in CENVAT Rules	473
44.	**Central Excise Act, 1944**	
	44.1 Nature of Excise duty	475
	44.2 Basic condition for excise liability	475
	44.3 Types of excise duty	475
	44.4 Excisable goods	475
	44.5 Valuation of goods	476
	44.6 Summary of procedures	476
	44.7 Letter of undertaking	477
	44,8 Refund	477
	44.9 Excise audit	477
	44.10 Types of excise audit	477
45.	**Multistate Co-operative Societies Act, 2002**	
	45.1 Section 1	478
	45.2 Section 2	478

			Page No.
	45.3	Section 22	478
	45.4	Section 25	478
	45.5	Disqualification for member	478
	45.6	Section 39 – Annual General Meeting	478
	45.7	Section 41 – Board of Director	478
	45.8	Section 45 – Election of members of board	478
	45.9	Section 59 – Exemption from compulsory registration of instruments	479
	45.10	Section 61 – Government aid to multistate Co-operative Society	479
	45.11	Section 70 – Appointment of Auditors	479

VOLUME NO. III
AUDIT OF DIFFERENT TYPES OF SOCIETIES

1.	1.1	General	483
2.	**A)**	**CO-OPERATIVE BANKING SECTION - Banking in General District Central Co-operative Banks**	
	2.1	Introduction	484
3.	**Deposits**		
	3.1	Instructions	485
	3.2	Over-trading and maintenance of fluid resources	485
	3.3	Opening of accounts	485
	3.4	Nomination to accounts	486
	3.5	Operations in deposit accounts	486
	3.6	Period of deposits	487
	3.7	Renewal of deposits	487
	3.8	Permature withdrawal of deposit	487
	3.9	Duplicate deposit receipts	487
	3.10	Special features of the deposit	487
	3.11	Brokerage and commission	487
4.	**Bills business**		
	4.1	Purchase bills	488
	4.2	Kite flying	488
	4.3	Accomodation bills	488
	4.4	Processes regards bills business	489
	4.5	Clearing difference	489
	4.6	Mutual arrangement scheme	489
	4.7	Branch adjustment	490
5.	**Investments**		
	5.1	Section 18 and 24 of Banking Regulation Act, 1949 (AACS)	491
	5.2	Investment for Liquidity purposes	491
	5.3	Investment portfolio management	491
	5.4	Investment of suplus funds	493
	5.5	Guidelines	494
6.	**Internal Checks and Controls in computerised environments**		
	6.1	Electronic Banking	495
	6.2	Need	495
	6.3	Areas	495

		Page No.
6.4	Requirements	495
6.5	Measures	495
6.6	Audit trails	496
6.7	Computerised System Audit (Information System Audit)	497
6.8	The IS Audit	498
6.9	Verification by auditor	498
7.	**Internal Checks and Controls to prevent fraud**	
7.1	Introduction	536
7.2	Nature of recommendation	536
7.3	Guidelines	537
8.	**Internal Audit**	
8.1	Internal Audit System	538
8.2	NABARD's instructions	538
9.	**Risk Assesment**	
9.1	Intermediation functions	539
9.2	Types of Risks	539
10.	**Borrowings**	
10.1	Seasonal Short Term Agricultural Advances (STSAO)	541
10.2	Verification by auditor	541
11.	**Lending Operations – General**	
11.1	Finance	543
11.2	Principle of lendings	543
11.3	Credit policies	544
11.4	Scrutiny of loan applications	544
11.5	Interest rates	545
12.	**Lending Operations - Agricultural loans**	
12.1	Short term finance to Agricultural credit Societies - Convening of the fieldworker's conference	547
12.2	Normal credit statements	547
12.3	Assets or Haisiyat register	548
12.4	Scale of crop finance - Cash and Kind Component	548
12.5	Kisan Credit Cards	548
12.6	Disbursement of loans	550
12.7	Declarations	552
12.8	Security norms for agricultural loans	553
12.9	Imbalance	553
13.	**Lending Operations - Medium Term loans**	
13.1	General	554
13.2	Conversion loans	554
13.3	Procedure for conversion of short term loans into medium term loans	554
13.4	Loans by DCCBs / STCBs to urban banks, urban credit / salary earners Societies	555
13.5	Medium term loans to processing Societies for meeting capital expenditure	555
13.6	Consortium finance	555
14.	**Lending Operations - Institutional loans**	
14.1	Advances to other types of Societies	556
14.2	Rules and policies	556
14.3	Controls	556
14.4	Different types of advances	557

			Page No.
15.	**Special features of various institution loans**		
	15.1	Loan policy	558
	15.2	Block capital loans	558
	15.3	Cash credits	558
	15.4	Clean cash credit	558
	15.5	Hypothecation	558
	15.6	Pledge	559
	15.7	Short margin	559
	15.8	Eligibility criteria	559
	15.9	Exposure norms and credit authorisation	559
	15.10	Institutionwise various points	559
16.	**Individual loans**		
	16.1	Individuals	561
	16.2	Limits of finance	561
	16.3	Exposure norms	561
	16.4	Legitimate credit needs	561
	16.5	Appraisal and monitoring cell	561
17.	**Non Performing Assets**		
	17.1	Introduction	562
	17.2	Concepts	562
	17.3	Treatment of various advances	562
	17.4	Income Recognition	563
	17.5	Classification and Provisioning of assets	563
18.	**Financial Comparisons - Co-operative Banks - Balance Sheet analysis - Analysis :- Means and Methods**		
	18.1	Accounting system	565
	18.2	Need for analysis of financial statement	565
	18.3	Areas of analysis	565
	18.4	Analysis - Interpretation and Definitions	565
	18.5	Productivity	567
	18.6	Performance	567
	18.7	Profitability	568
	18.8	Funds management	569
19.	**Financial Comparisons**		
	19.1	Credit Deposit ratio	571
	19.2	Capital Adequacy norms	571
20.	**Drafting of Audit Report**		
	20.1	Detailed or Long Form Audit Report	572
	20.2	Paragraphs to be included in the Long Form Audit Report	572
	20.3	writing of audit report	572
21.	**Urban Co-operative Banks and Societies**		
	21.1	Introductory	573
	21.2	Knowledge of the Acts	573
	21.3	Maintenance of Cash Reserve and Liquid Assets (Co-operative Banks)	573
	21.4	Non banking credit Societies	574
	21.5	Returns to be submitted	574

		Page No.
21.6	Power of the Reserve Bank of India and the Registrar	575
21.7	Investment in shares of Co-operative Societies - Section 19	575
21.8	Opening new branches	575
21.9	Applicability of Act	575
21.10	Balance Sheet and Profit & Loss account	575
21.11	Disclosure of Information - Balance Sheet	576
21.12	Internal Audit	577
21.13	Electronic Data Processing - Audit System	578
21.14	Books of accounts and records	578
21.15	Internal control	578
21.16	Control over cash	579
21.17	Postings	580
21.18	Collection and Discounting of bills	580
21.19	Precaution - Discounting / Rediscounting of bills	580
21.20	Loans and advances	581
21.21	Common deficiencies	582
21.22	Loans - General Instructions	584
21.23	Prohibition of trading	586
21.24	Disposal of non-banking assets	586
21.25	Maintenance of books according to departments	586
21.26	Opening of branches	587
21.27	Investments	587
21.28	Capital Adequacy norms	589
21.29	Non Performing Assets - Prudential norms for UCBs	590
21.30	Out of order	591
21.31	Classification of assets	591
21.32	Provisioning norms	591
21.33	Income Recognition	591
21.34	Other points	592
22.	**Urban Credit and Non Agricultural Rural Credit Societies**	
22.1	Membership	593
22.2	Investments	593
22.3	Sanction of loans	593
22.4	Liquidity	594
22.5	Non Performing assets	594
23.	**Agricultural and Rural Multipurpose Development Banks (former Land Development Banks)**	
23.1	Introductory	596
23.2	Other Acts	596
23.3	Membership	596
23.4	Member's Register	596
23.5	Scales of fees	596
23.6	Borrowings from Apex Bank	597
23.7	Purchase of shares of Apex Bank	597
23.8	Recovery of loans	597
23.9	Reconciliation of Head office / Apex Bank account	597
23.10	Scrutiny of loan cases	597

		Page No.
23.11	Verification of utilisation of loans (Spot inspection)	599
23.12	Recovery of loans - Position of overdue	600
23.13	Rescheduling of installment and advance recoveries	600
23.14	Non Performing Assets	601
23.15	Sale of Rural debentures	602
23.16	Classification of overdue	602
23.17	Interest accured and overdue	602
23.18	Reconciliation of branch accounts	602
23.19	Agreement of ledger balances	602
23.20	Agreement of Apex bank's accounts	602
23.21	Audit classification	602
24.	**Primary Agricultural Credit / Multipurpose / Seva Societies (including Adiwasi Vikas Seva Societies)**	
24.1	Membership	603
24.2	Funds	603
24.3	Government share capital contribution	603
24.4	Assets register	603
24.5	Crop loans	603
24.6	Annual field worker's conference	604
24.7	Normal credit statements	604
24.8	Loans to members	604
24.9	Disbursement of loans	604
24.10	Kisan Credit Cards	605
24.11	Loan account	605
24.12	Supervision over utilisation of loans	605
24.13	Security for loans	605
24.14	Declaration of membership of other Societies	606
24.15	Personal surities	606
24.16	Repayment of loans and provisions of fresh finance	606
24.17	Recovery of loans	606
24.18	Interest calculations	607
24.19	Advances against agriculture produce	607
24.20	Examination of overdues	607
24.21	Classification of overdues	607
24.22	Prudential norms for primary agricultural Societies	608
24.23	Writing off of Bad debts	608
24.24	Verification of member's accounts and checking of passbooks issued to members	608
24.25	Audit classification	608
24.26	Medium term loans	608
24.27	Conversion of short term loans into medium term loans	609
24.28	Accounting of conversion transactions	609
24.29	Other activities run by PACS	610
24.30	Common Accounting System	610
25.	**Salary Earners Societies**	
25.1	Membership	620
25.2	Recovery of dues of the society	620

		Page No.
25.3	Sanction of loans	620
25.4	Disbursement of loans	621
25.5	Deduction of subscriptions and compulsory deposits	621
25.6	Emergency loans	621
25.7	Cash payments by members	621
25.8	Miscellaneous	621
25.9	Special account books and registers	621

B) SERVICE SECTOR SOCIETIES - PROCESSING SOCIETIES SECTION

26. Co-operative Sugar Factories

26.1	Membership and shares	623
26.2	Classification of members	623
26.3	Receipt of government share capital	623
26.4	Payment of dividend on shares held by government	623
26.5	Deductions from cane payment	623
26.6	Agricultural department	623
	1. Cane section	
	2. Cropping programme	
	3. Harvesting and transport of cane	
	4. Delay in Harvesting and transport	
	5. Receipt of cane in cane yard	
	6. Fair Remunerative Price (FRP)	
	7. Payment for cane and payment for harvesting and transport charges	
	8. Journal entries	
	9. Deductions to be made from cane bills	
	10. Stock taking	
26.7	Engineering section	626
	1. Performance Guarantee	
	2. Purchases of new machinery	
	3. Purchase procedure for machinery	
	4. Operational efficiency	
	5. Efficiency of plant and machinery	
	6. Workshop	
26.8	Manufacturing department	628
	1. Maintenance of shift log books	
	2. Losses during manufacturing	
	3. Sugar recovery and losses in process - Standard norms	
	4. Bagging and transport of sugar	
	5. Sugar godowns	
26.9	Sales of sugar	629
	1. Sales	
	2. Payment of excise duty	
	3. Gate sales of sugar	
	4. Financial norms	
	5. Cost audit and financial analysis	
	6. Reporting by cost auditor	
26.10	Audit report	631
26.11	Audit classification	633
26.12	Civil works	633

		Page No.
26.13	Networth calculation	633
26.14	Qualifying report in case of record incomplete or not available	634
26.15	Deposit with Urban banks and Urban Co-operative Societies	634
26.16	Auxiliary activities	634
26.17	Other items	636
27.	**Co-operative Spinning Mills**	
27.1	Membership and shares	637
27.2	Agricultural department	637
27.3	Civil works	638
	1. Plans and estimates	
	2. Allocation	
	3. General defeciencies in civil works	
	4. Agreements and terms and conditions	
27.4	Store section	640
	1. Various levels of stock and purchase policy	
	2. Issue of stores	
	3. Allocation of stores	
	4. Valuation of Work In Progress (WIP)	
	5. Sale of stores	
	6. Materials returned to stores	
	7. Some defeciencies in purchase procedure	
27.5	Stock verification	641
	1. Arrangement for stock verification	
	2. Empties	
	3. Purchase of hessian or gunny cloth, gunny bags	
	4. Observance of stock taking	
27.6	Payment of wages	642
	1. Time office	
	2. Establishment records	
	3. Preparation of pay rolls	
	4. Checking of wage sheet	
	5. Allocation of wages	
	6. Security from staff	
	7. Standing order and other Acts applicable to staff	
	8. Reservations to various post	
27.7	Motor vehicle department	644
	1. Maintenance of vehicle registers - Controls over use of vehicles	
	2. Control over expenditure on maintenance and repairs	
	3. Mode of allocation	
	4. Sale and purchase of vehicles	
	5. Hiring of vehicles	
	6. Private use of vehicles	
27.8	Administrative Section	645
	1. Observance of the provisions of the Act, Rules and Byelaws	
	2. Borrowing	
	3. Advances	
27.9	Sale of yarn	645
27.10	Guest house	646

		Page No.
27.11	Security department	646
27.12	Medical department	647
27.13	Operational efficiency	648
28.	**Weavers Societies**	
28.1	Introductory	651
28.2	Activities undertaken	651
28.3	Sale of raw materials	652
28.4	Sales / VAT Tax	652
28.5	Issue of raw materials for production	652
28.6	Dye-house	652
28.7	Payment of wages to producer member	652
28.8	Advance to workers against wages	653
28.9	System of production	653
28.10	Advances to members	653
28.11	Loans for installation of power looms	653
28.12	Sale of finished goods and Rebate	654
28.13	Retail sales	654
29.	**Co-operative Rice Mills**	
29.1	Monopoly procurement scheme	655
29.2	Purchase of paddy	655
29.3	Storage of paddy	655
29.4	Insurance of godowns	656
29.5	Milling of paddy	656
29.6	Outturn of rice and by-products	656
29.7	Plant and machinery	656
29.8	Sales and deliver	656
29.9	Sales of by-products	657
29.10	Accounts and record	657
30.	**Ginning and Pressing Factories**	
30.1	General	658
30.2	Processing	658
30.3	Sale of cotton	658
30.4	Billing	658
30.5	Engineering section	658
30.6	Budgetary control	659
30.7	Insurance policies	659
30.8	Other matters	659
31.	**Agricultural Food Processing Society**	
31.1	Objects	660
31.2	Financial assistance	660
31.3	Membership	661
31.4	Purchase policy	661
31.5	Projects	661
31.6	Committee for purchase of machinery	661
31.7	Sale	662
32.	**Co-operative Housing Societies**	
32.1	Introduction	663
32.2	Important provisions of the byelaws	663

		Page No.
32.3	Sinking fund	664
32.4	Permission to let tenement	664
32.5	Service / maintenance charges	664
32.6	Non occupancy charges on service charges	664
32.7	Registration of the society	664
32.8	Purchase of land	664
32.9	Development of land	665
32.10	Construction of building	665
32.11	Allotment of tenements	666
32.12	Fixation and recovery of monthly rent or service charges	666
32.13	Government assistance	666
33.	**Forest labourer's Societies**	
33.1	Origin and present position	667
33.2	Marking list	667
33.3	Taking over charge of the coupe	667
33.4	Payment of wages	667
33.5	Need for expeditious completion of operations	667
33.6	Visit book	668
33.7	Logging system	668
33.8	Transport, Dragging and Carting	668
33.9	Sales	668
33.10	Maintenance of accounts	669
33.11	Production, Selling and administrative expenses	669
33.12	Personal verification of members	669
33.13	Payment to forest department	669
33.14	Provisional and final settlement of accounts	669
33.15	Bonus to labourers	669
33.16	Payment of advances	670
33.17	Deductions on account of share capital	670
33.18	Expenses on welfare activities	670
33.19	Enquiry into reasons for incurring expenditure in excess of approval limits.	670
34.	**Farming Societies**	
34.1	Audit programme	671
34.2	Pooling of land	671
34.3	Collective farming Societies	671
34.4	Pooling of resources	671
34.5	Procedure and method of work	672
34.6	Payment of wages	672
34.7	Development and improvement of land	672
34.8	Land improvement register	672
34.9	Classification of members for allotment of work and payment of wages	673
34.10	Agricultural operations	673
34.11	Alocation of expenditure	673
34.12	Harvesting of crops	673
34.13	Capital expenditure	674
34.14	Special registers	674
34.15	Seasonal agricultural operations	674

		Page No.
35.	**Dairy Societies**	
35.1	Introductory	675
35.2	Activities	675
35.3	Pattern of financial assistance	675
35.4	Loans to dairy Societies through State Bank of India on government guarantee	676
35.5	Loans to dairy Societies for purchase of milch animals through District Central Co-operative Banks in Konkan Region	676
35.6	Management subsidy	676
35.7	Loans to members	677
35.8	Collection and testing of milk	677
35.9	Transport of milk	678
35.10	Live stock	678
35.11	Supply of cattle feeds	679
35.12	Pasteurisation plants	679
C)	**MARKETING AND DISTRIBUTION SOCIETIES**	
36.	**Maharashtra State Co-operative Marketing Federation**	
36.1	Objectives	680
36.2	Activities undertaken – Trading	680
36.3	Fertilizers	680
36.4	Manufacturing of fertilizers and edible oil	680
36.5	Research and development	680
36.6	Storage	680
36.7	Storage facility	681
36.8	Distribution of petroleum and other agricultural equipments and products	681
36.9	Audit and evaluation of performance	681
36.10	Points to be verified by the auditor	681
37.	**Marketing Societies**	
37.1	Activities undertaken	683
37.2	Business in controlled articles	683
37.3	Monopoly procurement of Jawar, Paddy and Cotton	683
37.4	Special points to be seen by auditor	684
37.5	Distribution of fertilizers	685
37.6	Supply of oil engine, electric motor, pumping sets and other agricultural equipment	686
37.7	Distribution of oil cake and other manure's	686
37.8	Marketing of agricultural produce - Adat Business	686
37.9	Credit sales restrictions - Rule 46 B	687
37.10	Sales	687
37.11	Out-right purchases	687
37.12	Pooling and Grading	687
37.13	Payment of advances pending sale	688
37.14	Linking up of credit with marketing	688
37.15	Hiring of tractors ploughs and other agricultural machinery	689
37.16	Verification of stocks	689
37.17	Unauthorised advances	689
37.18	Diversification of business	690
37.19	Manufacturing of mixtures	690
37.20	Various analysis	690

Page No.

38. Consumer Societies

38.1 Government assistance 691
38.2 Departmental stores 691
38.3 Primary consumers stores 691
38.4 Central wholesale and Retail consumers stores and departmental stores 691
38.5 Difficulties of management 692
38.6 Salient features of working of Co-operative Stores 692
38.7 Accounts and records 693
38.8 Control over cash 693
38.9 Sales 694
38.10 Purchases 694
38.11 Receipt of goods 694
38.12 Purchases journal and price fixation register 694
38.13 Return of goods 695
38.14 Goods issued register 695
38.15 Issue of stocks for retail sale 695
38.16 Pre-packing of goods - Conversion register 695
38.17 Price variation 695
38.18 Return of goods to godown 696
38.19 Sales to primaries 696
38.20 Control over stocks - Double compartment system 696
38.21 Stock control account 696
38.22 Business norms 697
38.23 Business management 697

39. Agricultural Produce Market Committee

39.1 Audit of Market committees 699
39.2 Scope of audit 699
39.3 Powers of the auditor 699
39.4 Audit memorandum 699
39.5 Working of market committee 700
1. Market and subsidiary markets 700
2. Licensing 700
3. Collection of market fees 701
4. Badges 701
5. Scales, weights and measures 701
6. Settlements of disputes 701
7. Market intelligence 701
8. Adulteration of agricultural produce 702
9. Regulation of sales 702
10. Annual budget 702
11. Property and property register 702
12. Investment of funds 703
13. Market fund 703
14. Staff 703
15. Funds not to be utilised in personal capacity 704
16. Writing of loss, shortage or fee, etc. which is irrecoverable 704
17. Books and accounts 704
18. Automised accounting system 704

Page No.

40. Liquidation Societies

40.1	Audit	707
40.2	Audit period	707
40.3	Balance sheet	707
40.4	Powers of the liquidator	707
40.5	Responsibility of liquidator for damages	708
40.6	Priority of claims	708
40.7	Care to be taken for priority claims	709
40.8	Interest claims	709
40.9	Payment to the share holders	709
40.10	Disposal of surplus assets	710
40.11	Permission from Reserve Bank	710
40.12	Certification of bad amounts	710

D) ANNEXURES

1. ANNEXURE 1 - CONSOLIDATED AUDIT PROGRAM FOR ALL TYPES OF CO-OPERATIVE SOCIETIES 711

2. ANNEXURE 2 - RULES FOR THIS ESTABLISHMENT AND USE OF AGRICULTURAL CREDIT (STABILISATION) FUND AT THE NATIONAL, APEX AND DISTRICT CENTRAL CO-OPERATIVE BANK LEVEL 716

3. ANNEXURE 3
AUDIT FORMS 1 TO 15

Form No.

1	Applicable to all types of Societies	722
2	For Test/ Re-audit of the society	728
3	For manufacturing and processing Societies	729
4	For Banking Societies	739
5	For Non- Banking Financial and Credit dispensing Societies	746
6	For Service Societies	753
7	For Housing Societies	757
8	For Marketing and trading Societies	762
9	For Animal Husbundries and dairy Societies	770
10	For other Societies	780
11	For sakhar sangh, spinning mill federation & handloom powerlom federation	783
12	For urban bank federation, credit Societies and salary earners Societies federation	787
13	For labour contract Societies federation (District and State)	790
14	For state level cotton, consumer, marketing federations and tribal development corporation and district level consumer and marketing federations including ginning pressing federation	793
15	For housing federations and other district & state level federal Societies	800

		Page No.
4.	**ANNEXURE 4 -**	
	Information / documentation to be collected from society by the auditor.	
	1 Documents to be kept ready by the Society before commencement of Audit	804
	A General information about the society	807
	B Statement of verification of cash and securities by board or authorized person by the board	807
	C Statement of Bank reconciliation and balance confirmation	807
	D List of active members and non active members with reason as on 31st march as per form J 1 and J 2	807
	E List of employees	808
	F List of the Managing Committee / Board of directors along with designation	808
	G List of loans and advances to directors and their relatives along with overdues if any.	808
	H Demand, collection and balance statement	808
	I Schedule of investment and confirmation statement	808
	J Schedule of NPA / BDDR	808
	K Loans taken by the society	808
	L List of directors who were absent for more than 3 consecutive meetings without leave of absence	808
	M Statement of misappropriation or embezzlement	808
	N Schedule of loans and advances to the members as on 31st march including overdue	809
	O Schedule of arbitration, execution and court cases	809
	P Schedule of closing stock as on 31st march with valuation duly verified by management	809
	Q List of movable / immovable assets - Property registered should be maintained as prescribed in the rule. Form No. X-1.	809
	R Contracts / any transaction in which directors or their relatives are interested and its disclosure	809
	S Cases filed by the society for the recovery and other matters and against the society	809
5.	**Format of summons**	811
6.	**List of Reference Books**	812

VOLUME No. I
Co-operative Auditing

VOLUME No. II

Co-operative Societies Act and Allied Laws

VOLUME No. III

Audit of Different Types of Societies

CO-OPERATIVE AUDIT MANUAL
VOLUME No. I
CO-OPERATIVE AUDITING

CHAPTER No. 1

INTRODUCTORY

1.1. ***Background and objectives*** **:-** Maharashtra has always been in the forefront in the field of co-operation. Be it simple agricultural credit societies, urban banks, housing or large industrial undertakings like sugar factories or spinning mills, Maharashtra has always led the way. The first co-operative society in the country was started in a small village in the erstwhile Mumbai state nearly a century ago. From then onward, it has been a success story and the time has now come when co-operators had established their own fertilizer complex, Oil Complex and dairy complex.

1.2. ***Historical retrospect*** **:-** Audit of co-operative societies, traditionally was carried out by the officers of the co-operative Department working under the control of the Registrar on whom is cast the statutory responsibility for the annual audit of all co-operative societies. It is perhaps due to the fact that when the select committee appointed to draft the first Co-operative Societies Act, considered the question, it had only two alternatives either to provide for audit by Government officials or leave the societies to themselves to get their accounts audited by qualified auditors, as even the Companies Act then in force did not prescribe any qualifications for the auditors. In fact, there was no professional body of auditors then in existence. Sir Fredric Nicholson, whose monumental report paved the way for enactment of a special statute for registration of co-operative societies, was of the firm opinion that the ***"law should not only provide for establishment of an audit, but for efficiency of such audit."*** The Select Committee reporting as early as the beginning of last century, realizing that the co-operatives would require a number of privileges and concessions, stressed the need **for a compulsory annual Government audit***"for all registered societies. Such an audit is necessary to prevent fraud on unintelligent ryots, which, apart from the immediate hardship, which it would cause, could not fail to have a most fatal effect in discrediting the system of co-operatives. We, therefore, consider that an annual statutory audit should be obligatory in the case of all registered co-operative societies and that such audit should include (a) an examination of all books, registers and accounts with particular attention to overdue debts and (b) a valuation of the assets and liabilities of the societies"*. The consideration behind this view is the need to safe guard the interests of Government investments in these societies, the unavailability of qualified accountants, and the fact that members of the societies are not aware of financial transactions and business practices.

1.3. ***Need for compulsory statutory audit*** **:-** Presenting the new legislation (the Co-operative Societies Bill) Sir D. Ibbetson, in his admirable memorandum, had observed that since co-operative societies were to enjoy exemption from the general Law and facilities of a special nature, it was necessary "**to take such precautions as may be needed in order to prevent speculators and capitalists from availing themselves, under colorable pretexts, of privileges which were not intended for them".** He added, **"It has been considered advisable that an official audit should be compulsory in all cases** and this has been provided in Section 81. There is no doubt that such an audit will give the outside public and the members, more confidence in management, and even when no financial assistance may be received from Government, the societies will obtain valuable privileges under the Act and it is reasonable that they should at the same time be obliged to submit their accounts to some check, which must take the form of **an official audit".**

1.4. ***Developments during 1974-2016*** **:-** In view of the above considerations, the provisions in the old Act passed in 1904, regarding the system of audit of co-operative societies through the agency of Government officers responsible to the Registrar, found a place also in the 1912 Act and subsequent State Legislations. So far as Maharashtra is concerned, the same provisions with further amplifications were contained in the 1925 Act, which brought into operation a system of State-controlled and State-managed audit, continue to exist even to-day, in spite of later developments in

the concept and the technique of audit and the setting up of a statutory body for regulating the profession of audit. A host of committees and commissions, both at the State and all-India level as well as a number of conferences of co-operators have considered the question of the agency for audit and have largely come to the conclusion that audit of co-operative societies should continue to be State-controlled and that the Registrar of co-operative societies should continue to shoulder the responsibility for arranging for the annual audit of co-operative societies, burdened as he is with numerous other important duties and functions. *This is because everybody is agreed that audit should not only be efficiently conducted, but should also be independent of the co-operative societies to be audited.*

The time has changed, the burden on the Registrar has hugely mounted as the number of societies has increased tremendously, reaching lakhs. The Registrar is unable to audit all the societies within the prescribed time limit, even as every society has to be audited once in a year. The changes were effected in 1986 by amending the Co-operative Societies Act. Section 81 has been amended as 81 (1) (b) introducing the concept that societies should get their accounts audited themselves, as the qualified auditors are available, for those societies to which no Government Assistance or any finance from Financial Institutes is available. These societies have to get their accounts audited once in a year from the panel of auditors maintained by the Registrar, or by a Chartered accountant holding a certificate in co-operative audit issued by the Institute of Chartered Accountants of India. However, the right of auditing these societies has been reserved by the Registrar in case he ascertains the reasons for the same, and can assign the audit to the Government Auditors, by recording in writing the reasons for such audit.

The task of audit of Government Auditors had been limited by section 81(1) (A) to the audit of societies which have been given financial assistance including guarantee by the State Government, or Government undertakings, from time to time, and the accounts of the Apex Societies, State, and District Level Federal Societies, District Central Co-operative Banks, Co-operative Sugar Factories, Urban Co-operative Banks, Co-operative Spinning Mills, District and Taluka Co-operative Sale and Purchase organizations, and any such Society or class of Societies which the State Government may, from time to time, by notification specify. Later, the Government had specified the Urban Co-operative Credit Societies, Salary Earner's Co-operative Societies, and Primary Agriculture Co-operative Credit Societies as well by a Notification No. CSL. 1096/ CR-146/ 15-C, dated 11.11.1996 be audited by an auditor from the panel maintained by Registrar.

1.5. *97th Constitutional amendment* :- The Government of India amended the Constitution of India, in 2009 by adding Article 243Z, under which the State Government is required to amend their Co-operative Societies Act, as provided in the Constitution. The provision in Constitution allows the Societies to get their accounts audited once in a year from the panel of Auditors prepared by the Registrar and approved by State Government. Accordingly section 81 of the Maharashtra Co-operative Societies Act is entirely amended, authorising the societies to get their accounts audited by an auditor from the Panel of auditor approved by the State Government and prepared by the Registrar or an authority authorized by State Government in this behalf, possessing required qualifications and experience as may be prescribed.

This has given the societies the right to choose the auditor from the panel approved by the State Government. The professional auditors include the Chartered Accountants and their firms, Certified auditors and Government auditors as explained under section 81 of the Act.

CHAPTER No. 2

AUDITING

2.1. ***Financial accounting and auditing*** **:-** Accounting is the art of recording and classifying business transactions in terms of money. In other words, it is the job of the accountant to record the multitude of business transactions from original documents like vouchers, statements, receipts, etc., and also their accumulation in books of original entry like the cashbook and the journal and also the ledgers. Auditing is the verification of the accuracy, genuineness or authenticity and correctness of the accounting records and statements and reporting on these to the proprietors / members. Auditing may be done by internal auditors or by statutory auditors or by both. The internal auditors maintain a continuous check while the outside statutory auditor provides periodical review as an outsider.

Financial accounting and auditing is primarily concerned with the determination of income earned and ascertaining financial position as on a particular date. Financial audit is concerned with the critical review and interpretation of financial statements, namely, the profit and loss account and the balance sheet, together with the supporting schedules furnishing particulars of the various assets and liabilities. The aim of financial auditing is to safeguard the interests of the proprietors / members and the creditors of the business.

2.2. ***Auditing as a tool of management*** **:-** It has now been realized that accounting and auditing, which is the review aspect of accounting, can also be regarded as a method of management or as a tool for improving the efficiency or effectiveness of management. Although managerial or administrative accounting and auditing deals with the same data collected from the financial accounts and records, they are not confined to information of a business transaction. Their object is to bring about scientific managerial planning and ensure sound managerial decisions. This they do by furnishing complete historical data and pointing out consequences of alternative decisions and help to prevent errors of judgment. It makes possible comparison of performance with anticipated results.

2.3. ***Financial auditing is a review of the results of past actions*** **:-** Administrative auditing is a critical review of the soundness and propriety of the decisions taken in the past and helps management to correct mistakes and improve methods.

Societies which have undertaken manufacturing or processing activities are required to maintain cost accounts in order to ascertain the costs of their products. Cost accounts to be reliable must be reconciled with financial accounts. Although cost accounts are primarily meant for furnishing information to the management about the costs under different heads incurred for manufacturing or processing, review or auditing of cost accounts forms part of regular auditing and auditors in charge of societies, which have undertaken manufacturing and processing activities, must be conversant with cost accounts so as to be able to intelligently criticize them.

2.4. ***Cost Auditing*** **:-** Section 81 (2A) and (2B) were introduced in 1986 regarding Cost Audit for the societies, or class of societies by whom the cost accounts are required to be maintained: cost audit by a member of Institute of Cost and Works Accountants of India should be done. In case the Government has opinion that it is necessary in the public interest and in relation to any society, or class of societies, for ensuring management thereof in accordance with sound business principles or prudent commercial practices, cost audit may be ordered. However, cost audit rules have not been framed till this date,nor such order issued by the Government. The Central Government has made it compulsory for the cooperative Sugar Factories to maintain Cost Accounts and get done the Cost Audit from the Cost Accountant.

In 2013, the above cost audit provisions were amended with respect to “society’s interest” instead of “public interest” and the responsibility of cost audit is cast on “the Society” instead of “the Registrar”.

2.5. ***Operational efficiency and Ratio Analysis*** **:-** Operational efficiency is measured by working out number of ratios connected with the various aspects of financial management. In order to fulfill adequately his role as **friend, philosopher and guide**to the societies, the auditor should be able to report to the management ***not only what has happened but how it has happened and also to predetermine and point out what would happen,*** so as to assist the management in arriving at sound decisions. Ratio analysis is a vast subject and involves a close study of not only methods of financial accounting and cost accounting, but also knowledge of the technical aspects of the business transactions.

It has, however, to be observed that the audit of co-operative societies as conducted at present, though wide in scope, in fact wider than the field covered by auditor of joint stock companies is still basically financial in nature and very few auditors attempt to conduct what may be termed an efficiency audit or methods audit. The number is increasing as the auditors are being trained for efficiency and methods of audit. Since most of the Societies, which have undertaken manufacturing and processing activities, do not maintain some sort of cost accounts which can be reconciled with the financial accounts so that their accuracy can be tested, auditors of large manufacturing undertakings like co-operative sugar factories or spinning mills, will have themselves to carry out what can be termed as "efficiency audit".

2.6. ***Various types of audit*** **:-** The concept of audit has undergone many changes during the past few years and some of the auditors are conversant with merely reporting on the balance sheet and the profit and loss account. The diversity of activities undertaken by co-operative societies and the complexity of their transactions, necessitate that the auditor should not only have a sound theoretical ground in the writing up of accounts and their scrutiny in audit, but also possess a high degree of skill and discernment so as to be able to comment on the financial as well as technical aspects of the transactions. The various aspects of audit work enumerated in the foregoing paragraphs provide a glimpse of what is expected of the future auditor. Various types of audits have been introduced in the past two decades, such as Social Audit, Energy Audit, Technical Audit, Policies, Procedures and systems audit, Information System audit, M-VAT Audit, Tax Audits, etc. These are also to be get acquainted by the auditors. The auditors have to acquaint themselves with these as well.

2.7. ***Recent changes in Co-operative Audit*** **:-** After 97th constitutional amendment, the Maharashtra Cooperative Societies Act has been amended to give effect to the constitutional amendment. There are many changes in the Act to provide autonomy to the societies, member economic participation, principle of democratic control, appointment of professional independent auditor. The Societies have been empowered to appoint their auditor from the panel of auditors prepared by the Registrar and approved by the State Government. The auditor has to carry out the audit as provided in Section 81, Rule 69 and Auditing standards as notified by State Government. The audit fees shall be as prescribed and notified by the State Government for such audit.

———

CHAPTER No. 3

MANUAL

3.1 ***Need for the updating Manual*** **:-** In 1962, the audit wing of the Department was separated from its administrative wing primarily with a view to attracting better talent and to ensure better quality of audit from those who had opted for the audit line. During these years, there has not only been a steep rise in the number of co-operative societies of different types, but also there has been a well-marked diversification in their activities and a vast expansion of their business operations. It has always been a policy of the State Government to encourage co-operatives to take up new and varied activities. Besides granting them a number of privileges and tax concessions, the State has also been granting them liberal financial assistance not only by granting them loans and subsidies, but also by contributing to their share capital. The state has become a business partner sharing their profits as well as their losses. Auditors have thus an added responsibility of safeguarding the interest of the State by ensuring that the funds provided by it are not misappropriated or misutilised. It is, therefore, necessary that audit should be not only strict, but also efficient and for this purpose, the auditors have to equip themselves with necessary knowledge and apply due skill and diligence in the performance of their duties.

The techniques of accounting and auditing have not remained unchanged during the period, but have undergone numerous changes and have developed significantly over the years. Co-operatives are rather slow in adopting new and improved system of accounting and look to their auditors to guide and assist them in maintaining systematic accounts. This manual attempts to set out in detail the practices and procedures which are appropriate in the light of present day circumstances having due regard to the handicaps suffered by the co-operatives arising out of their small size limited resources and democratic set up.

During the years following independence, there has been a vast increase in the number and types of Co-operative Societies and a considerable expansion in their transactions. Whereas the auditor of the good old days had to audit accounts of simple rural and a few urban Societies, with small turnovers, the auditor of today has to audit complicated transactions of a variety of Societies, like Sugar Factories, Spinning Mills, Co-operative Banks, Industrial Estates, Housing Colonies, etc. Although he might have adequate theoretical grounding and basic skill, he would still require guidance on a number of important matters. After the insertion of Section 81 (1)(b) in the year 1986, the statutory audit is carried out by the certified auditors and chartered accountants. The auditors are appointed by the societies as per amendment made in 2013. The need for a sort of handbook containing instructions and guidelines on all-important aspects of his work is being keenly felt. This manual is meant to give him practical guidance in the day-to-day performance of his duties. No attempt is made to impart any theoretical knowledge regarding auditing to him as there are many books on audit which he can refer to for his guidance. However, the auditors need to avail additional information and reference material from various sources from time to time as may be required.

The first audit manual was prepared in 1974 for the guidance of the auditors. Since then, several changes have taken place, in Accounting and Auditing. The *conventions of accounting became the accounting standards*. The standards for Auditing are also formed at National and International level by concerned accounting bodies. The recording of accounts has been computerized, which need different methods of audit. The co-operative societies have also changed their accounting policies, and accounting procedures, and have computerized their accounts and management information systems, which are required to introduce the guidance to the auditors. The contemporary knowledge of auditing is required to be introduced.

In view of the 97th constitutional amendment, the Maharashtra Co-operative Societies Act has amended section 81 (5 B), to enable criminal and civil action to be initiated by the auditors. There are other amendments in the Act and Rules which the auditors are required to be acquainted with.

The societies have to provide accounting policies adopted for preparation of their accounts to the auditors. Therefore, it has been felt necessary to update and revise the audit manual.

3.2. ***Objectives of the Manual*** **:-**The objectives of this Manual are, therefore, as under: -

1) To serve as a ***ready handbook of practical guidance*** to auditors of co-operative societies.
2) To serve as a ***codified handbook of departmental instructions*** and ***Government instructions*** relating to co-operative accounts and audit.
3) To serve as a ***ready reference book***to auditors and those who are responsible for maintenance of accounts and to ***decide the scope of audit of their societies.***
4) Above all, ***to help to improve the quality of audit work and maintain a high standard of audit.***

3.3. ***Scope of the Manual*** :- In this manual, an attempt has been made to explain the general principals of audit, the various techniques adopted by the auditors and the processes and procedures to be carried out during the course of audit in general and ***audit of co-operative societies in particular*** with special reference to the circular instructions issued by the Registrar from time to time. The special features of the audit of different types of societies are also dealt with. The criteria laid down by the Registrar for awarding audit classification, the procedure for follow-up of audit, the basis and scale for assessment of audit fees and procedure for recovery of audit fees are explained in detail. Besides explaining the general procedure of work, such as examination of cash, verfication and valuation of assets and liabilities etc., the methods to be adopted for reviewing operational efficiency and the tests to be applied for determining the financial soundness, operational efficiency and co-operative character of different types of societies is also explained. Instructions for the drafting of audit reports and special reports, filing in the schedules and other accompaniments to the audit memo are given, which, it is hoped, will ensure uniformity in the drafting of audit reports. Standard audit programs and instructions regarding audit of different types of Societies are explained. Important legal decisions affecting auditors are also given. The modern method of recording accounts on the computers has been explained with its verification systems.

It has, however, to be emphasized that having due regard to the diversity of the activities undertaken by the co-operatives and the complexity and variety of their operations, it is not possible in a manual of this size and nature to deal exhaustively with all the problems to be met with by the auditors. It is also not claimed to be a complete statement on the work involved. However, an attempt has been made to deal exhaustively not only with routine matters, but also with most of the important aspects of audit work with which many of the members of the audit staff may not be familiar. The auditors will find in this manual solutions to most of their problems, which, they face during the course of discharge of their duties. In brief, it is hoped that this manual will provide necessary guidance to the auditors and enable them to equip themselves with the requisite professional skill and knowledge for the performance of their duties. Considering the evolution in the field of accounting and auditing, the techniques of auditing through computers and auditing with computers are given in this manual for ready references.

———

CHAPTER No. 4

AUDIT: MEANING AND SCOPE

4.1. ***Meaning of Audit*** **:-** The origin of audit can be traced to the need to ensure that a person who came into possession of money or property belonging to another has properly accounted for it. Thus, in the beginning, it was merely a scrutiny of cash transactions and the auditor merely "heard" or was satisfied with oral explanations to "pass" the transactions as genuine and correct. The Industrial Revolution in England gave a fillip to the organization of large undertakings for carrying on large-scale industrial and commercial operations. As the capital required for these ventures was beyond the capacity of any one individual or even a partnership, it had to be collected from a large body of persons who formed a joint stock company and became its share-holders. The management of these companies, however, had to be entrusted to a small body of persons elected by the general body of the share-holders, who came to be taken as Directors of the company. Proprietorship and actual management having thus been separated, the shareholders needed some arrangement under which they would be assured that their interest had been properly safeguarded. In order to see that the board of directors had conducted the operations of the company in the best interests of the shareholders and also to assure them about the safety of their investments, accounts maintained by the directors had to be subjected to an ***independent*** verification by a person appointed by the shareholders. The auditor thus serves as a **link of trust** between the shareholders who are the proprietors of the business and the board of directors who manage it, which is absolutely necessary in any system of corporate finance.

4.2. ***Definition of Audit*** **:-** The concept of audit, however, has undergone considerable change during the course of time and audit has now come to mean ***"such a close and careful examination of the account books, documents and other records of a business or other organization as shall enable the auditor to satisfy himself whether or not the balance sheet and the profit and loss account have been properly drawn up, so as to exhibit a true and fair view of its financial operations."*** An audit may, therefore, be described as a ***"critical examination by an auditor, of the documentary and other evidence from which the profit and loss and the balance sheet of an organization have been drawn up, in order to enable him to report that they present a true and fair view of the summarized transactions for the period under review and of the financial position of the organization as at the end of the period."*** From the above definitions, it will appear that the auditor examines the evidence, mainly consisting of account books, registers, vouchers, statements, minutes, etc. and some times, he has to go even behind the books of account and inspect the actual assets themselves and call for confirmation from clients. It has, however, to be remembered that the examination of the accounts must be such as to enable the auditor to report thereon.

The Institute of Chartered Accounts of India in its publication of the Statement of Standard Auditing Practices :- Basic principles Governing an Audit (SAP 1) describes audit as ***" the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such examination is conducted with a view to expressing an opinion thereon.***

It means that the auditor has to express an opinion on the financial statements. Financial statements generally mean the statement of affairs as on particular date (balance sheet) and statement of operations (profit and loss accounts / Income and expenditure statements) for a financial year of any entity. The opinion on financial information is expressed after careful examination of books of account, documents, records and vouchers. That is, before an opinion is pronounced, evidence is gathered and tested to form the basis for framing an opinion.

The Institute of Chartered Accountants of India has issued a comprehensive definition describing modern 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". Another concept of auditing is : "***Auditing is the process by which a competent, independent person accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria***."

The information under audit need not necessarily be accounting information. However, information must be in a verifiable form. There should be standards or criteria for evaluation of the information. **And *the auditor should not only be a competent person but he should also have an independent mental attitude***.

It would thus be seen that certification of the balance sheet and the profit and loss account has come to be looked upon as the main function of audit. In the minds of the general public, however, prevention and detection of frauds and embezzlements constitutes such an important function of the auditor as to overshadow his other functions. This is quite natural, since auditing involves a complete or at least an exhaustive checking of the transactions and the manner in which they have been recorded.

4.3. *Purpose of Audit :-* Detection of frauds and errors -Examination of accounts by an independent outside agency no doubt acts as a deterrent and moral check and also facilitates early detection of frauds and errors. Since the auditor has to carry out an intelligent and exhaustive scrutiny of the accounts before he can report on them, there can be no question about the auditor's responsibility for detection of frauds except those which have been deliberately perpetrated by those who are at the helm of affairs or those committed by trusted employees which even with the application of due skill and diligence, he could not be expected to detect.

The sound and more important function of auditor is to **detect errors**. As regards detection of errors, it is needless to point out that both from the point of view of the management and the employees themselves, this is of great advantage. The auditor, during the course of his examination of the accounts and inspection of documents, would come across numerous errors and irregularities, which might be ***bona fide, mistakes*** resulting from carelessness or ignorance on the part of the accountant. Such errors and irregularities, which are common in most co-operative societies and can be considered as minor or of no importance should be got rectified and corrected as and when they are noticed. However, it has also to be born in mind that they might also have been committed deliberately in order to conceal frauds and misappropriations, perpetrated by the management or the employees and would call for a more detailed probe. Although, most of the errors that we come across in well-managed co-operative societies are likely to be mere clerical errors, which can be and should be got rectified on the spot, there are also likely to be errors of principal which will have to be explained to the management. *The mistakes which cannot be rectified on the spot shall be, put up in writing to the management for rectification and to submit rectification report. Care should be taken that the errors which are of serious nature including fraud, embezzlement, misappropriation, misapplication and of serious financial irregularities should be reported in audit report and special/specific report wherever applicable.*

The arithmetical accuracy of the accounts can be tested by drawing up the Receipts and Payments Statements of the trial Balance. However, mistakes in posting of personal ledgers can only be detected when the personal ledger balances do not agree with the balance in the totals or the controlling accounts. In computerized accounting methods, this work of the auditor is no more required. However, he has to verify the correctness and efficiency of the system and the procedure followed in data processing. Besides clerical errors discussed above there would also be other types of errors. These are compensating errors, which compensate or cancel each other. There are also errors of principle, many times knowingly committed by those in charge of management. These are difficult to detect and only a very careful examination would reveal such errors. Errors of principle arise when a transaction has been entered in a fundamentally incorrect manner, such as entering revenue expenditure as capital expenditure, or

when the normally accepted principles have not been followed such as wrong valuation put on an asset, failure to bring into accounts known liability or provide adequate depreciation on wasting assets. Auditors should take utmost care while verifying the entries for compensating errors, principle errors and rectifying errors as these may lead to frauds and misappropriations subsequently.

4.4. ***Advantages of Audit*** **:-** The main advantage to be derived from a system of audit is that the proprietors of the business, who, in case of a co-operative society, are its members, the depositors and financing agency of the society and the Government which also has a considerable financial stake in the affairs of co-operatives, are assured that the accounts are properly maintained and they are not being defrauded by dishonest office-bearers or employees. They will have present before them statements showing the true position of the affairs of the society and its earnings. Audited accounts are also relied upon for purpose of assessment of income tax and sales tax and also for disbursement of Government loans and subsidies. The directors or the committee members are also assured that there would be no undue criticism against them. The auditor's report would thus protect the management from unwarranted criticism and at the same time assure the shareholders and the creditors of the safety of their investment.

———

CHAPTER No. 5

DUTIES AND RESPONSIBILITIES OF AUDITORS

5.1. ***Duties of the co-operative Auditor*** **:-** We have seen in a previous paragraph that audit in its generic sense is a critical and intelligent examination of the books of accounts of a business with the vouchers and other documents in orders to be satisfied that the operational results for a particular period and the exact financial position of the business as at the close of the period as reflected in the profit and loss account and the balance sheet are correct. The auditor has also to see that these statements have been prepared in accordance with the generally accepted accounting principles and the accounts give all the information required by law. The duties of the co-operative auditor are, however, much more comprehensive. It has been laid down in section 81(2) of the Maharashtra Co-operative Societies Act, 1960; the audit shall include an examination of the overdue debts, if any, the verification of cash and securities and valuation of the assets and liabilities of the society. Examination of overdue debts has been made a special responsibility of the auditor, in view of the far reaching consequences that overdue debts have on the working of co-operatives, in particular, co-operative credit institutions, which are in large numbers. In any system of credit, existence of overdue debts is a symptom of weakness and it is necessary, therefore, that the position of co-operative societies in regard to their overdues be under constant watch with a view to reducing their proportion and arresting their further growth.

As regards the verification and valuation of assets and liabilities, the responsibility of the auditor of a co-operative society is the same as that of the auditor of a joint stock company. However, having due regard to the vast financial stake of the State in the affairs of many of the societies, the special position allotted to co-operative societies in the general scheme of development particularly in regard to the improvement of the lot of the weaker sections of the society and the numerous concessions and privileges enjoyed by them, audit of co-operative societies has to be made more strict. Close and careful inquiries will have to be made to ensure that the assets have been properly valued and all known liabilities have been accounted for.

Besides this, Section 81(2) lays down the duties of the auditor which are as under. The audit shall be carried out as per auditing standards notified by the State Government from time to time and shall also include examination or verification of following items, namely,

1) Overdues of debts, if any;
2) Cash balance and securities and a valuation of the assets and liabilities of the society;
3) Whether loans and advances and debts made by the society on the basis of security have been properly secured and the terms on which such loans and advances are made or debts are incurred are not prejudicial to the interest of the society and its members;
4) Whether transactions of the society which are represented merely by book entries are not prejudicial to the interest of the society;
5) Whether loans and advances made by the Society have been shown as deposits ;
6) Whether personal expenses have been charged to revenue account;
7) Whether the society has incurred any expenditure in furtherance of its objects;
8) Whether the society has properly utilized the financial assistance granted by Government or Government undertaking and financial institutions, for the purpose of for which such assistance was granted ;
9) Whether the society is properly carrying out its objects and obligations towards members.

5.2. ***Responsibilities of the Auditor :-*** It will thus be seen that the auditor of a co-operative society has not merely to check and certify the correctness of the balance sheet and the profit and loss account, but has to examine many other things besides. Co-operative audit embraces all the circumstances, which determine the general position of the society and its achievements. Thus, for example, in case of co-operative credit societies and banks, the auditor has to see that the loans are given for proper objects and periods and on adequate security as per latest concepts of co-operative finance. He has also to examine the repayments in order to ascertain book adjustments, improper renewals, etc. He has further to note whether timely action has been taken for recovery of dues and

overdues. In case of agricultural marketing societies, he has to see that the society has undertaken pooling, grading and joint sale of members produce and does not act merely as a commission agent. In case of farming societies, he has to see that the lands been pooled and cultivated jointly. In case of other societies, he has to see that business is conducted on proper lines in accordance with co-operative principles and all canons of business and financial propriety are being duly observed. In short, the auditor is required to satisfy himself that the society has been working on sound lines, the members are taking sufficient interest in the affairs of the society and the committee members understand their duties and responsibilities and attend to them with due regard to co-operative principles.

It has always to be borne in mind that the auditor **of** ***a co-operative society has not merely to check the accounts and point out faults, but he has to function as its friend, philosopher and guide.*** The members of the committee look to him for guidance in all important matters. He has to act as the financial adviser of the societies and suggest ways for improving their affairs and increasing their usefulness to their members.

As per amendments in 2013 in MCS Act, the auditor has to submit a special report to the Registrar in respect to irregularities in financial transactions and losses to the societies. He has also to submit specific report regarding criminal action to be taken against the culprits and lodging the first information report **(FIR)** with the concerned authorities after obtaining permission from the registraras provided in Section 81 (5B).

5.3. ***Auditor's powers to go beyond the books of accounts. : -*** The powers given to the auditor under Section 81(3) (a) to summon any person who is or has been an officer or employee of the society and any member or past member of the society and call for information and require production of books or documents in their possession, gives the auditor power to go beyond the books of accounts and records of the society and supplement the information gathered from the books of accounts by making personal enquiries with the members and others and satisfy himself about the genuineness and correctness of the transactions recorded in the books.Specimen format is given in annexe.

If any deficiency or loss has occurred as a result of negligence, misfeasance or misconduct on the part of the committee or any officer or member of the society, the Registrar, Acting on the report of the auditor, has power to assess damages caused to the society for the loss suffered by the society. For this purpose, auditor has to submit special report as provided in sub section 5B of the section 81. The auditor has thus not only to play the critical role of a watch dog to watch the interests of the members and creditors of the society, but the blood hound spirit into him has also to be brought into play to ensure that unsocial elements, which might control the affairs of the society, do not avail of the agency of the society or its funds for their personal benefits.

Under provisions of Rule 49 of the Maharashtra Co-operative Societies Rules, 1961, no bad debts can be written off unless they are certified as irrecoverable by the auditor.

5.4. ***Auditor to assist and advice management of Societies*** :- It will thus be seen that in many respects, the work of the auditor of a co-operative society exceeds the boundaries of what is generally considered as audit in its general sense and ***includes within its purview not only the critical and verification aspect, but also an appraisal from the view point of operational efficiency, financial soundness and co-operative vitality***. It also includes tendering advice and rendering assistance on all matters connected with the working of the society. The auditor has, therefore, to cultivate a ***keen sense of observances*** and he should try to make his audit as effective and useful as possible, by observing and examining everything that he comes across during the course of performance of his duties. He should at all times think of the possibilities for improvement and tender suitable advice to the committee.

The auditor should also remember that he has to deal not only with the books of accounts and records, but has also to supplement the information available from the books, by calling for clarification and explanation. He has to put intelligent questions so as to elicit the required information, without arousing any suspicious in the minds of those whom he questions. During the course of performance of his duties as an auditor, he has to deal with all sorts of people from junior ledger clerks to highly paid executives and directors who are honorary workers and are particularly susceptible to any sort of adverse comment and are, therefore, required to be handled with great care and utmost courtesy.

CHAPTER No. 6

CO-OPERATIVE SOCIETIES AUDIT : FEATURES AND DIFFERENCES

6.1. ***Difference between the audit of co-operative societies and of joint stock companies Auditor's responsibility to the Registrar and Society :-*** We have so far seen that the main object of audit of a co-operative society is to safeguard the interests of the members and the creditors. The management is also required to be made aware of the errors and irregularities committed by them and the paid staff and advised to rectify them. However, it has to be remembered that audit of all co-operative Societies once at least every year is the statutory responsibility of the ***Registrar and Society*** and hence the primary responsibility of the auditor is to the ***Registrar and Society***which has appointed and authorized him to carry out the audit. As early as 1915, the Maclegan Committee appointed by the Government of India to review the progress of the Co-operative movement in the country had reported that. ***"It is through audit alone that an effective control can be exercised over the movement and it was clear that it was never intended that the Registrar's activities outside audit should be confined to inspection or enquires. The auditing staff from whatever source they may be paid, are in our opinion, responsible to the Registrar and must be mainly controlled by him. Their reports are primarily intended for his information."***

6.2. ***Other distinguishing features :-*** A joint stock company is undoubtedly an association of capitalists, who have come together only to earn profits. The important result of audit they normally expect is to disclose the amount of profit available for being distributed as dividend. In case of co-operative societies, however, the Registrar to whom the auditor has to submit his report, is keen to know how far the society has been successful in achieving the objects for which it was established, the extent to which the members have benefited and whether the working of the society is being conducted according to co-operative principles, as well as its earning capacity.

The scope of co-operative audit as we have seen, is much more wider than that of a joint stock company. Whereas the auditor of a joint stock company has merely to report on the correctness of the profit and loss account and the balance sheet, the auditor of a co-operative society has to see many other things besides.

In a joint stock company, the directors are shrewd businessmen whereas the members of the committee of co-operative society are mostly laymen and do not possess any business acumen. Audit of a co-operative society has, therefore, to be not merely critical, but corrective and educative.

The auditor of a joint stock company is not concerned with how the business is managed. It is not his duty to advise the management. The auditor of a co-operative society, however, is its friend, philosopher and guide. The members of the committee expect him to guide and assist them in the management of the society.

Whereas the auditor of a joint stock company has merely to report whether the profit and loss account and the balance sheet has been drawn up in accordance with the provisions of the Companies Act, the auditor of a co-operative society is required to point out infringement of the provisions of the Act, Rules and the byelaws of the society. Where these infringements have financial implications, the auditor of a co-operative society has to point them out specifically so that the Registrar may institute proceedings for assessing damages, etc.

It will also have to be noted that whereas a company may include in its profits all accrued interest and other unrealized income, co-operative societies cannot take into account overdue interest. All interest accrued or accruing in accounts in which the principal is overdue has to be excluded from profits.

It will thus be seen that the co-operative audit has to be more searching and comprehensive so as to gauge and assess the extent to which members and the general public have benefited by the society and the approach of the auditor has to be different from that of an auditor of a joint stock company.

6.3. ***Special features of Co-operative Audit*** :- We have already seen that the duties of the auditor of a Co-operative Society are much more extensive than those of the auditor of a joint stock company, who has merely to certify the correctness of the balance sheet and the profit and loss account. It has further been laid down in sub-section (2) of section 81 that audit shall include an examination of the overdue debts, if any, the verifications of the cash balance and securities and a valuation of the assets and liabilities of the society. The auditor of a Co-operative Society has not only to conduct his audit according to the normally accepted principles, but, since his responsibility for the proper conduct of audit, he has to follow the provisions of the Act, Rules and Byelaws and instructions issued by the Registrar. These features have been elaborated in the following paragraphs.

6.4. ***Examination of overdue debts :***- Examination of overdue debts, as we have seen has been made a special responsibility of the auditor in view of the far-reaching consequences of such overdue debts of the working of credit societies which outnumber the rest. Examination of overdue debts also involves a careful assessment of chances of their recovery and their classification into good, doubtful and bad. The auditor has also to see that due action is taken for recovery of dues and overdues.

6.5. ***Valuation of assets and liabilities*** **:**- The term "valuation" used in this sub-section is a wide term and denotes the proper application of the various tests that are generally applied by auditors for the valuation of different types of assets and also includes the verification of such assets. The auditor has also to see that all known liabilities are brought into account and where the amounts are not certain, the estimates made have been reasonable. The auditor has also to see that the provisions made are adequate. The auditor has also to see that standard accounting principles for valuation of assets and liabilities are followed by the society, and variation in them should be recorded in his report.

6.6. ***Adherence to Co-operative principles*** **:**- Co-operation is a method of doing business and in conducting their business operations. Co-operatives are required to observe certain well-defined principles. The amended Act defines society as "society means a Cooperative society registered, or deemed registered under the Act, which is an autonomous association of persons, united voluntarily to meet their common needs and aspirations through a jointly owned and democratically controlled enterprise and adhering to the cooperative principles and values". Whereas a joint stock company is an association of capitalists, a Co-operative Society is an association of individuals who have come together merely not to earn profits on their investments but to secure resources and services required by them. The important result expected in the audit of a joint stock company is the amount of profit available for distribution while the primary concern of the auditor of a Co-operative Society is to ascertain how far the society has achieved the objects for which it has been organized and how far it has succeeded in furthering the moral and material well being of its members.

6.7. ***Observance of the provisions of the Act, Rules and Byelaws*** **:-** The auditor of a joint stock company does not bother to see whether the administration of the company is conducted on right lines. A Co-operative auditor, however, is not only required to point out all cases of infringement of the provisions of the Act, Rules and the Byelaws of the society, but also of the directives contained and suggestions made in the various Government Notifications and Circulars issued by the Registrar and Government from time to time. Where these infringements have financial implications, he has to include them in a separate schedule with necessary particulars so as to enable the Registrar to initiate Action under section 88 of the Act. However, where they have no financial implication, he has to submit a special report furnishing particulars and suggesting remedial Action by the Department and the federal society to which the Society is affiliated.

6.8. ***Furtherance of public welfare and safeguarding of public funds*** **: -** We have seen that Co-operative societies have an important role to play in bringing about the desirable change in the moral and material well-being of our people. The agency of Co-operative Societies is availed of wherever possible in preference to other forms of business organization and a number of valuable privileges and concessions, both administrative and financial, have been granted to them at the cost of the taxpayer.

The auditor, during the course of his audit, has to see that these privileges and concessions are not misused and that the operations of the society are conducted with due regard to the interests of the common man.

6.9. *Personal verification of members and examination of their pass books : -* We have seen that in order to ascertain whether the books of accounts show the correct position of the affairs of the society, the auditor has not only to compare the entries in the books with the receipts, vouchers, statements of accounts and other documents, but has also to make thorough inquiries by calling for explanations and personal verification of the Member's accounts. In case of agricultural credit societies and other rural societies, the auditor is required to call for and examine the entries made in the passbooks issued to Member's and get the outstanding balances confirmed in his presence. *Personal verification of Member's accounts is a very good safeguard to prevent manipulation of accounts by dishonest employees and office-bearers of societies and by putting intelligent questions, many cases of frauds and other serious irregularities have come to light which would not otherwise have been possible.*

We have already seen that under provisions of section 81(3) (a) of the Maharashtra Co-operative Societies Act, the auditor has been given power to summon members and compel them to produce their pass books and statements, receipts and other documents issued to them by the society in the course of their dealings with it. The auditor has thus powers to go behind the books of accounts and these he must avail of in order to ascertain the true position of the society.

6.10. *Assessment of damages*. :- If any deficiency or loss has occurred which can be attributed to the negligence, want of proper care, misfeasance or misconduct on the part of the committee or any officer or member of the society, the auditor has to submit special report in accordance with the provisions of sub-section 5B of section 81. The Registrar, acting on the special report of the auditor and after examining into the conduct of the persons concerned, has power under section 88 to assess damages and order the person responsible to pay to the society the amount assessed by him. The auditor has thus not only to play the critical role of watching the interests of the members and creditors of the society, but also, in view of the numerous opportunities available to unscrupulous office-bearers to commit frauds and misappropriations, the blood hound spirit in him has also to be brought into play, wherever necessary.

6.11. *Certification of Bad debts* :- Rule 49 of the Maharashtra Co-operative Societies Rules lays down that bad debts can be written off only when they are certified as such by the auditor. The procedure laid down in the Rule requires that all bad debts, before they can be written off against the Bad Debts Funds or the Reserve Fund or the Share Capital, should have been certified as bad debts or irrecoverable by the auditor. However, this provision is not applicable to Co-operative Credit Structure Entity (*i.e.* PACS, DCCB, SCB). Such entity shall write off its bad debts on approval of its General Body in conformity with guidelines of RBI and NABARD.

Procedure for giving certificate for writing off of bad debts :- Before giving above certificate, auditor should satisfy himself about following.

I. There is no security for the loan which is going to be written off.
II. Borrower is expired living no security.
III. Loan documents are lost.
IV. Borrower has left the area of operation and where abouts of guarantors are not known.
V. Society has made efforts to recover from guarantors, but there is no recovery.
VI. Legal action is taken, decree is obtained and society has tried to recover from other assets of borrower which are not charged still there is no recovery.
VII. Every effort is made by society to recover but there is no chance of recovery and society has come to the conclusion to write off the debts.

6.12. ***Awarding audit classification to the society*** **:-** After completion of his audit, the auditor is required to award an audit classification to the society as per rule 69 (9), which he has audited. All Co-operative Societies are awarded a classification letter, A, B, C, or D according to certain well-recognized principles as laid down in this manual and as may be specified by Registrar from time to time. The audit class of a society indicates the degree of success achieved by it, its financial stability and its operational efficiency. A list of societies together with their latest audit classification is published by the Registrar.

6.13. ***System of accounting and policies*** **:-**

1) System of Accounting :- Co-operative society shall follow mercantile system of accounting (Accrued system of accounting). All expenses incurred should be accounted for whether actually paid or not. Similarly all incomes should be accounted for whether actually received or not. So that profit of the year is correctly calculated. In respect of banks interest on loans and advances should be accounted for as per IRAC norms specified by Reserve Bank of India.

2) Adherence to Accouting Policies :- Societies have to adopt the accounting policies which must be consistent with Accounting Standards issued by State Government or The Institute of Chartered Accountants of India (ICAI). The society has to prepare and publish the adopted accounting standards with changes thereon in the notes given with financial statements. The accounting policies adopted by the society which are consistently followed by the society. Changes made in the accounting policies which have no material effect on financial statements need not be reported by the auditor. However, the changes in the policies which have material effect on the financial statements, need to be reported by the auditor.

———

CHAPTER No. 7

QUALITIES OF AUDITORS

7.1 ***Auditor-A friend, philosopher and guide*** – We have already seen that the auditor of a co-operative society has to function as its friend, philosopher and guide. He has to tender advice on all financial and administrative matters whenever his advice is sought and suggest ways for improvement of their affairs and for increasing their usefulness to their members. Co- operative audit has not only to be critical but also ***curative and educative***. The auditor has not only to point out mistakes, but has also to suggest ways to avoid their recurrence in future. He has also to educate members of the committee and the ordinary members as well and point out ways for improving its working and increase its usefulness.

The auditor has not only to comment on the actions of the management, but has always to think of the possibilities for improvement and tender suitable advice to the committee.

7.2. ***Qualities required of an Auditor-*** **:-** The foremost quality that an auditor should have is an ***abundance of commonsense***. He has to cultivate a ***keen sense of observation*** and has always to be on the lookout for whatever is unusual or irregular. Since the time at his disposal is always limited, being required to complete the audit within the time prescribed in the Act, he has to plan and carry out his work methodically and thoroughly so as to ensure that all important matters receive adequate attention and nothing which is irregular or out of the way escapes his notice. The work he has to do being mechanical and tiring, he is required to ***possess a good deal of patience***. All the same, he is required to ***apply due care and skill*** in the performance of his duties lest he may be charged with negligence. He has always to be ***diligent and hard working*** and at the same time *guard himself against methods which tend to be mechanical or appear to be shortcuts and are, therefore, fatal to accurate and efficient audit*. **Accuracy, concentration and patience** are the three invaluable qualities, which every auditor must possess. He is also required to have a ***quick grasp and ability to read between the*** **lines** so that he cannot be deceived.

Since the work involved is voluminous and many times beyond the capacity of any one individual, the auditor has to rely on his assistants to carry out most of the routine work so as to keep himself free to attend to the more important matters. He has, therefore, to map out his work methodically and distribute it amongst his assistants, with ***clear instructions as to what is to be done, why it is to be done and how it is to be done***. Further, he has to instill in them a ***sense of loyalty and faithfulness*** and at the same time to ***encourage and assist them to think for themselves*** and make their own contributions. All this calls for considerable ***supervisory skill and administrative talent***.

7.3. ***Attitude towards non-officials*** **:-** It has to be noted that the auditor has not only to deal with the books of accounts and records, but has also to supplement the information available from the books by calling for clarifications and explanations. But putting intelligent questions, he has to elicit the required information without arousing any suspicions in the minds of those whom he questions. During the course of the performance of his arduous duties, an auditor of a co-operative society has to deal with all sorts of people from simple junior clerks to highly placed executives and directors, who are shrewd businessmen and many of whom, on account of their wealth and social status, might not regard the auditor as an important person. The auditor should, therefore, possess necessary ***tact and talent*** to deal with men and matters. He has always to remember that office-bearers of co-operative societies are mostly honorary workers, who are particularly susceptible to any sort of adverse comment and are, therefore, required to be handled with ***great care and due courtesy***. At the same time, he should have the ***courage of his convictions*** and be ***bold enough*** to state in no uncertain terms his findings and his opinion on the genuineness and propriety of the transactions examined by him.

7.4. ***Honesty, Integrity and sincerity :-*** Lastly, he is required to be ***honest and sincere***. *He must not certify what he does not believe to be true and must take reasonable care and apply due skill before he believes that what he certifies is true.*

It has to be noted that co-operative societies have an important place in the economic set-up of our country. The active assistance, large-scale financial involvement and even partnership in their affairs by the State necessitate that the auditor should apply more than ordinary care and skill in the discharge of his duties because *audit is the only known method to bring to light errors and grave irregularities.*

7.5. *Independence of the Auditor* *:-* The auditor should be independent in performing his duties as an auditor. He should express his opinion without fear or favour.

CHAPTER No. 8

POWERS AND LIABILITIES OF AUDITOR

8.1. ***Powers of the Auditor :*** **-Sub-section (3) (a)** of section 81 of the Maharashtra Co-operative Society Act, 1960, provides that the auditor for purposes of his audit, shall have access to all books, accounts, documents, papers, securities, cash other property belonging to the society or in the custody or possession of the society or any of its officers. He has also the power to summon any person in possession of or responsible for the custody of any such books, accounts, papers, securities, cash or other property of the society and compel him to produce the same at any place at the head-quarters of the society or any branch thereof. Under **sub-section (4)** of Section 81, duty is cast on every person, who is or has at any time been an officer or employees of the society and every member or past member of the society, to furnish such information in regard to the transaction or working of the society, as the auditor may require.

8.2. ***Acts and omissions which constitute offences under the Co-operative Societies Act :-*** Section 146 of the Maharashtra Co-operative Societies Act specified a number of Actions and omissions by office-bearers and members of co-operative societies, which constitute offences and the following section 147, lays down punishment for such offences. Many of the offences, enumerated in the Section pertain to the duties and responsibilities of the officers, employees and members of the societies with reference to maintenance of accounts and audit. Thus, under section **146 (g),** refusal by an officer or member of the society in possession of information to furnish to the auditor, information required by him or to produce books, papers and other documents and to give assistance to the auditor constitutes an offence under the Act and under sections **147 (g),** is punishable with a fine which may extend to Rs. Five thousand. Under clause **146(l)** of the section, failure to comply with the requirements of sub-section (4) of section 81, viz., failure to furnish information in regard to transactions and working of the society, constitutes an offence and is punishable with a fine, upto Rs. One thousand. Disobedience of summons issued by the Auditor will also constitute an offence under this sub-section and also under the Indian Penal Code ***(Section-174, IPC)***, since auditors are deemed to be public servants under Section 161 of M. C. S. Act. The committee of a society or an officer or member thereof willfully neglecting or refusing to do an Act or furnish any information required by the auditor would also commit an offence under clause ***(j) of section 146*** and under the corresponding clause ***(147j)*** of the following section, can be punished with an imprisonment for a term not exceeding one month or with a fine upto Rs. Five thousand or with both. It need hardly be mentioned for purposes of his audit, the auditor has to rely on the information available from the books and also the clarification and explanation offered by the officers and members of the society. Under clause ***(k) of section 146***, if a committee of a society or an officer or member thereof, willfully makes a false return or furnishes false information or fails to maintain proper accounts, he commits an offence and under the same clause of the following section is punishable with imprisonment for a term which may extend to one year or with a fine upto Rs.Ten thousand or with both. For disobedience of summons issued by the auditors, cases may also be lodged with magistrates under the Indian Penal Code. However, prosecution under this section shall not be lodged, except previous sanction of the Registrar.

8.3. ***Additional powers*** **:-**

1) The auditor of a co-operative society is deemed to be a public servant within the meaning of ***section 20*** of the Indian Penal Code. The authority exercised by him as public servant and also the above mentioned powers, which have been given to him under provisions of the Co-operative Societies Act, are not available to the auditor of a joint stock company. The powers of the auditor of a Co-operative society, in particular, the power to summon and compels production of documents and papers from all persons having custody of books of accounts, cash and property of the society, give the auditor power to go beyond the books of the society and by making personal inquiries with the members, creditors and other constituents of the society, he can supplement the information available from the books and records of the society about the genuineness and correctness of the entries recorded in the books of accounts of the society.

2) Power to seize records :- During the course of audit of any society, if the auditor is satisfied that the books and records of society are likely to be suppressed, tempered with or destroyed or the funds and property of the society are likely to be misappropriated or misapplied, then he has to report to the Registrar and the Registrar or the person authorized by him may apply to Executive Magistrate within whose jurisdiction the society is functioning for seizing and taking possession of records and property of the society. All the Special Auditors Class I and II are delegated the power under section 80 and rule 68, to assist the Registrar (Notification No. G. O. A. D. No. WPC 2872/ 35113-C-5, dated 23rd August 1972.) The procedure for impounding has been described in section 80 and corresponding rule 68.

8.4. ***Audit Report to be considered by annual general body meeting .*** **:-** Sub-section (4) of section 75 of the Maharashtra Co-operative Societies Act laid down that at every annual general meeting of the society, along with the audited balance sheet and profit and loss account and the committee's report, the auditor's report and rectification report of earlier audit report shall be placed before the members for adoption. Under Rule 30 of the Maharashtra Co-operative Societies Rules, the audit memo is public document and any member of society or of the public may inspect it free of cost in the office of the society or the Registrar and may also obtain copies thereof on payment of the prescribed fee.

8.5. ***Auditor's right to receive notice of and attend annual general body meeting.*** **:-** Sub-section (5) of section 81 also gives a right to the auditor to receive all notices and every communication relating to the annual general meeting to attend such meeting and to be heard thereat, in respect of any part of the business, with which he is concerned as auditor.

However, the auditor shall not be required to attend the AGBM, unless otherwise there is any point on which he has to explain to the AGBM and he has received the letter from the society for such explanation.

8.6. ***Auditor to be a "public servant"*** **:-** Section 161 of the Maharashtra Co-operative Societies Act provides that a person appointed under Section 81 shall be deemed to be a public servant within the meaning of section 20 of the Indian Penal Code. Rule 2 (B1) defines the auditor as, "Auditor or auditing firms from panel approved by State Government or Authority authorized by State Government and appointed by Annual General Meeting or by Registrar". Their authority as public servants adds to their status and affords them additional facilities, which are not available to the auditors of joint stock companies.

8.7. ***Authority of Auditors as public servants*** **: -** ***Chapter X*** of the Indian Penal Code deals with contempt of lawful authority of public servants. Under section 161 of the Maharashtra Co-operative Societies Act, all auditors of co-operative societies are public servants can be invoked by them as defined in section 20 of the Indian Penal Code. As such, they can invoke the penal provisions contained in this Chapter intended to enforce obedience to lawful authority of a public servant. Contempt of lawful authority of courts of justice, police officers and officers of Revenue and other Government Departments and other persons declared as public servants under various other Acts is punishable under this head.

Under sub-section (3) (a) of section 81, the auditor for purposes of his audit has been empowered to summon and call for proceedings of any book, accounts, documents, papers, securities, cash and other properties of the society.

Under sub-section (4), any person, who has at any time been an officer or employee of the society and every member and past member of the society, is required to furnish such information in regard to the transactions and working of the society as the auditor may require.

The auditor has thus not only have the power to issue summons, enforce attendance and require production of documents, but also, under sub-section (4) of section 81, he can put questions and ask for information in regard to any transaction of the society.

8.8. ***Consequences of disobedience of summons*****. :-** Under section 172 of the Indian Penal Code, absconding to avoid service of summons, notice or order from any public servant, legally competent, is an offence and shall be punishable.

Preventing service of summons is an offence under section 173 (IPC).

Non-attendance in obedience to an order from a public servant constitutes an offence under section 174 of the Indian Penal Code, which reads as under : -

"Whoever, being legally bound to attend in person or by an agent at a certain place and time in obedience to a summons, notice, order or proclamation proceeding from any public servant legally competent, as such public servant, to issue the same, intentionally omits to attend at that place or time, or departs from the place where he is bound to attend before the time at which it is lawful for him to depart, shall be punished with simple imprisonment for a term which may extend to one month, or with fine which may extent to five hundred rupees, or with both."

8.9. ***Failure to produce documents*** **: -** Under section 175 of the Indian Penal Code, omission to produce any document to public servant by person legally bound to produce is an offence: it reads as under: -

"Whoever being legally bound to produce, or deliver up any document or electronic record to any public servant as such, intentionally omits to produce or deliver up the same," shall be punishable

Auditors of co-operative societies have a right of access to books, records, statements, documents, etc. of the society in possession of or in the custody of any person and whoever refuses or fails to produce any document in his possession can be punished under this Section.

Under section 176 of the Indian Penal Code, omission to give notice or information to public servant by person legally bound to give it, constitutes an offence.

8.10. ***Consequences of refusal to answer questions and giving false evidence*** **:-** Under section 177 of the Indian Penal Code furnishing false information as a public servant is an offence. it reads as under-

"Whoever, being legally bound to furnish information on any subject to any public servant, as such, furnishes, as true, information on the subject which he knows or has reason to believe to be false, shall be punished with imprisonment and fine."

Refusing oath or affirmation when duly required by public servant to make it is an offence under section 178 of the Indian Penal Code. ***However, the Act does not empower auditors to examine persons on oath or affirmation,*** although under section 81(3) (a) and 81(4), he can summon members, officers and employees of the society-both past and present and require them to produce documents in their possession and furnish information required by him. He can no doubt put questions on any subject relating to his audit and refusal to answer questions put by him would constitute an offence punishable under section 179 of the Indian Penal Code.

Under section 179 of the Indian Penal Code refusing to answer public servant authorized to question is an offence:

"Whoever, being legally bound to state the truth on any subject to any public servant, refuses to answer any question demanded of him touching that subject, by that public servant in exercise of the legal powers of such public servant commits an offence under this section and is liable for punishment for 6 months or fine of Rs. 1,000 or both."

Under section 182 of the Indian Penal Code furnishing false information with intent to cause public servant to:

a) do or omit anything which such public servant ought out to do or omit, if the true state of fact was known to him or

b) use his lawful power to the injury of another person in an offence. It has, however, to be noted that the auditor has to verify all information and explanation given to him and should not ordinarily be mislead. Any attempt to mislead him by giving false information would constitute an offence under the section.

8.11. ***Causing obstruction to public servant.*** **:-** Under sections 186 and 187 of the Indian Penal Code obstructing a public servant in the discharge of his duties and omission to assist public servant when bound by law to give assistance are offences. Under section 189 of the India Penal Code holding out of any threat of injury to a public servant is an offence. These provisions have to be read with the penal provisions contained in sections 146 of the Maharashtra Co-operative Societies Act and are intended to assist the auditor in the proper discharge of his duties.

8.12. ***Need for extra powers*** **:-** These extra powers enumerated above have been given to the auditor of a Co-operative Society because of the wider field to be covered by him during his audit. The audit of a co-operative society as we have seen is not expected to be a mere critical examination of the entries in the books of accounts and comparing them with the vouchers and other documents, but includes within its purview personal verification of the members and examination of their pass books. This is necessary because the members of co-operative societies, particularly in the villages, are simple and trusting people and are not always anxious to understand the correctness and propriety of the transactions recorded in their names. Members of societies, particularly members of agricultural credit societies in the villages, have generally an implicit faith in the honesty and integrity of the office-bearers and their trusting nature has been found to have been taken advantage of by unscrupulous persons to further their own ends. The auditor of a co-operative society is, therefore, required to have personal contact with as many members as possible so as to make his audit effective and searching in order to ensure that no undesirable transactions or dealings lie hidden from the surface.

8.13. ***Liability of the Auditor :- Nature and extent of liability*** **:-**The auditor of a joint stock company is appointed by the share-holders and is, therefore, their agent. As such, he is liable to them if as a result of his negligence in the performance of his duties loss has been caused to the company. Although there are very few decided cases in which the courts have awarded damages against the auditors, it has been generally accepted that the auditor would be held liable only where he has failed to apply due skill and care in the performance of his duties. What is reasonable care and skill would depend upon the circumstances of each case. However, the courts have always taken a lenient view having due regard to the nature of the work of the auditor and the meager remuneration paid to him.

8.14. ***Responsibility of the auditor to the Registrar / Society*** **:-** As per section 81 (1) (a), the society has to arrange to get their accounts audited, at least once in each co-operative year by an auditor from the panel of auditors maintained by the Registrar and approved by Government. In case the society has failed to appoint the auditor within the prescribed time limit and also failed to submit return under Section 79 (1B) regarding appointment of auditor and his written consent, then the Registrar has to appoint the auditor. If there are any pending audits, prior to the year for which the auditor has been appointed, the auditor shall carry out all pending audits till date.All these audits shall be considered as one audit for the purpose of Proviso to Section 75 (2 A). However the audit remuneration will be calculated for each financial year as per the Government Resolution dated 29/10/2014 and as may be amended from time to time. These auditors are responsible to the member as they are appointed by the society in its meeting. However, the responsibility for reporting to Registrar / Society rests on these auditors.

8.15. ***Auditor's responsibility in certifying balance sheet and profit and loss account*** **:-** The form of the auditor's report prescribed under Section 81(5B) and Rule 69 (3) of the Maharashtra Co-operative Societies Rules, broadly requires him not only to certify that the profit and loss account and the balance sheet are not only in agreement with the books of accounts, but also that they give a true and fair view of the state of affairs of the business as at the close of the year and of its earnings for the year. It is, therefore, necessary that the auditor should carry out a careful and exhaustive scrutiny of the accounts to satisfy himself that all the transactions have been properly recorded in the books and that the balance sheet and profit and loss account do show a true and fair view of the state of affairs of the business and its profits. He has further to make careful enquiries and verify the physical existence of the securities and other properties shown in the balance sheet and also to see that all liabilities have

been brought into account. He has further to ensure that all statutory requirements have been complied with and the financial statements have been prepared in accordance with the generally accepted accounting policies and accounting standards issued by ICAI / Government and adopted by the society.

8.16. ***Opinion from an expert (SA 620)*** **:-** The auditor has the sole responsibility for the audit opinion expressed and that responsibility is not reduced by auditor's use of work of an expert. If the expertise in field other accounting and auditing is necessary to obtain sufficient, appropriate audit evidence, the auditor shall determine whether to use the work of an expert. Auditor shall evaluate whether expert has necessary competence, capabilities and objectivity for audit purpose.

8.17. ***Need to carry out further probe when necessary*** **: -**The auditor is required to satisfy himself about the ***propriety, genuineness and correctness of the transactions*** entered in the books. For this purpose, he has to rely on the vouchers and other documents presented to him by the management and the information and explanations furnished to him. If in the course of his investigation, he comes across anything, which arouses his suspicion, he should probe it to the bottom. But, in the absence of any suspicious circumstances, he is expected to exercise more than ordinary care and diligence and he is entitled to believe in the honesty and integrity of the office bearers and servants of the business. However, unless he is thoroughly satisfied, he should not certify the correctness of the accounts. Where the auditor is not completely satisfied as to correctness of the accounts or the manner of their presentation, or when his requirements are not complied with, ***he should not hesitate to qualify his report*** by specifying the points on which he is not satisfied or in respect of which his requirements have not been complied with. Qualifications which may be considered while reporting are explained elsewhere.

8.18. ***Responsibility for detection of frauds*** **:-** With his expert knowledge of accounts, finance and law and with his right of access to all books of accounts, vouchers and other documents and his right to call for any information or explanation from the management, he should be able to detect the existence of any fraud or serious error. ***He is required to exercise reasonable care, skill and vigilance in the performance of his duties.*** However, he cannot be held liable for not tracing out ingenious and carefully laid out schemes of fraud in the absence of any circumstances which should have aroused his suspicions, particularly when such frauds have been perpetrated by tried and trusted employees or those holding positions of trust and responsibility.

As per amended clause (e) of Sub-section 1 of the section 81, the auditor has to report the modus operandi, amount involved, persons involved, in case of financial irregularities and misappropriation or embezzlement of funds or fraud, for which he requires to investigate the records and accounts and relevant records maintained by the others, who are also involved in.

Bearing in mind the above special points relating to audit of co-operative societies, the liability of the auditor for specific acts of commission and omission may be dealt with under the two broad headingscriminal liability and civil liability.

8.19. ***Criminal liabilities of auditors :-*** An auditor of a company who certifies a balance sheet, profit and loss account or any other statement, knowing it to be false runs the risk of being held criminally liable under section 448 of the Indian Companies Act. There is no such provision in the Co-operative Societies Act and the auditor of a co-operative society can be held criminally liable, only if any of his Acts constitute an offence under the Indian Penal Code, which is quite a comprehensive piece of legislation. ***Thus, the auditor of a co-operative society can be hauled up before a Criminal Court, if he has certified a balance sheet or singed any other statement knowing it to be false.***

8.20. ***Civil liabilities of auditors*** **:–** As regards civil liability of auditors, there have been many cases in which the auditor has been sued for damages. From the comments made by the judges, while discussing the duties and liability of auditors, the following conclusions may be arrived at, which will serve as useful guidance to auditors of co-operative societies.

An auditor certifying the profit and the balance sheet does not merely guarantee the arithmetical accuracy of the statements, but also expresses his opinion whether these statements do display true and fair view of the financial position of the business and its earnings.

8.21. ***Auditor must apply due skill and care*** :- He must apply due skill and care and ascertain that the books of accounts contain a true and correct record of the transactions **(*Armitage vs. Brewer and Knot, 1932)***. He has to be satisfied that the specific requirements of the Act, the rules and byelaws have been duly complied with. He cannot excuse himself that he was not aware of these provisions. ***He must be honest, that is, he must not certify what he does not believe to be true and he must take reasonable care and apply due skill, before he believes that what he certifies is true.*** *What is reasonable care and skill depends upon the circumstances of each case. Where there is nothing to arouse suspicion, very little inquiry will be reasonably sufficient. Where his suspicions are aroused, he must probe the matter to the bottom*. ***(London and general bank case, 1895).*** Since he is not supposed to have an expert knowledge of technical matters, he is entitled to rely upon the statements and opinions of officials and other experts on technical matters. Although he is not a valuer, he has to satisfy himself that the various assets have been valued on a *fair and reasonable basis* and he can rely on the valuation certificates furnished by the management only after making due enquiries and after applying necessary tests that all the properties, securities and other assets shown in the balance sheet were in existence on the date of the balance sheet and that they had been properly valued. Omission to count the cash on hand and carry out necessary inspection of the securities constitutes negligence***. (London oil storage case, 1904 and red***.) (The City Equitable Life Insurance Co., Ltd., 1924).

He has also to see that all liabilities incurred, particularly in respect of purchases made and expenses incurred, are duly brought into account and are not understated. ***(Irish Woollen Co., Ltd., 1904).***

8.22. ***Auditor's duty in regard to stock-in-trade and book debts*** :- In regard to stock-in-trade, although it has been held that it is none of the auditor's duty to take stock or as a value ***(Kingston Cotton Mill's Case, 1896)***, he has to be satisfied not only about the arrangement made for stock taking, but also about the correctness of the valuation by testing a few of the stock sheets. In case of banks and other credit institutions, he should examine all the book debts and ascertain whether the provision made for bad and doubtful debts is adequate. ***(Arthur Green and Co., vs. Central and Discount Corporation Ltd. 1920).***

8.23. ***Liability for damages.*** **:-** An auditor undertakes considerable responsibilities in that the statements certified by him, are relied upon not only by the share holders, but also by the creditors, tax collectors and the general public, as representing an accurate picture of the concern whose accounts he has audited. He has, therefore, to be extremely careful in the discharge of his duties as if by the neglect of his duties or due to his failure to apply due skill and care, loss has been occasioned to the institution, he can be held liable for damages.Where damages have resulted from any mistaken facts in the balance sheet or any other statement or report submitted by the auditor, the onus to prove that it is not the result of any negligence or breach of duty on his part lies on the auditor***.(Republic of Bolivia Exploration syndicate Ltd., (1914) 1 Ch.139; XLIX The Accountant L.R.61)***

8.24. ***Responsibility for work done by clerk*** **/ subordinate / article :-** An auditor cannot escape personal liability by saying that the work was done by his clerk. It has been held that except where judgment and discretion come in, the skill of the clerk must be the same as the skill of the principal. ***(Henry Squire Cash Chemists vs. Ball Baker and co., 1911 and mead vs. Ball Baker Co. 1911)***. The principal must not excuse himself for his clerk's negligence by saying that he employed a clerk.

8.25. ***Extent of detailed scrutiny and enquiry.*** **:-** The extent of detailed scrutiny of the accounts and the documents and the information and explanations to be obtained are of course the discretion of the auditor. However, he cannot escape liability on the plea that he did not check the particular portion of the work or that he did not ask for an explanation or obtain information on a particular point.

———

CHAPTER No. 9

ARRANGEMENTS FOR AUDIT OF CO-OPERATIVE SOCIETIES

9.1. ***Statutory responsibility of Registrar / Society for annual audit of co-operative societies*** :- Under Section 81 of the Maharashtra Co-operative Societies Act, 1960, audit of all Co-operative Societies once in a year is the statutory responsibility of the Registrar/ of the Society. The society has to submit the return of appointment of auditor as provided by sub-section 2A of the section 75, within thirty days from the date of Annual General Meeting. If the society fails to submit return to the Registrar and if the Registrar is satisfied about non-appointment of the auditor by the society, the Registrar may cause to appoint the auditor to that society as provided in the Section 81 of the Act.

9.2. ***Audit of Co-operative Societies by Auditors appointed by the Registrar*** **/ Society :-** The Maharashtra Co-operative Societies Act, 1960, provides for the appointment of auditor by the society, and in case the society fails to appoint the auditor within specified time limit in the Act and Registrar is satisfied about this, then only the Registrar can appoint the auditor from the panel of auditors prepared by the Registrar and approved by the Government. The Registrar shall have to appoint the auditor possessing the required qualification and experience as provided under explanation given in section 81 of the Act. The (a) to (d) clauses of the explanation states qualification of the chartered accountant, firms of chartered accountant, certified auditors and Government auditors to whom the Registrar can allot the audit by order thereof. The (a) to (d) clauses specify the experience and qualification as under :-

Sr.No.	Details of auditors	Qualification	Experience
A	Chartered Accountant Firm	Firm of more than one chartered accountant within the meaning of CA Act 1949	Nil
B	Individual Chartered Accountant	Individual chartered accountant within the meaning of CA Act 1949	At least 1 year in audit of co-operative Society
C	Certified Auditor	Holding degree from recognized university and completed G.D.C.& A	At least 3 years in audit of co-operative Society
D	Government (Departmental) Auditor	H.D.C. or G.D.C.& A. or D.C.A.	Satisfactory completion of probationary period.

In addition to above Sr.No. A, B and C require knowledge of audit of co-operative society and Marathi language and Sr.No. D requires knowledge of Marathi language.

9.3. ***Preparation of Panel of auditor :-*** The panel of auditors is prepared by the Registrar as per the procedure prescribed in Rule 69 (read with Section 81) as under : -

Rule No. 69 (f) :-

i. The Registrar shall call applications before the specified date as declared in the notice for empanelment from eligible auditors and auditing firms by a public notice to be displayed on the official website of the State Government and in any other mode, if required. Such notice shall also be published on the notice board of the office of the Registrar and District Deputy Registrars.

ii. Every applicant shall submit only one application to the office of the concerned District Deputy Registrar of the District, where he ordinarily resides.

iii. Applications received shall be scrutinized by the Committee presided over by the District Deputy Registrar consisting of the District Special Auditor of the District, representative of the Chartered Accountants of the District, representative of the Certified Auditors of the District as members and the Assistant Registrar.(Administration) of the District shall function as Member Secretary of the said committee.

iv. After scrutiny, the District Deputy Registrar shall submit list of eligible applicants to the Registrar alongwith their applications and documents. The Registrar may scrutinize the applications recommended by the District Committee.

v. Any aggrieved applicant may approach the Grievance Redressal Committee headed by the Divisional Joint Registrar, Divisional Joint Registrar (Audit), as member and Divisional Deputy Registrar of the Division shall function as Member Secretary of the said Committee and the decision of the Committee shall be final.

vi. The Registrar shall cause to display an approved list of auditors and auditing firms panel on the official website of the Government.

vii. The Registrar shall classify the societies and auditors for the purpose of audit in the following manner.

Classification of Auditors and Societies

[under section 81 and Rule 69 (1) (*f*) (*vii*)]

TABLE – A

Class **1**	**Description of Auditors** **2**	**Societies to be audited** **3**
A	1) Chartered Accountant Firm 2) Chartered Accountant having at least 5 years experience in audit of co-operative Societies. 3) Joint Registrar (Audit) and Special Auditor Class-I who was completed probation period successfully.	1) Maharashtra State Co-operative Bank * 2) District Central Co-operative Bank 3) Urban Co-operative Banks having Deposits more than Rs. 25 Crores. 4) Salary Earners Co-op. Banks 5) Maharashtra State Co-operative Marketing Federation * 6) Maharashtra State Co-operative Cotton Grover's Federation.* 7) Maharashtra Rajya Dudh Sangh (Mahananda) * 8) Maharashtra State Co-operative Agriculture and Rural Multipurpose Development Bank 9) Maharashtra State Co-operative Housing Finance Corporation. 10) Maharashtra State Tribal Development Corporation 11) Maharashtra Rajya Sahakari Sangh and Divisional Co-operative Board. 12) Maharashtra State Co-operative Fisheries Federation 13) Maharashtra State Co-operative Consumer Federation 14) Maharashtra State Co-operative Spinning Mill Federation. 15) Maharashtra State Co-operative Power loom Federation 16) Maharashtra State Co-operative Textile Federation 17) Maharashtra State Co-operative Handloom Federation 18) Maharashtra State Co-operative Cotton Grovers Processing Societies.

Class 1	Description of Auditors 2	Societies to be audited 3
A		19) Maharashtra State Co-operative Labour Societies Federation. 20) Maharashtra State Co-operative Bank Association 21) Maharashtra State Co-operative Credit Societies Federation. 22) Maharashtra State Co-operative Jungal Kamgar Federation. 23) Maharashtra State Co-operative Sugar Factories Federation. 24) Maharashtra State Co-operative Sugar Industries Development Societies. 25) Maharashtra State Co-op. Cadre Federation and District Coop Cadre Board. 26) Maharashtra State Co-op. Industrial Societies Federation. 27) Other National and State level Co-op. Federation not mentioning above. 28) Co-operative Spinning Mill/Weaving Mills 29) Co-operative Sugar Factories 30) District Co-operative Milk Union 31) District Co-operative Agriculture and Rural Multipurpose Development Bank. 32) Any other society specified by Registrar from time to time.

* *Note* : Societies at Sr. Nos. 1, 5, 6 and 7 shall be audited only by Chartered Accountant Firm or a Chartered Accountant or Joint Registrar (Audit) categorized in 'A' Class. Auditors categorized in 'B' Class and 'C' Class are not eligible to audit societies categorized under Table – A. In case of Co-operative Bank, the Government Auditor may conduct re-audit, test-audit or special audit only.

TABLE - B

Class 1	Description of Auditors 2	Societies to be audited 3
B	1) Chartered Accountant having at least one year experience in audit Co-operative Societies 2) Special Auditor Class–2, Auditor Grade-I who was completed probation period successfully. 3) Certified Auditor having at least 10 years' experience in audit of Co-operative Societies.	1) Urban Co-operative Bank having deposits of up to Rs. 25 Crores. 2) Urban Co-operative Credit Society and Rural nonagricultural credit society deposit 10 crores and above. 3) Salary earners Co-operative Credit Society having working capital 10 crores and above. 4) Co-operative Starch Factories

Class 1	Description of Auditors 2	Societies to be audited 3
B		5) Co-operative Industrial estates. 6) District Co-operative Labour Federation 7) Sales and Purchase Co-operative Unions (District and Taluka). 8) Housing societies having 100 and more members 9) Co-operative Ginning and Pressing Societies /Rice Mills and Oil Mills. 10) Primary Co-operative Dairy Societies having turnover above Rs. 50 lacs. 11) Primary Co-operative Poultry and piggery and livestock Societies having turnover above Rs. 25 lacs. 12) Primary Co-operative Fisheries Societies having turnover above Rs. 50 lacs. 13) District / Central Weavers Co-op. Societies. 14) District and Central Co-op.Consumers stores 15) Co-operative Hospital 16) Mula Pravara Electric Society and Other Elec. Societies. 17) District Co-operative Board 18) District Housing Federation 19) Other District Federal Societies not mentioned above 20) Any other society specified by Registrar from time to time.

*** *Note* :** Societies at Sr. Nos. 1 and 2 shall be audited only by a Chartered Accountant and Special Auditor Class- II Categorized in 'B' Class. Auditors categorized in 'A' Class above are also eligible to audit societies categorized under Table - B. Auditors categorized in 'C' Class are not eligible to audit societies categorized under Table – B.

TABLE - C

Class 1	Description of Auditors 2	Societies to be audited 3
C	1) Certified Auditor having at least 3 years experience in audit of Co-operative Societies. 2) Auditor Grade-2 and Sub-Auditor who was completed probation period Successfully.	1) Primary Agricultural and Co-operative Credit Societies(PACS) and Primary krushak and Adiwasi Seva / Grain Bank. 2) Urban Co-operative Credit Societies and Rural nonagricultural credit societies having deposits less than Rs. 10 crores. 3) Salary earners societies having working capital less than Rs.10 crores.

Class 1	Description of Auditors 2	Societies to be audited 3
C		4) Primary Co-operative Dairy Societies having turnover less than Rs. 50 lacs. 5) Primary Co-operative Poultry, Piggery and Livestock Societies having turn over less than Rs. 25 lacs. 6) Primary Co-operative Fisheries Societies having turnover less than Rs. 50 lacs. 7) Sugarcane supply cooperative societies / Transport Coop. societies. 8) All Farming Co-operative Societies 9) Housing societies having less than 100 members 10) Lift irrigation societies 11) Labour contract societies 12) Forest Labour Co-operative Societies 13) All types of Primary Marketing Societies and Food Processing Societies. 14) Primary Weavers Co-op. Societies (Handloom and Powerloom). 15) Primary Industrial Co-op. Societies. 16) BLVA societies 17) Primary consumers Co-operative Societies. 18) Social service societies and unemployed youth co-operative Societies. 19) Taluka supervisory unions. 20) Any other society specified by Registrar from time to time.

***** ***Note*** **:** Auditors categorized in 'A' Class and 'B' Class above are also eligible to audit societies categorized under Table - 'C'.

9.4. ***Online compliances by the auditor : -***

1. Online empanelment of auditors :-

a. The auditor empanelment is online through the website www.mahasahakar.maharashtra.gov.in as per norms and classification prescribed by the State Government as per the provisions of Section 81 r.w.r.69(1)(f) of the MSCS Rules,1961. The form of empanelment application and the other documents to be attached with the said application shall be as prescribed by the Commissioner for Co-operation and Registrar of Co-operative Societies, Maharashtra, from time to time.

b. After scrutiny of the application and documents as per procedure prescribed, the Registrar shall cause to display a list of the eligible auditors on the official website of the Government as mentioned above.

c. The Grievance Committee has been constituted by virtue of Rule 69(1)(f)(v) of the MCS Rules ,1961 to sort out the grievances of the applicants.

d. Each auditor and society will be provided log in id and password to access the system for uploading the documents etc which they are supposed to retain permanently.

e. Every auditor on the panel will be provided with a panel number which he is required to quote in acceptance letter, communication with the societies, audit report etc.

2. Online filing of return of appointment of auditor by the Society in the AGBM:-

a. After appointment, the society is required to upload a return in Form Y as mentioned in Section 79 r.w.r.69 of the MCS Rules ,1961 through the above referred website, thereby giving the information about the auditor so appointed to gather with his consent in writing to act as auditor and his remuneration fixed.

b. The auditor is also required to upload his appointment letter, resolution for his appointment, his consent letter etc.

c. Before accepting the appointment the auditor is required to ensure that he satisfied all the required qualifications including the maximum number of audits to be accepted.

d. As per the present system , the order for appointment will be generated from the website after uploading all the documents by the society and the auditor. It is intended to update the records of the Registrar as per appointments and to ensure that the auditors are not accepting the audits beyond the ceiling limit as well as every society is appointing its auditors.

3. Apart from submission of audit report to the society and to the registrar as prescribed in Section 81 (5B) of the MCS Act,1960, in view of the Circular issued by the Registrar, the auditor is required to upload the audit report in Form N-1/ N-2 , Part of A audit report , audited financial statements along with the schedules.

9.5. ***Specimen letter of communication to the previous auditor on letter head of Auditors*** **:-** Audit shouldn't be accepted by new auditor if there is objection regarding audit fees of previous auditor.

Outward No.

Date :

To,

M/s. _____

Panel Auditor

_____

_____

_____

_____

Dear Sir,

Sub. : Our Appointment as the Statutory auditors of _____Society for the F. Y. …….

We would like to inform that we have been appointed as Statutory Auditors by __ Co-op. Society ,…….. to conduct the statutory audit of the said society for the F.Y. ……..

You being the previous auditors, kindly let us know in writing, within …days from the receipt of letter, whether you have any professional objection in accepting the said appointment by us. In case no

communication is received from you , it will be presumed that you do not have any professional objection in accepting the said appointment by us.

Thanking you,

Name and Designation,

Panel Auditor

Signature

9.6. ***Specimen of appointment letter on letter head of Co-operative Society*** **:-**

Outward No……..

Date:

To,

M/s _____

Panel Auditors

_____

_____

_____

_____

Sir,

SUB : APPOINTMENT AS STATUTORY AUDITORS UNDER SECTION 75 OF THE MAHARASHTRA COOPERATIVE SOCIETIES ACT, 1960 FOR THE FINACIAL YEAR 20....-20....

We are pleased to inform you that your firm, being on the panel of auditors as maintained by the Registrar of Societies, Maharashtra at serial number _____ has been appointed under Section 75(2A) of the Maharashtra Cooperative Societies Act, 1960 as Statutory Auditors of our Society for conducting the audit for the financial year 20 –20 Certified copy of the resolution No. ____ passed in the Annual General Meeting of our society held on _____has been enclosed herewith. The remuneration for the said audit shall be as per the scale of fees as prescribed by the Government of Maharashtra . You shall also be entitled to reimbursement of out of pocket expenses as per the norms prescribed by the Government of Maharashtra.

You are requested to send your acceptance to us and to the District Deputy Registrar, ……...

Thanking You.

Yours faithfully,

For _____ Co-Op —— Society Ltd.

(_____)

CMD / Secretary

Encl: Certified copy of the Resolution.

9.7. *Removal of auditor from panel :-*Rule 69 (g) provides criteria for removal of auditor and auditing firm from the panel shall be as follows :-

(*g*) The criteria for removal of the name of auditor and auditing firms from the panel shall be as follows :-

(i) non-submission of audit report as specified in sub-section (*5B*) of section 81, to the society and the Registrar within the period of one month from the date of completion and in any case before the issuance of notice of the general body meeting ;

(ii) not-disclosure the true and correct picture of accounts as specified in clause (*c*) of sub-section (*3*) of section 81 ;

(iii) after consent for audit given by the auditor or auditing firm and after issuance of order of appointment of auditor or auditing firm, audit is not completed within stipulated period as specified in sub-section (*1*) of section 81 ;

(iv) non-submission of specific report stating that a particular person is guilty of any offence relating to the accounts or any other offences within a period of fifteen days from the date of submission of audit report to the society and the Registrar ;

(v) failure to file special report to the Registrar, if any ;

(vi) failure to file the First Information Report, if required thereof ;

(vii) non-submission of scrutiny of audit rectification report within six months to the society ;

(viii) if in the test audit or re-audit of the society it is found that, the auditor or auditing firm is responsible for any commissions and omissions ;

(ix) if the auditor is borrower of the society and has conducted the audit of the same society without disclosing the said fact to the society ;

(x) if the auditor or his family member is employee or ex-employee of the concerned co-operative society ;

(xi) if the auditor is an auditor or a partner of an auditing firm which is also conducting internal or concurrent audit of concerned co-operative society ;

(xii) if the auditor or his family member, as specified under explanation (I) of sub-section(*2*) of section 75 of the Act, is committee member of the concerned co-operative society ;

(xiii) if the auditor has conducted audit, without appointment order issued by the society with the prior approval of general body or the Registrar, if any, as the case may be ;

(xiv) if the auditor is family member of a employee of the department of co-operation.

———

CHAPTER No. 10

SCOPE OF AUDIT

10.1. ***Scope of Audit :-*** The audit of co-operative societies is required to be done as per the provisions contained in the Section 81 and rule 69 of the Maharashtra Co-operative Societies Act and rules made there under. Specific provisions are made under section 81(2), regarding the items that are to be audited by the auditors, details of which are explained elsewhere in the manual. Apart from these items the auditors have to audit as per objects defined, in auditing practices or general customs, which includes the detection of errors and frauds. The nature of cooperative societies is different from the Joint Stock Companies and other body corporate, regarding the principle on which they run. co-operative societies are run on cooperative principles i.e. for the benefit of their members. The Commissioner for Co-operation and Registrar of Co-operative Societies has issued various circulars, in regard to the various items that are to be checked by the auditors of Co-operative Societies. The Institute of Chartered Accountants of India has issued various guidelines on audit, Accounting Policies and standards, auditing practices for the guidance of the Chartered Accountants, which are necessary to include in the scope of audit, as the auditing standards are also included in Section 81(2) of the Act, in the present scenario as a basis for the audit. The accounting standards that are applicable to the cooperative societies are listed elsewhere in the manual. The Standards on auditing (SA) issued by the Institute are given below are applicable to the Co-operative Societies.

Sr. No.	Auditing Standard No.	Name of Auditing Standard
1	200	Overall Objectives of the Independent Auditor
2	210	Agreeing the terms of Audit Engagements
3	220	Quality control – an audit of financial statements
4	230	Audit documentation
5	240	The Auditors responsibilities relating to Fraud
6	250	Consideration of Laws and Regulations in an Audit
7	260	Communication with those charged with Governance
8	265	Communicating Deficiencies in Internal Control
9	299	Responsibility of Joint Auditors
10	300	Planning an Audit of Financial statements
11	315	Identifying and Assessing the risks of Material Misstatement
12	320	Materiality in Planning and Performing an Audit
13	330	The Auditors responses to Assessed Risks
14	402	Audit considerations relating to an entity using a service organization
15	450	Evaluation of Misstatements identified during the Audit
16	500	Audit Evidence
17	501	Audit Evidence – Specific considerations for selected
18	505	External confirmations
19	510	Initial Audit engagements – Opening balances
20	520	Analytical procedures
21	530	Audit Sampling
22	540	Auditing accounting estimates
23	550	Related Parties
24	560	Subsequent Events
25	570	Going concern

Sr. No.	Auditing Standard No.	Name of Auditing Standard
26	580	Written Representations
27	600	Using the work of another Auditor
28	610	Using the work of Internal Auditors
29	620	Using the work of an Auditors Expert
30	700	Forming an opinion and Reporting financial statements
31	705	Modifications to opinion in the Independent Auditors
32	706	Emphasis of matter para and Other matter paragraph
33	710	Comparative information – Corresponding Figures
34	720	The Auditors responsibility in relation to other information
35	800	Audits of Financial Statements prepared in accordance
36	805	Special considerations – Audits of single financial statements
37	810	Engagements to report on Summary Financial Statements

Scope of audit, accordingly, rests on the provisions contained in the section 81(2) and Rule 69 of the Act, Objectives of audit, principle governing the cooperative societies and circulars issued in this regards by the Registrar.

10.2. ***Appointment of Auditor*** **:-** The auditors, while getting appointments from the societies, should obtain a copy of resolution passed in the Annual General meeting in which his appointment was made. The resolution should clearly mention the period of audit. The auditor should carry out the audit as per the provisions of Section 81 read with Rule 69 and any other directions as may be specified by the Registrar from time to time.

10.3. ***Submission of Audit Report :-*** Sub-Rule (b) of Rule 69 (1) prescribe the procedure for submission of audit report by the auditor as :- "the auditor has to complete his audit within 4 months from the close of financial year and the report, also in compact disk shall be submitted to the society and the Registrar, as specified in Sub-Section (5B) of section 81 of the Act, and also Part – A of audit report, Audit Certificate and audited financial statements shall be uploaded by the auditor on official website of Co-operation Department."

10.4. ***Opinion by the Auditor :-*** The auditor has to express his opinion about the true and fair position of the financial statement as per Section 81(5B) of the Maharashtra Co-operative Societies Act. 1960. As per Rule no. 69 (3) the auditor shall submit in respect of Co-operative Banks in Form N-1 and in other cases in Form N-2 an audit memorandum to the society and to the Registrar with regards to the accounts, balance sheet and profit and loss accounts or statement of income and expenditure examined by him as on the date and for the period up to which the accounts have been audited, and shall state whether in his opinion and to the best of his information, and according to the explanation given to him, accounting policies adopted by the society as per accounting standards laid down by the State Government or the Institute of Chartered Accountants of India as the case may be, the said accounts give all the information required by the Act in the manner so required and give true and fair view,—

(i) in the case of the balance sheet, the state of society's affairs as at the end of the financial year or any other 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 or loss for the financial year or the period covered by the audit, as the case may be. While certifying the profit or loss of the society, Auditor shall quantify the effect of shortfall in various provisions, like Non-Performing Assets, overdue interest, depreciation and any other provisions relating to expenses over profit or loss and state clearly that, after considering effect of all provisions,whether there is profit or loss to the society."

Rule 69 (4) further provides that the audit memorandum shall state :-

(i) whether the Auditor had obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit;

(ii) whether in his opinion proper books of accounts, as required by the Act, the rules and the bye-laws of the society have been kept by the society so far as it appears from the examination of these books;

(iii) whether the balance sheet and profit and loss account examined by him are in agreement with the books of accounts and returns of the society and give true and fair view of state of affairs and

(iv) whether the accounting standards adopted by the society are consistent with, those laid down by the State Government or the Institute of Chartered Accountant of India and have no adverse effect on the accounts at finance year status of the society.

10.5. ***Qualified opinion*** **:-** The auditor is required to state in audit memorandum reasons for the negative answers or qualifications as mentioned in sub rule (4) above. Auditor has to express his negative / adverse qualification on financial statement as per sub rule 5 in his audit report. In this regard, the Institute (ICAI) has issued a Standard on Auditing 700 which the auditor should follow while expressing his opinion on financial statement and record the reasons for his qualification.

10.6. ***Appointment letter by society :-*** As per Section 81, the auditor has to be appointed by the society in its Annual General Body Meeting and issue appointment letter to the auditor and also submit a return under Section 79 (1B). This appointment letter must contain the objective and scope of audit, responsibilities of the auditor, responsibility of the management.

The appointment letter of the auditor broadly should contain the following matters:

1) Role of the auditor as per Section 81 read with Rule 69.

2) Audit expectations having regard to Co-operative Societies Act, Rules and byelaws of the Society concern.

3) Duration of audit, and scheduling of time, audit programme in a brief manner.

4) Auditor's remuneration, reimbursement of out-of-pocket expenses as per notification issued by the Government.

5) Reporting method and submission of audit report.

6) Duties after completion of audit, like Special Report, rectification report, and compliance.

As the Co-operative auditor have been given more responsibilities and powers under the Co-operative Act, the auditor appointed by the society is expected to audit in adherence with Co-operative Societies Act, Rules, and byelaws of the Society concern.

10.7. ***General Terms and Conditions of appointments of Auditor*** **:-** Irrespective of whether the appointment of auditor is made by the Registrar or Society, the appointment shall be subject to following terms and conditions. However, the Society appointing auditor can lay down some extra conditions regarding scope of audit.

1) The auditor must be from the panel prepared by the Registrar and approved by the Government.

2) The auditor should not possess any conditions of disqualification.

3) He shall not audit the society, without obtaining the appointment order, and complete the audit within four months from close of financial year. The auditor should submit his report within a month from its completion but in any case before the issue of the notice of the Annual General meeting of the Society.

4) The audit fee should be as prescribed and notified by the State Government.

5) The audit report by the auditor should be in accordance with the instructions issued by the Registrar and provisions containing Rule 69 (1) (b) in three parts *viz*. part A- serious points and frauds, Part-B General remarks as specified in circular, Part-C miscellaneous objections. The audit report shall also contain the questionnaire specified to various societies, and schedules as per Rule 69, in the formats prescribed by the Registrar.

6) The Auditors have to follow the other terms and conditions that are laid down in the appointment orders issued by the Registrar or society.

7) The auditor has to submit the information regarding audit of any society allotted to him, to the Registrar, as required by him time to time.

8) The auditor should ascertain about its Registration in the panel maintained by the Registrar, while auditing the society, and specify his panel registration number in the correspondence regarding audit.

9) Auditor should also follow the provisions of other Acts, if any, applicable to the audit of concerned society. *viz.*, in case of Urban Banks – Banking Regulation Act. etc.

10) The auditor has to verify the audit rectification report submitted by the society and offer remarks about compliance of point she has raised, for the year for which he has audited that society; and submit it to the respective Registrar within the area until last query is complied.

11) The auditor has to submit Special Report/ Specific Report as required by the Act, to the Registrar, if he come across with the mis-utilization of funds by management of society; any fraud or misappropriation in the accounts of the society by any person responsible with the records and funds and assets of the society. If the auditor observes serious irregularities which have material effect on the working of the society, then he has to submit specific report for further action. In case of misappropriations and frauds, he has to lodge the police case (FIR) against the accused persons with the permission of concerned Registrar. In case the auditor has failed to carry out his duty in this respect, he will be liable for action as per provisions of Act and Rules, and in case of Government auditor, as per Service Rules of the Government.

10.8. ***Duties of the Auditor :-*** **T**he auditor's duty shall be as per provisions in Maharashtra Co-operative Societies Act and Rules and conditions laid down in the appointment letter by the Registrar or Society.

10.9. ***Powers of the Auditor*** :- Auditor from the panel of auditors prepared by the Registrar, who is entrusted with auditing, has the following powers as per Maharashtra Cooperative Societies Act 1960, and rules 1961.

1) He shall have access to all books, accounts, documents, papers, securities, cash and other properties belonging to, or in the custody of the society, and may summon any person in possession or responsible for the custody of any such books, accounts, documents, papers, securities, cash or other properties, to produce the same at any place at the headquarters of the society or any branch thereof at all times but only for the purpose of his audit.

2) He shall have the authority to obtain such information in regard to the transactions and working of the society for his audit purposes, from an officer or employee or former employee of the society, and every member and past member of the society, as per section 81 (4) of the Act.

3) He shall have a right to receive all notices and every communication relating to the 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.

4) Under section 5 (a) of the Act, he shall have a power to impound the books of society, if he is satisfied during the course of audit that, some books of accounts or other documents contain any incriminatory evidence against past or present officer or employee of the society; however, he has to obtain prior permission from the Registrar before he can impound the relevant record of

the society, which he audits. After impounding the books or documents he has to give a receipt thereof to the society.

10.10. ***Responsibilities of the Auditor*** :-

1) The auditor should audit the societies with due skill, care, and observing professional ethics, integrity.

2) He shall have to bring to the notice of the Registrar and the Society, mis-utilisation of funds, misappropriations and frauds that come across during the course of audit, and take appropriate action against the persons responsible for the same.

3) The Civil and criminal liability will rest on him, for negligence of duty, if it is found in the audit of society, which he is auditing.

4) Gross negligence will make him liable for removal from the panel of Auditors maintained by the Registrar, and action by the Indian Institute of Chartered accountant of India, as per Chartered Accounts Act, 1949. However, he will be allowed to make representation before the appropriate authority. In respect of certified auditors and Government auditors, the action for this will be decided by the Registrar as per circulars issued from time to time.

10.11. ***Remuneration of Auditor : -*** Remuneration of auditor shall be at the rates as prescribed under Rule 74, which reads as :-

1) Remuneration of the auditor or auditing firm who has conducted audit of a society shall be borne by the society and shall be at such rates as may be notified by the State Government from time to time depending upon the class of societies and their financial parameters.

2) When auditor or auditing firm is appointed by the Registrar on his own, remuneration of auditor or auditing firm shall be at rates as per sub-rule (1) above.

3) If the Registrar, orders re-audit of a society after recording reasons thereof, shall specify remuneration payable to such auditors as per sub-rule (1) above.

4) When re-audit is requisitioned by society or any member of society, the remuneration of auditor or auditing firm shall be as per sub-rule (1) above :

This rule further provides that when such re-audit is requisitioned by the society or any member of the society, the remuneration of auditor or auditing firm shall be deposited by such society or member, as the case may be, with the Registrar prior to commencement of such audit

It also further provides that, if it is found in the re-audit, that the appointed auditor has not conducted audit as per the auditing standards and norms as notified from time to time and if it is proved that he is negligent in performing audit of the society and he has not detected fraud, mis-utilisation of funds, inadequate provisioning, resulting into loss or profit to the society, then audit fees shall be recoverable as per sub-section (*1*) of section 156 of the Act, from the said auditor who had conducted the audit and same shall be refundable to the society and remuneration of re-audit shall be refundable to the society or any member demanding re-audit. The said auditor shall also be subject to action under sub clause (viii) of clause (g) of sub - rule (1) of rule 69 :

This rule also provides that, nothing in the preceding proviso shall apply to the Government Auditors.

5) When cost or performance audit of any society is ordered by the State Government as per the provision of sub-section (*2A*) of section 81, the remuneration of auditor or auditing firm shall be notified by the State Government and the amount shall be deposited by the society with the Registrar prior to the commencement of such audit by him.

6) For the audit of the society which is under liquidation or the society on which official assignee is appointed, under the provisions of the Act, the remuneration of auditor or auditing firm to conduct audit of such society shall be specified by the Registrar."

———

CHAPTER No. 11

DIFFERENT TYPES OF AUDITS

11.1. ***Annual audit or Statutory audit :-*** A "periodical" or "annual" audit is generally taken after the close of the year, when the books have been closed and the balance sheet and the profit and loss account are drawn up. This type of audit is compulsory in case of companies registered under the Companies Act, Co-operative societies Act, trusts, societies and other corporate bodies and associations registered under various Acts. It is required to be carried out by auditors possessing the prescribed qualifications. The auditors are required to submit their reports in the prescribed form. Such type of audit, which is compulsory under law, is known as **"statutory audit"** and is generally carried out once a year. Annual audit is taken up and completed as per provisions of the Act.

Explanation to Rule 69 (1) (a) specifies types of audit, which includes Annual audit, Test audit, Cost audit or Performance audit, Special audit and Re-audit.

11.2. ***Internal Audit :-*** Regarding 'internal audit', it can be said that most of the bigger organizations find it necessary to set up an "Internal Audit Department" headed by the Chief Internal Auditor, who works under the direct control of the Board and is not subordinate to the Chief Accountant. The internal auditors submit their reports to the Board and suggest improvements. Since the Internal Auditor to go into too many details if he is satisfied that the Internal Auditor works independently of the Accounts Department and has been carrying on his duties efficiently with due regard to the requirements of statutory audit. The annual or statutory audit can therefore, be completed early. However, the cost involved in setting up an Internal Audit Department is considerable and very few Co-operative Societies can afford to set up and maintain internal audit Department functioning independently of the Accounts Department**.**

11.3. ***Concurrent Audit :-*** Concurrent Audit means the audit which is carried out on continuous basis within a short interval.As per RBI Guidelines, Urban Co-operative banks having deposits more than Rs.50 crores and more as per preceeding year's balance sheet, UCBs are required to carry out concurrent audit by Chartered Accountants. Even other societies also including other UCBs may get the accounts audited by Chartered Accountants on concurrent basis.The statutory auditor is required to go through the concurrent audit report during the course of his audit.

11.4. ***Re-Audit :-*** Section 81(6) of the Maharashtra Co-operative Societies Act provides that, "if it appears to the Registrar, on an application by society or otherwise, it is necessary or expedient to re-audit, Registrar may by order provide for such re-audit." Re-audit would also be ordered if certain facts of which the auditor was unaware at the time of his audit have subsequently come to light, which materially affect the correctness of the accounts. If re-audits are ordered at the requests of the societies or their members or otherwise, the cost of such re-audits will have to be borne by them as per Rule 74. Where re-audit is being ordered on the resolutions passed by the general meeting of the society, before ordering re-audit, reasons for re-audit should be ascertained and examined in detail and it should be considered as to whether it is necessary to order re-audit. Mere resolution of the society should not be considered as sufficient reason for ordering re-audit. Since all the provisions applicable to the original audit are also applicable to re-audit ordered by the Registrar under Section 81(6), the auditor appointed to carry out the re-audit will have all the powers of the auditor as appointed under section 81.

11.5. ***Test audit under Section 81(3)(c*****) :-*** Section 81 (3) (c) provides, " If it is brought to the notice of the Registrar that, the audit report submitted by the auditor does not disclose the true and correct picture of the account, the Registrar or the authorized person may carry out or cause to be carried out a test audit of the accounts of such society. The test audit shall include the examination of such items as may be prescribed and specified by the Registrar in his order." This thus means that the test audit is limited to the items that are prescribed in the order itself. This is not on the demand of the society or members of the society. But the Registrar can order it suo-moto. The test auditor has not

been given any power like to summon, or otherwise by the Act. He has to submit his report to the Registrar.

11.6. ***Special Audit :-*** The Act prescribes for Special audit under section 81(7) for the co-operative bank, which, if requested by the Reserve Bank of India shall be conducted and report thereof shall be submitted to the Reserve Bank of India and the Registrar. Thus, it clearly means the Special audit is applicable only on the request of Reserve Bank of India.

11.7. ***Cost Audit :-*** The Cost audit of certain types of societies shall be directed by the State Government under section 81 (2A) of the Act. The section reads as follows:

" Where in the opinion of the State Government, it is necessary in the interest of society to do so in relation to any society or class of societies for ensuring management thereof in accordance with sound business principles or prudent commercial practices, the state Government may, by order, direct that such society or class of societies shall prepare and maintain its accounts in the form determined by the State Government, from time to time and that cost audit or performance audit or both, of such society or class of societies, as may be specified in the order, shall be conducted."

This section also provides for performance audit. Sub rule (2B) of section 81 provides that, "the cost audit ordered by the State Government should be carried out by the Cost Accountant, who is a member of the Institute of Cost and Management Accountants of India constituted under section 3 of the Cost and Management Accountants Act, 1959. The Sub-section further provides that the society shall cause such audit as per orders issued by the Government.

11.8. ***Definition of Cost Audit*** **:-** By the term " Cost Audit" means the detailed checking of the costing system, technique and accounts to verify their correctness and to ensure adherence to the objective of cost accountancy. Another definition describes cost audit as "Cost audit is systematic and accurate recording of detailed transactions and operations of manufacturing, contracting, extracting, transporting, supplying, etc., so as to show the actual cost of each individual piece of work, service, or separate process comprised in the operations of the business."

The cost audit is made applicable to the Sugar Factories by the Central Government. However the State Government has not notified to which type of societies cost audit is applicable. The cost audit rules are required to be prepared.

11.9. ***Objects of the Cost Audit :-*** As per the Cooperative Act, the objects of the Cost audit are:

1) The management is working on sound business principles.

2) The management has applied prudent commercial practices.

11.10. ***Performance Audit*** **:-** The performance audit is also known as management audit. The management audit is defined as " A comprehensive and constructive examination of an organizational structure of a company, institution or branch of Government, or of any component thereof, such as a division or department, and its plans and objective, its means of operations, and its use of human physical facilities."

Another definition describes the management audit, as " Management audit is an investigation of a business from the highest level downward in order to ascertain whether sound management prevails throughout, thus facilitating the most effective relation with the outside world and the most efficient organization and smooth running of internal organization."

Management auditing is a method of evaluating the efficiency of management at all levels throughout the organization, or more specifically, it comprises the investigation of a business by an independent body from the highest executive level downwards, in order to ascertain whether sound management prevails throughout, and to report as to its efficiency or otherwise with recommendations to ensure its effectiveness where such is not the case.

11.11. ***Cost audit records :-*** Rule 65(2) requires the society to maintain such books, records and accounts as specified by the State Government by general or special order for the purpose of cost audit.

11.12. ***Social Audit :-*** The co-operative societies are organizations run by the people, for the people and to the people. The concept of co-operation is help by one to all and all by one. This concept has socio-economic aspect. The co-operative societies are formed by their members for the enhancement and prosperity of the common man. The bigger institutions like Sugar Factories, Spinning mills have developed the area by providing facilities like medical, education, social activity centers and also provided employment to rural people. These benefits to the general public are not presented by the societies, in their social income statement and balance sheet. It is undeniable that these societies have benefited the rural and urban people both.

The Concept of social audit is described as: "the concept of social audit is a vision that at some future time corporations will assess their social performance in as systematic manner as they now assess their financial performance. Such audit would be required both for public reporting and for internal management purposes. The social benefit derived to the staff, society, and general public are presented in the social income account and accordingly social balance sheet should be prepared.

11.13. ***Energy Audit*** **:–** An energy audit is an inspection, survey and analysis of energy flows for energy conservation in a building, process or system to reduce the amount of energy input into the system without negatively affecting output. In commercial and industrial real estate, an energy audit is the first step in identifying opportunities to reduce energy expenses and carbon footprint. Audit is required to identify the most efficient and cost effective enregy conservation opportunities or measures.

11.14. ***Electronic Data Processing (EDP) Audit / System Audit*** **:–** It is an examination of management controls within information technology infrastructure.Evaluation of obtained evidence determines if the information systems are safeguarding assets, maintaining data integrity and operating effectively to achieve the organisation's goals and objectives.--

The purpose of this audit is to evaluate the systems, internal control design and effectiveness.

System audit aims to evaluate followings

a) Will the organizations computer system be available for business at all times when required (availability).

b) Will the information in the system be disclosed to only to authorized users (known as security and confidentiality).

c) Will the information provided by the system always be accurate, reliable and timely.

How to carry out System audit in detail is dealt in elsewhere in manual.

11.15. ***Snap Audit*** **:–** Snap audit can be used as rapid and independent review of existing plans. Audit is conducted to examine if there is any weakness in the sytems and processors of branches of bank.

In some companies, Snap audit at agreed intervals is to be carried out with expert engineering and auditors team led by senior engineers. Procedures and processes adopted and quality of product generated would be captured. The team will collate the data with production of audit report and any other deliverables, such as appraisal report that are considered necessary.

Snap audit can be used to provide an independent view on current viability of your organizations plans.

———

CHAPTER No. 12

PREPARATION FOR AUDIT AND FRAMING OF AUDIT PROGRAMS

12.1. ***Intimation of audit*** - Since every auditor is likely to have a number of societies for audit, he will have to plan and fix up priorities to complete the audit within the time limit prescribed in the Act. He has to intimate the probable date on which he would commence its audit. Auditor should intimate the society with a request to the Secretary, Manager or Managing Director of the society to bring the accounts up-to-date and also keep ready the necessary statements and information required by him for purpose of his audit. Sub-rule (8) of Rule 69 of the Maharashtra Co-operative Societies Rules, empowers the Registrar to specify the form or forms in which the statements of accounts and other information required for audit should be prepared by the society. Forms of accounts, statements and other information required for completion of audit would, of course, vary with the type of the society and the nature of the business conducted by it, although many of the statements and schedules are common to all types of societies. It is, therefore, necessary for the auditor to communicate to the society, in advance, the forms in which the statements are to be prepared and what information he would require for completion of his audit. Since the auditor has to certify that he has obtained all the information and explanation required by him for his audit, statements and schedules containing particulars of the operations and the financial position of the society will have to be obtained and thoroughly checked by him, before completion of his audit and thereafter they will form part of his office records. For use of auditors, a general list of statements that are required for the purpose of his audit is detailed below, except that described in paragraph 5 of this chapter. The auditors may enhance it or shorten it as per their requirement and type of society they are auditing.

Statement No.	Particulars of the statement	Additional information required
1	Financial statements duly approved by Board of Directors	
2	List of the Managing Committee	
3	List of Sub Committees	
4	List of Managing officers, managers/chief executive officer/branch managers (officer defined in Section 2 (20) of the Act.	
5	List of amendment made in By-laws during audit period	
6	List of overdues	In case of Co-operative Credit Structure Entity (SCB, DCCB, PACS) as prescribed by the NABARD / RBI and in case of other the pro-forma is appended in annexure.
7	List of balances of personal ledger as per schedule and balance sheet	
8	Bank reconciliation statements	
9	List of vehicles, expenses incurred on vehicle	
10	List of movable / immovable assets	Property register should be maintained as prescribed in the rule. Form No. X-1.
11	List of movable / immovable assets sold during the year.	With details of profit or loss
12	List of members in J-1 and J-2 form	
13	Statement of general information and working of society	

Statement No.	Particulars of the statement	Additional information required
14	Statement of verification of cash, stock and securities by board or authorized person by the board	
15	Loans and advances to directors and their relatives	
16	Other advances given to the directors (such as travelling advance, Anamat, any other advance given for specific purpose)	
17	Loans and advances to employees	
18	Demand collection and balance statement	
19	Schedule of investment and confirmation statement	
20	Schedule of NPA / BDDR	
21	Schedule of directors who have absented for 3 or months of board meeting	
22	Statement of misappropriation or embezzlement	
23	Schedule of arbitration, execution and court cases	
	Books of accounts kept ready for audit	
1	Day book, Cash book, bank book, subsidiaries cash book and general ledger	
2	All personal ledgers	
3	All committee's and AGM minute book	
4	Bank passbook / statements with balance confirmation certificates of all accounts	
5	Property register	
6	Investment register	
7	Stock book	
8	Movable property register	
9	Demand Collection and Balance register in case of salary earners	
10	Liquidity register in case of bank and credit societies	
11	Share transfer register	
12	Member register in I form	
13	Audit rectification register	

12.2. ***Need to give prior intimation*** :- The intention in giving prior notice to the society of his probably date of visit is to enable the society to write up its accounts up-to-date and also draw up the statements required by the auditor for his audit. If the society is not given prior intimation, it will probably complain that it had no time to prepare the statements and schedules and possibly the writing up of the accounts would remain in arrears. The staff of the society would also be busy in preparing the statements and hence would not be able to attend to the auditor. As a result, the completion of the audit would be delayed.

12.3. ***When prior intimation need not be given*** :- The societies have to appoint their auditor for the current financial year in the Annual General body meeting, prior to close of the financial year. The society is well aware of the auditor who is auditing their accounts, hence the society need not be intimated the programme but, the auditor should communicate the dates of his visits to the society.

12.4. ***Procedure to deal with complaints*** **:-** Sometimes, complains are received by the auditors about mismanagement and existence of serious irregularities in the working of a society. In such a case, the auditor after going through the complaint letter carefully, should refer to his audit notes and queries and see whether the contents of the complaint letters are corroborated from the notes he has taken down during the course of his previous audit, and the queries and objections raised by him and replies of the management thereto. However, he need not take any further action beyond acknowledging receipt of the letter and informing the complainant that the points mentioned by him have been taken note of, and would be carefully examined during the course of his visit to the society for audit. However, if the complaints necessitate attention of the administrative officer, he should forward them to the District Deputy Registrar with his remarks. If he receives complaint/s from the Registrar, asking him to take cognizance of it, he should carefully examine the points raised in the complaint letter and take necessary notes in his audit report regarding the trueness and materiality of the complaint. If such complaints are of financial nature he should go through the accounts and if necessary take action as provided in the Act, or otherwise of administrative nature he should send report with his comments to the registering authority for further action to be taken at his end.

12.5. ***Preparation of statements of accounts and information required for audit under Rule 69 (8) of the Maharashtra Co-operative Societies Rules :-*** The following statement and schedules are always required by the auditor for completion of his audit, irrespective of the type of the society and it is necessary that every society should prepare and keep them ready as soon as intimation of audit is received from the auditor: -

1) List of account books and registers maintained by the society, including statutory and statistical books.
2) List of files relating to audit including Rectification Report of previous audit, inspection memos and visit reports of officers of the Department, the Reserve Bank, State Co-operative Bank and Central Co-operative Bank, Supervising Union and other Federal bodies to which the society is affiliated.
3) Summary of Receipts and payments during the year or trial balance as at the end of the year. If the audit covers part of the year, the statement of Receipts and Payments should be prepared separately for the period from the date of last audit to the date of present audit.
4) Trading and Profit and Loss Account for the co-operative year for which the audit is to be taken up and also for the further period if audit for the subsequently period is taken up. Also, balance sheet as at the close of the year and also a tentative one on the date, if the date is next to financial year, up to which the audit is to be carried out. These statements should have been drawn up to comply as nearly as possible with the requirements of Form "N" contained in the Maharashtra Co-operative Societies Rules.
5) Bank Reconciliation Statement/s as on the last date of the year, as also the date up to which the audit is to be taken up. Bank balance certificates in respect of all bank balances should be obtained directly from the banks by the auditor himself or the society should be asked to request the banks to furnish these certificates directly to the auditor.
6) List of members of the committee and the sub-committees, if any, salaried officers and members of the staff of the society. Where a large staff has been employed, only a list of important officers together with their qualifications, grades, present pay, period of service and duties entrusted to them should be obtained.
7) Information regarding contingent liabilities and debts incurred, but not shown and also losses incurred during previous years and provision made therefor.
8) List of overdue debts in the prescribed form classifying them as good, doubtful or bad debts and details of action taken for their recovery. In case of societies advancing loans and advances, the list of Non performing assets should be taken, as per guidelines from the RBI/ NABARD or the Registrar, as the case may be.

9) Schedules of all types of personal ledger balance such as, -
   a. Shares and subscriptions.
   b. Deposits of all types, current, savings, thrift, recurring, cumulative, fixed small pigmy, etc.)
   c. Loans, cash credits, overdrafts and all other types of advances. Loans and advances due from committee members and other office-bearers should be shown in a separate list also
   d. Lists of sundry debtors and sundry creditors, suspense payable or receivable provisions made for outstanding liabilities, income received in advance, income accrued but not received.
   e. List of prepaid expenses, deferred expense and preliminary expenses still to be written off.
   f. List of unpaid interest on deposits, unclaimed dividend on shares and purchases, bonus payable, etc. (year wise lists should be prepared).
   g. Inventories of stock on hand including stores, spare parts, raw materials, semi-finished and finished goods in case of processing and industrial societies.
   h. List of dead stock articles, furniture and office equipment, machinery, tools and implements, etc., showing their purchase price, depreciation charged year after year and written down value.
   i. Lists of share bonds, securities and other investments including fixed deposits held by the society, giving their face value, book value and market value, supported by market quotations as on the date of their preparation).
   j. Particulars of immoveable property held by the society, agricultural land, building plots, building, godowns, etc.
   k. Lists supporting balance sheet figurers which are not mentioned above.
   l. Any other statement or schedule considered necessary by the auditor for purpose of his audit.

12.6. ***Additional information to be obtained in respect of certain types of societies*** **:-** Since examination of overdue debts is the special responsibility of the auditor, particulars of all overdues and action taken for their business operations. Thus, in case of credit societies, information necessary for classifying all overdue debts into good, doubtful and bad will have to be obtained. In the case of urban banks and societies, information regarding their loan policy, collateral security for advances, maintained of fluid resources, etc., will have to be obtained. In many of the societies, arbitration suits for recovery of money or for other claims might have been filed by or against the society. In some cases, suits might have been filed in civil courts. Detailed information on all these matters will have to be obtained by the auditor. Since the auditor has to certify that he has obtained all the information and explanation required for his audit, statements and schedules mentioned above and other information will have to be obtained and checked by the auditor before completion of his audit and thereafter they will form part of the records of his office.

12.7. ***Working papers to be maintained by the auditors*** **:-** The information given by the society to the auditor included in his working papers. These papers are required for the further actions to be taken on criminal ground or administrative ground. The auditors require to preserve his working papers for this purpose. The following papers / documents and information form the part of audit working papers.

1) Byelaws of the Society including amendments made from time to time.
2) Extracts or copies of important legal documents, agreements and minutes relevant to the audit.

3) A record of study of internal control related to accounting system.
4) Copies of audited financial statements.
5) Analysis of ratios
6) Letter sent to the Society asking explanations, clarifications
7) Notes on important points observed during the course of audit.
8) Important points of the last year's audit report.
9) Audit intimation letter and letters regarding current correspondence.
10) Extract of minutes of Board of Directors, and sub-committee meeting related to the current years audit.
11) Audit programme and worksheet of the staff working.
12) Current audit's working papers.
13) Confirmations and letters asking confirmations
14) Answer received from the societies, for the letters issued asking information and clarifications.
15) Draft audit report and financial statements.
16) Statements of financial information related to current audit.

12.8. ***Account Books and Records to be maintained by Co-operative Societies*** **:- a)** Section 79 of the Maharashtra Co-operative Societies Act empowers the Registrar to direct any society or class of societies to keep proper accounts with respect to all sums of money received and spent by the society and the matter in respect of which the receipts and expenditure of the society have been made.

Rule 65 of the Maharashtra Co-operative Societies Rules further lays down that every society shall keep the following accounts: -

1) A register of members including persons nominated under section 38 in form "I".
2) A list of Active members in form J-1.
3) A list of non-Active members in form J-2.
4) A register of shares.
5) A register of debentures and bonds, (where capital is raised by debentures and bonds.)
6) Minute book recording proceedings of the general meetings.
7) Record of attendance of general body meeting.
8) Minute book recording proceedings of committee meetings and sub committee meetings if any.
9) Cash book
10) Day book
11) Bank book
12) General ledger and personal ledger.
13) Stock register.
14) Property register in form X-1.
15) Register of auditors appointed and their written consent.
16) Returns of society in form Y.
17) Register of audit objections and rectification..
18) Such other accounts and books as from time to time are specified by Government by special or general order for any society or class of societies.

The byelaws of the society also specify what accounts and records are to be maintained by the society and the committee shall determine what additional account registers should be maintained by the society.

12.9. ***Special Books and Registers to be maintained by certain types of societies*** **:-** Depending on the nature of business activity carried out by the particular society, they are required to maintain the additional records as may be required in addition to the regular books of accounts, records specified in the Rule 65. Thus, agricultural credit, multi-purpose and service societies will have to maintain a loan

register, a register of declarations obtained from their members in accordance with the provisions of section 48 and Rule 47 (Form "M", prescribed in the Rules). They are also required to maintain an Assets Register showing particulars of the lands held by their members. Societies, which accept fixed deposits, are required to maintain a "Fall Due Register (Due date register)" of fixed deposits. Banks and other credit institutions are required to maintain a "Demand, Collection and Balance" register. Societies, which have undertaken trading or manufacturing activities, such as consumer's societies, marketing and processing societies and industries, are required to maintain Purchase and Sales Journals and Stock Ledgers. When the numbers of securities held by a society are many and varied, an "Investment Register"with separate cost accounts, will have to be reconciled with financial accounts. If the society has undertaken distribution of controlled commodities, a number of additional books and registers, forms of which have been prescribed by the Civil Supplies or other Controlling Government Departments like excise, are required to be maintained.

12.10. ***Duty of Auditor to see that necessary account books are maintained*** **:-** It will be seen that besides the statutory books prescribed under the above Rule, different types of societies will have to maintain different books of accounts. Some books are common to all types of societies, which have undertaken the particular types of activities. Rule 69 (3) requires the auditor to report whether in his opinion, proper books of accounts, which give all the information required under the Act, have been maintained by the society. It will, therefore, be the duty of the auditor to see that all societies in his charge maintain proper accounts and if any of the special account book or register is not maintained, he should guide the society in maintaining the book or register. It is needless to add that unless all necessary accounts are maintained, more time would be required for completion of the audit.

12.11. ***Powers of the Registrar to get accounts written, Procedure to be followed when accounts are incomplete*** **:-** Sub-section (1) of section 79 of the Maharashtra Co-operative Societies Act empowers the Registrar to direct any society or class of societies to keep proper accounts in respect of all transactions entered into by the society and to furnish to him such statements and returns and to produce such records as he may require from time to time and the officer or officers of the society shall be bound to comply with his order within the period specified therein. Accordingly, where the auditor finds that the account books are incomplete or the statements and information required by him for purposes of his audit are not kept ready, he should report the matter to the Registrar or to whom powers of the Registrar under section 79 have been delegated. ***(Government orders No. CSL. 1467-443-C-3 dated 6-1-1968).*** The officers concerned will then issue an order under provisions of the Section directing the society and its officers to bring the accounts up-to-date and to furnish necessary statements and information required by the Auditor.

12.12. ***Responsibility for maintenance of accounts*** **:-** Byelaws of societies specifically lay down that it shall be the duty of the committee to maintain necessary accounts and see that the account books and registers are always maintained up-to-date. In the case of smaller societies, particularly agricultural credit and other societies in rural areas, the secretary himself writes the accounts. In the case of larger societies, however, which maintain a salaried staff, an accountant is usually appointed for writing the accounts and preparing statements. However, since most of the societies except a few in large cities are not in a position to hire the services of competent and qualified accountants, the auditors should advice such societies to get their accounts completed. However, there might be societies, the management of which might be indifferent or intentionally avoiding to maintain necessary accounts on some plea or other and the auditor, in spite of his prior intimation, may find that the account books are incomplete and the statements and information required by him for his audit have not been prepared. In such cases where it is not possible to get the accounts written up and obtain information required for completion of his audit, the auditor should politely apprise the committee of the position and point out to the members of the committee their responsibility in this matter. He should also give necessary instructions

to the Secretary and the staff of the society and allow them time to comply with his instructions. If, after a lapse of reasonable time, when he visits the society once again, the accounts are found still incomplete, he should report the matter to the Registrar, suggesting suitable action under provisions of section 79 of the Act.

12.13. ***Power of the Registrar to get account written*** **:-** Where the society has failed to maintain proper accounts and the order of the Registrar issued under provisions of sub-section (1) of section 79 has not been complied within the time specified in the order under sub-section (2) of the Section, the Registrar has been empowered to take necessary action at the expense of the society through a person authorized by him.

Under sub-section (3) of the section, the Registrar may also order that the cost of getting the account books written up-to-date, assessed to the society, should be recovered from the person or persons whom he considers responsible for not maintaining the accounts up-to-date. Besides, for not complying with the orders issued by the Registrar under the sub-section, such person or persons are further liable to pay to the society an amount up to Rs. 100/- for each day until the Registrar's directions are complied with.

12.14. ***Preparation for audit*** **:-** Since the auditor renders a professional service, it is absolutely that he should possess necessary technical qualifications and skill for conducting audit, since without adequate theoretical grounding and basic skill, no professional service can be rendered satisfactorily. Knowledge of bookkeeping, including higher accountancy, budgeting technique, cost accounts and management accounts is necessary, as without this knowledge, he cannot be said to have acquired adequate proficiency to discharge his duties satisfactorily. It has also to be borne in mind that unless the auditor can himself write the accounts, it is not possible for him to check them and pass them in his audit. It has to be noted that the auditor is required to certify the correctness of the accounts examined by him and no honest auditor can certify the correctness of the accounts presented to him without having properly examined them.***It is always, therefore, a safe rule not to pass any entry in audit unless the auditor has properly followed its implications***. It is also necessary that the auditor should get himself fully acquainted with the principles of auditing and the processes and procedures that have to be gone through and the various tests that are required to be applied while conducting different audits, which can only be acquired by undergoing an intensive and rigorous practical training under senior and experienced auditors. Besides possessing a thorough knowledge of bookkeeping and higher accounts and the principal of practical auditing, the auditor has to have a thorough knowledge of the provisions of other statues which have a bearing on the working of the co-operative societies. The provisions of Income Tax and Sales Tax Act, Limitation Act, Insurance Act, Bonus Act, The Employees Provident Fund Act, Transfer of Property Act, Sale of Goods Act, Contract Act, Registration Act, Stamp Act, etc., which apply to the working of Co-operative societies, are required to be studied. Besides, a number of allied Acts, such as the Agricultural Produce Markets Act, Agricultural Tenancy and Land Holdings Act, Moneylenders Act, etc., are also required to be carefully studied. The Reserve Bank of India Act, NABARD Act, Banking Regulation Act and Negotiable Instruments Act also apply to Co-operative banks and their provisions would also have to be studied. The auditor has to submit specific report in respect of financial irregularities and frauds and misappropriation. For this purpose, the auditor has to get acquainted with the Indian panel code, Indian evidence Act, and civil and criminal procedure code to decide the legality of such irregularities.

Most important of all, the provisions of the Co-operative Societies Act and the Rules made there-under are required to be studied quite in detail. The auditor should know the provisions of each section of the Act and Rules. The byelaws of the society regulating its constitution, management and day-to-day working have also to be gone through before commencement of audit. The auditor is also required to be familiar with the content of the various Government notifications and orders and circulars issued by the Registrar, the Reserve Bank of India and the State Co-operative Bank and other Apex level institutions, which have been notified as federal societies.

12.15. ***Need to obtain clarification and explanations*** **:-** During the course of his audit, the auditor has to be satisfied that the transactions, which he is called upon to examine are proper, duly authorized and correctly recorded. For this purpose, he has to depend upon the books of accounts and the evidence contained in the receipts, vouchers, bills, invoices and other documents and also minutes of meetings, memoranda and correspondence. He can also supplement the information available from the books by calling for clarifications and explanations. It should not, therefore, be difficult for a trained auditor to satisfy himself about the information by applying proper tests. However, in order to become acquainted with the nature of the transactions and their various aspects, which he has to examine, the auditor should get himself familiar with the type of activities undertaken by the society, the accounting method adopted and the system of internal control in force. It is, however, possible that the auditor may not always be familiar with the type of business conducted by the society, since he is not expected to know the technical aspect of the transactions of different societies he is auditing. There would, therefore, be occasions when the auditor will be required to supplement his knowledge and obtain additional information about the nature of the transactions. In such cases, by putting intelligent questions, he should obtain the required information to enable him to understand and comment on the transactions in an intelligent manner. *It has, however, to be noted that although ignorance on technical matters may be excused, the auditor should be careful not to put questions which might betray his ignorance of simple matters*. All the same, it is not safe to pass an entry in audit the precise meaning of which is not clear to the auditor. It is, therefore, important that, the auditor, before he commences his audit should acquaint himself with the type of transactions that he is required to check, the manner in which they are recorded and the nature of documentary and other evidence that would be available for the purpose. He cannot, of course, be expected to possess all the technical knowledge of the methods of production and the processes, particularly if the society has undertaken manufacturing or processing activities. In such cases, by going through the list of account books and files maintained and discussing with the technical officers and the accounts staff and also by going round the factory and watching the manufacturing processes, it should be possible for the auditor to equip himself with adequate knowledge of the technical aspects of the working of the society.

12.16. ***Need to study process of various systems :-*** Though the auditor is not technically expert, he has to study the processes of various systems of business of the society. In the manufacturing he has to study the process of manufacturing in detail with the record maintained for recording the process. Such as in Sugar factory, he has to study the process of sugar production, log books maintained for process, and material used, its standardization for a unit of production, wastages for raw material, reasons, delay of process, reasons for delay, break downs and reasons for them. He has to turn all these into financial results, so that he can get the proper results of financial position, and the reasons that have led to losses being incurred by the factory. The same skill, he has to apply while studying the systems in Spinning Mills, Oil Mills, Rice Mills, Chemical units and other production units. While auditing service societies like Urban banks, Urban Credits, Insurance Societies, he has to study the service process, through which he can get acquainted with the internal controls, and can decide on the extent of his checking, as also can suggest how improvement is required by the society, to prevent frauds and misapplications of funds. While auditing computerized accounts, he has to study the parameters set for recording the accounts, which should be consistent with the standard accounting policies adopted by the society. If parameters are not set as per accounting policies, the adverse effect on financial position is required to be reported in his audit report.

12.17. ***Auditor not to approve entries in audit without proper understanding*** **:-** As already stated, an auditor need not have complete knowledge of technical matters, since he cannot be expected to be an expert in all the lines. However, it is his duty to acquaint himself with all the aspects of the working of the society, the accounts of which he is called upon to examine and certify. Care should, however, be taken to see that the questions to be asked do not betray his ignorance of simple matters, as it is likely that such ignorance might be taken undue advantage of by unscrupulous people.

He should also take care not to arouse suspicion in the minds of the persons whom he questions and those around him.

One of the greatest dangers to efficient audit is approving entries, which are not completely understood, because the auditor is afraid to betray his ignorance by putting questions. It has, however, to be remembered that, should the auditor assume to possess knowledge, which in fact he does not, he will inevitably make mistakes, which might land him into trouble. ***He should, therefore, not hesitate to ask for information upon technical details of which he has no previous experience or knowledge.*** An auditor must not approve an entry unless he understands its exact nature and is absolutely satisfied that it is in order. In particular, sometimes the auditor is afraid to ask questions and consequently approve the entries blindly trusting that they are in order, which is a very dangerous habit which may land him into trouble. ***An honest admission of ignorance of technical matters and anxiety to acquire more knowledge will always win more respect than an assumption of knowledge which is not in fact possessed the lack of which is almost sure to be discovered.***

12.18. ***Audit evidence :-*** Proper evidence should be collected by the auditor before he passes an entry, and draws reasonable conclusions therefrom on which to base his opinion on the financial information. The term ***'sufficient'*** refers to the quantum or adequacy of evidence. The term ***' appropriate'*** refers to the relevance and reliability of evidence. Thus, the evidence should be adequate as well as relevant and reliable.

What constitutes sufficient appropriate audit evidence in a particular situation is a matter of the auditor's professional judgment. Some of the factors which influence the auditor's judgment are as below.

1. Misstatement in the financial information amounts to negligence on the part of auditor, if he certifies the same. The degree of misstatement depends on the nature of the item under audit examination, the adequacy of internal control, the nature or size of the business carried out by the society, and financial position of the society, situations which may exert an unusual influence on the management. For example, a sugar factory has much sugarcane to crush, and the management wants to reduce the sugarcane price and carry over the surplus balance to the next year, when sugarcane seems to be short, resulting in loss. For recoupment of future loss, the accountant with the knowledge of management, debits expenses, which are not payable, showing them payable. In this situation the auditor has to sort more information about the expenses that have been provided. He has to verify the correctness, and genuineness of the records. There-after only will he be able to pass the entry..

2. ***Materiality of the item :-*** A material item would need to be supported by more persuasive audit evidence as compared to an item, which is not so material. If, in the above example, the amount of expenses payable is minor it will not materially affect the financial statement. However, a sizable amount will affect the financial statement materially, if the evidence of expenses is not available, or after calculation it is found that there is no necessity of provision. The effect is more on the financial statement, and the auditor has to take due care and use his skill to find out the proper position.

3. ***The experience gained during the last audit :-*** If the auditor is auditing the same society, he can use his last years experience regards internal control, integrity of the staff and management, and to rely upon.

4. The results of auditing procedures, including frauds or error, which may have been found. Thus, where an auditor applies certain audit procedures and finds material errors in accounts, he will extend his audit procedures to obtain more persuasive audit evidence. For example, if the auditor finds that the there are big differences in the schedules of balances and balance shown in the balance sheet, and he finds there are recurring mistakes in posting, and totalling, he has to carefully apply his procedures in depth.

5. The type of information available. If in respect of certain items, the quality of information available is not adequate, the auditor should seek more evidence. For example, while certifying the bad and doubtful debts, the security of the advances, is inadequate, it is not revealed by the statements provided by the society, the auditor should ask for the documents creating charge on the property mortgaged and actual verification of the security if it is tangible.

6. Trends indicated by accounting ratios and analysis. By correlating various factors, ratios provide a good indicator to the auditor to cross check whether the position as shown in the financial statements seems reasonable or not :- if not, he needs to seek more audit evidence. For example, if the gross profit ratio shows growth, though there are no sales effected, the auditor has to verify the reasons for the same. It might be possible that, the stock is overvalued. The stock is dormant and the value is increased while valuating it.

12.19. ***Reliability of audit evidence*** **:-** The reliability of audit evidence depends on its source and nature as well as on the circumstances in which it is obtained. The generalizations are as follows:

1) For expressing his opinion, auditor requires sufficient and appropriate evidence. The auditor has to confirm about the relevance and reliability of evidence that has been produced before him. Apart from this internal evidence, he has to collect the information from outside, by way of confirmations, obtaining abstracts from the banks and sundry debtors and traders. The evaluations of this evidence may be generalized as follows:

a) External evidence is more reliable, as it is obtained from the outside sources. Therefore, the confirmations received from the customers, traders and others are more reliable in a normal audit situation than the internal sources of evidence.
b) Internal evidence is more reliable when the related internal control is satisfactory.
c) Evidence in the form of documents and written representations is more reliable than the oral representations.
d) Evidence obtained by the auditor himself is more reliable than that obtained from the society.

———

CHAPTER No. 13

INTERNAL CONTROL

13.1. ***Internal control*** **:-** After equipping himself with sufficient knowledge about the nature of the operations conducted by the society and the manner in which they have been recorded, the auditor should proceed to study in detail the system of internal control in existence. In modern times, no business can be conducted without having a sound system of internal control, except in very small concerns where the eye of the proprietor is everywhere. Even in small agricultural credit societies, the work of the secretary has to be controlled and supervised by the Chairman and the Committee. The system of internal control in force forms the very foundation on which audit should be based. The audit programme in fact cannot be drawn up without complete knowledge of the system of internal control in force. The selection of auditing procedures and processes and their application tests to be applied, and the quantum of detailed checking work to be done, will all depend on the auditor's evaluation of the system of internal control in force.

13.2. ***Internal control, internal check and internal audit*** **:-** By internal control is meant ***"the system established by the management in order to carry on the business of the society in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the records.*** Internal control thus includes both internal check and internal audit if there is an internal audit department. Internal check consists of the delegation or allocation of authority and work in such a manner as to afford checks on the routine transactions of day-to-day work, by means of the work of one person being proved independently by another, so affording a means whereby fraud is prevented and its early detection facilitated." Internal audit is described as "a "review" of operations and records sometimes continuously undertaken within a business by a specially engaged staff."

13.3. ***Management of co-operatives and internal control*** **:-** Byelaws of co-operative societies specifically lay down the duties and functions of the Managing Committee and other officers, such as Secretary, Managing Director, Manager, etc. In most of the societies, besides attending to policy matters, members of the committee also attend to executive functions and sometimes also take part in the conduct of routine transactions. A close and careful study of the provisions of the byelaws of the society and the practical followed by it should be conducted to understand the nature and extent of the administrative and supervisory functions to be attended to by the members of the committee and other office-bearers of the society and determine how far and in what manner the activities of such honorary workers can be coordinated and fitted in, in order to evolve a sound system of internal control. As regards internal audit, it may be mentioned that although the byelaws of many societies provide for the appointment of internal auditors and also define their duties and responsibilities, very few societies appoint qualified auditors for carrying out their internal audit. The banks having branches with deposit more than Rs.50 crores are required to appoint auditor for concurrent audit.

13.4. ***Points to be considered while determining quantum of detailed checking*** **:-** In deciding upon the extent of detailed checking work to be carried out, the following points should be taken into consideration: -

1) The efficacy or otherwise of the system of internal control.
2) Reliability of the records.
3) The nature of the activities undertaken by the society.
4) The volume of transactions.
5) Arrangements for internal audit.

13.5. ***Difficulties in evolving suitable arrangements for internal control in co-operative societies:-*** Except in case of very large institutions like District Central Banks, District Marketing Societies, Co-operative Sugar Factories, Spinning Mills and other large societies the staff appointed by the societies

in quite meager and it is not possible to evolve any scientific system of internal check. Byelaws of most of the societies provide that the members of the committee and the Secretary in particular should supervise and control the work of the paid employees. Duty is also cast on the members of the committee to see that the accounts are written up properly and keep up-to-date and also to count cash on hand and verify stock. However, this is rarely found to have been done in practice and in a majority of cases, members of the committee do not have sufficient leisure nor do they have the necessary business acumen to discharge their responsibilities adequately. The federal societies to which the societies are affiliated are no doubt expected to guide, control and supervise their working. However, these federal bodies do not have necessary staff to carry out periodical inspections and they functions mostly as coordinating bodies and act merely as a forum to voice the grievances of their member societies.

Auditors of co-operative societies and in particular auditors in charge of the smaller societies, therefore, have the added responsibility to assist the societies in their charge to establish an effective system of financial and administrative control which would not only ensure that the business of the society is carried on in an orderly way and its funds are not misapplied or misappropriated, but would also ensure the accuracy and reliability of the records maintained and safeguarding of the property of the society. *The auditors should examine carefully the system in operation and should not hesitate to mention in his report, the defects and deficiencies in the system and point out to the managing committee their duties and responsibilities in this matter*. In particular, it should be seen that where the paid staff is inadequate and incompetent, the members of the committee exercise adequate supervision. Even in small rural societies, provided the members of the committee take due interest in the affairs of the society, it should be possible to evolve a system, which would ensure accuracy and reliability of the records and safeguard its assets.

13.6. *Basic principles of Internal Control* :- The basic principles of a sound system of internal control are as under: -

1) All remittances received should be immediately acknowledged. Official receipts from the printed receipt book signed by the officers authorized under the byelaws to sign receipts should be issued, for all payments made to the society. For remittances, for which official receipts are not issued such as withdrawals from bank, encashment of cash certificates, sale proceeds of investments, etc., necessary arrangements to ensure correct recording of the transactions should be made.
2) Vouchers signed by the payee should be obtained for all payments made by the society. All payments should have been properly authorized. A system of making payments only against authenticated vouchers should be introduced.
3) All payments in excess of a specified amount, should be made by crossed and order cheques marked "Account payee, not negotiable". It may be noted that under the new Rule 107-D of the Maharashtra Co-operative Societies Rules, 1961, all payments are to be made by cheques. However there are some exceptions given in the Income Tax Act, for payment, which should be made in cash. The limit prescribed in Income Tax Act for cash payment is Rs. 20000/-.
4) All cash in excess of the amount specified in the byelaws should be immediately paid in to the bank. Rule 107-C specifies the maximum amount of cash on hand which can be maintained by different types of societies and also the byelaws lays down that all cash in excess of the prescribed limit should be paid into the nearest branch of the District Central Co-operative bank or other approved bank within three days.
5) The closing cash on hand should be mentioned both in words and figures along with the name and designation of the officers of the society having custody of the cash. The byelaws should contain specific provision regarding maximum amount of cash to be kept on hand and designations of the officers responsible for its custody. The Chairman and the Secretary should sign the cashbook daily or other officers specifically authorized to do so.

6) The work of bookkeeping should not be kept in arrears. The cashbook should always be written up-to-date and the cash on hand verified daily. The general ledger and the personal ledgers should also be posted up-to-date. Personal ledger balances shall be extracted on monthly basis and agreed with the balance of the total account in the general ledger.

7) Monthly statement of accounts, viz., a statement of receipts and disbursements or trial balance, manufacturing and trading account showing cost of goods produced and sold during the month and also a provisional profit and loss account and balance sheet should be prepared by the accountant and kept for consideration before the Board or the Committee. This would not only ensure arithmetical accuracy of the accounts, but would also enable the management to review the state of affairs of the society at regular intervals and assist them in taking appropriate policy decisions. The bank accounts are also required to be reconciled every month. The differences in the agreement of various personal ledgers and also branch accounts wherever they exist need to be traced by the society and the balances reconciled at regular intervals.

8) All expenditure incurred should have been duly sanctioned. A statement showing details of expenditure incurred should be placed before the committee from time to time.

9) The committee should meet as often as may be necessary, but at least once a month to consider the affairs of the society.

10) The duties of the paid employees and matters to be attended to by the committee members should be clearly defined. ***There should be a proper division of the duties and responsibilities of the different members of the staff*****so** ***as to ensure that another employee/ member checks the work of an employee and no person however highly placed has the sole responsibility for all the aspects of a transaction***. Where the number of paid employees is sufficient to set up an adequate system of internal control, the members of the committee should not only exercise proper supervision over the work of the paid-staff, but also themselves attend to certain specific administrative functions.

11) *The cashier, who receives the cash should have no access to the ledgers and the ledger-clerks should have no concern with the agreement of the ledger balances with the control accounts, which should be attended to by a more responsible officer of the society.*

12) Necessary control accounts should be maintained to ensure correctness of postings of personal ledgers. Where the number of personal ledgers is large, separate control accounts should be maintained for each ledger and all accounts posted to the individual accounts of the members and other constituents should also be simultaneously posted to the respective control accounts so that at any time the total of the personal ledger balances can be reconciled with the balance in the total account in the general ledger.

13) Security as required under Rule 107-B of the Maharashtra Co-operative Societies Rules and byelaws should be obtained from all officers and the employees of the society, who come into possession of cash or other property of the society.

14) All cash, stocks and other property of the society should be adequately insured. Preferably, a blanket policy insuring cash in safe and in transit, fidelity of staff, etc., should be taken out. All fixed assets such as buildings, plant and machinery, tools, furniture and equipment, vehicles, etc., and also stock in trade, raw materials, stores, finished goods, etc., should be adequately insured.

13.7. ***Internal Control where the accounts are maintained on computers :-*** Many large societies, and even the smaller ones are maintaining their accounts on computers. The computerized environment requires more accurate and vigilant system of internal control, as there is possibility of corrupting record, losing confidentialness of information, and information leakages in the hand of unscrupulous people. The main areas of internal control are as follows.

1. ***The control environment*** :-

   a. The environment control mainly relates to the security of data, which includes A) Information technology authorization structure. B) Segregation of duties, C) Computer operation to ensure that the system is used only for authorized purposes. D) Restricted access to the authorized personnel only. E) Use of authorized programs only. F) Detection and correction of processing errors.

   b. ***System audit :-*** It includes the review and audit of software development, acquisition and maintenance application, database and systems software.

   c. ***Ensuring continuity of IT functions*** **:-** This is possible with back up of data, machines and programs, site and personnel. Business continuity planning prescribes recovery procedures in the event of a disaster.

2. ***Application Control :-*** Includes: a) file continuity b) Asset protection c) Transaction Control regarding completeness, accuracy and authorization. d) User controls.

3. ***Accounting*** **Controls :-** For evaluation of internal control in computerized environment, a questionnaire has been described in the manual elsewhere, the auditors are required to study them, and apply it while auditing these societies.

13.8. ***Bank Reconciliation*** **:-** Bank Reconciliation statements should be prepared regularly by the cashier or the officer who receives the cash Bank statements or the Pass Book. During the course of their audits, the auditors should compare the debits and credits shown in the Bank statements (or the Pass Book) with the entries in the cashbook and the counter-foils of the paying-in-slips and the cheques issued. Contra items either in the cashbook or the Pass Book should be enquired into. The items in the Reconciliation at the end of the period should be traced through the following period.

13.9. ***Evaluation of the system of Internal Control*** **:-** In brief, any system of internal control, worth the name should ensure the following:-

1) All remittances received are correctly entered under their respective heads of accounts and all income received is duly brought into account.

2) All expenditure incurred is genuine, incidental to or necessary for the business of the society and has been properly authorized and debited to proper head of accounts.

3) All the property belonging to the society is properly accounted for and safeguarded.

4) All liabilities incurred are properly recorded and due provision is made for all known or expected losses.

5) The books and records provide reliable basis for preparation of the final accounts, so as to enable the auditor to certify their correctness.

6) The basic principles of a sound system of internal control explained above should be borne in mind. While evaluating the system in operation in the society, the accounts of which are being audited, the auditor should particularly bear in mind: -

   a) There is no possibility of collusion as well as combination of duties, which enable one person to conceal irregularities.

   b) There is no possibility of collusion between close relatives, occupying elective posts or salaried employees, working in related part of the business.

   c) There is no possibility of conflict of interest of the society in case of a director or other responsible officer having other similar business interests. Although specific provisions in this regard are contained in the Maharashtra Co-operative Societies Act and the Rules, these provisions are found to be inadequate and can be easily by-passed.

13.10. ***Auditing in depth*** **:-** During the course of his audit, the auditor has to trace a transaction, through its various stages from origin to conclusion examining at each stage, the voucher, records and authorities relating to that stage and observing the ***appropriateness and efficacy*** of the system of internal control in operation and exercise of authority by proper persons. Thus, while examining disbursement of loans in an agricultural credit society, it is not enough to compare the entry in the cashbook with the acknowledgement of the borrower contained in the loan bond or a separate voucher obtained for him. Complete verification of the transaction known to the auditors as "examination in depth" involves scrutiny of the following documents, as illustration for loan disbursed in PACS: -

(i) Application for loan received from the borrower and his account in the loan ledger to ascertain details of repayment of previous loans taken by him. His share account will also have to be seen to ascertain the value of shares held by him and also to check the amounts deducted from the amount of loans sanctioned to him from time to time.
(ii) Normal credit statement to ascertain the credit limit sanctioned to him both for advances in cash and in kind.
(iii) Declaration executed by him under section 47 of the Maharashtra Co-operative Societies Act.
(iv) Resolution of the committee sanctioning the loan.
(v) Application to the bank and resolution of the committee for drawl of the amount from the maximum credit sanctioned to the society and approval of the Bank.
(vi) Loan Bond executed by the borrower.
(vii) Entry in the Loan Register and in the Loan Ledger**.**

13.11. ***Test or percentage checking*** **:-** An examination in the detailed manner indicated above, which is known to the professional auditor as ***"auditing in depth"*** cannot be carried out in respect of all the transactions of a society except where the society is a small institution and its transactions are not many, it should be possible for them to carry out complete checking of all the transactions, in other words, to carry out cent percent checking. However, in case of auditors, who have to audit large types of societies, it may not be possible for them to carry out detailed checking of all the transactions. They should, therefore, carry out a careful evaluation of the system of internal control in operation and if their appraisal proves satisfactory, they may in appropriate cases rely on a test examination of some of the records. It is needless to point out that selection of the period should be made carefully and the examination of the transactions of that period should be sufficiently detailed. *It has always to be remembered that the efficacy of an examination in depth depends on the care and skill with which the intermediate steps are examined.*

The Registrar has issued a number of circulars which contains detailed instruction regarding test checking or percentage checking. These should be carefully gone through and it should be seen that the quantum of detailed checking prescribed by the Registrar in respect of different societies, is carried out. ***It should, however, be noted that the percentages suggested are in respect of normal audits, but where frauds and serious irregularities are noticed, a more exhaustive checking (cent percent if considered necessary) should be carried out in order to ensure that no fraud or irregularity goes unnoticed by the auditors.***

13.12. ***Sample checking*** **:-** Auditor has to express his opinion on the financial position of the society, about the fairness and true position, based on an examination of records of transactions and other relevant information. However, in large institutes the number of transactions are enormous, and it is not possible for the auditor to check them on a cent percent basis. He has to sample them from various transactions. This enables the auditor to complete his audit within reasonable time and cost. The samples decided are such that further detailed checking will serve no purpose, after the checking of sample transactions. It is a generally accepted practice by the professional bodies to carry out audit through selective verification by sampling. Institute of Chartered Accountants of India has also issued the SA 530 on this, which states: "The auditor should design and select audit sample, perform audit procedures thereon and evaluate sample results so as to provide sufficient appropriate audit evidence."

The objective of auditor when using audit sampling is to provide a reasonable basis to draw conclusions about population from which sample is selected. While designing audit sample, auditor should consider objective of audit procedures and characteristics of population to assist in effective and efficient design of sample: stratification may be appropriate. Stratification is the process of dividing population into sub-population.

When determining sample size, the auditor should consider sampling risk, tolerable error and expected error. If the auditor expects error to be present in a population, large sample needs to be examined to conclude that actual error in population is not greater than the planned tolerable error. Auditor should select sample items in such a way that samples can be expected to be representative of population. This requires all items in the population to have an opportunity of being selected. After having carried out these audit procedures on each sample item that is appropriate to particular audit objective, auditor should analyze any errors detected in the sample, project the errors found in the sample to the population and reassess sampling risk.

13.13. ***Ledger scrutiny :-*** As a part of sample checking, auditor can select his samples from the General ledger for some transactions such as accounts from the profit and loss accounts where expenditure accounts. For example, while checking the stationery account, the auditor can select bigger accounts of stationery expenses and they are thoroughly checked. This will cover most of the expenditure made in this account. This can be extended to Expenses related to salary and allowances, advertisement, donations, legal charges, repairs and maintenance of assets and vehicle, depreciation, provisions for reserve and bad debts, Incomes like, commission, miscellaneous receipts, sale of assets, and some reserve accounts.

CHAPTER No. 14

AUDIT PROGRAM

14.1. ***Preparation of the programs for audit*** **:-** As we have seen, the auditor carried out his work largely be means such as. -

(a) Evaluation of the system of internal check for both soundness in principle and effectiveness in operation.

(b) Close and careful scrutiny of the accounts books, vouchers and other documents.

(c) Agreeing the final accounts, *viz*., the profit and loss account and balance sheet with the books of account.

(d) Verification of assets and liabilities.

(e) Observation, enquire, calling for clarification, making of statistical comparison and such means as may be considered necessary.

Practical auditing thus consists of a proper evaluation of the system of internal control in operation and carrying out certain routine processes and procedures known to the professional auditor as vouching, calling over, posting, casting, carry-overs, etc. However, these are only general terms and since the object of audit is for the auditor to satisfy himself about the genuineness and correctness of the accounts, careful thought will have to be given to the nature of tests to be carried out. It will also have to be noted that the scope of the processes and procedures mentioned above cannot also be clearly defined and will depend upon the system of accounting and preparation of records adopted by the business.

From a close study of the provisions of the byelaws of the society and information collected about the nature of transactions and the methods adopted for the recording and careful perusal of the list of books and accounts maintained by the society, the auditor should be able to map out his programme of work, for completion of his audit. During the course of his evaluation of the system of internal check in operation, the auditor should try to ascertain loose points existing in the functioning of the society and map out his programme of detailed checking accordingly, so that these loose points would receive special attention. The arrangements made for proper authentication of the accounts and records should also be ascertained so that responsibility might be fixed whenever occasion arises.

14.2. ***Need to prepare programs of audit*** **:-** Since the auditor is required to complete the audit within the time allotted for it, it is absolutely necessary that he should prepare an audit programme detailing the items of work to be carried out and distributing the work amongst his assistants. The audit programme in order to be effective has to be based on a standard model, which would contain all the usual items. The auditor may then adopt the standard programme after making suitable additions and modifications therein to take account of the efficacy or otherwise of the system of internal control as revealed by his review of the accounting procedures and of the peculiarities of the activities undertaken. The audit programs will not only record the exact details of the work to be performed by the auditor and his assistants, but will also have columns for the initials of the persons performing each part as and when they complete it. *The auditors even though single-handed, should also prepare audit programs before commencement of their audits.* It has to be noted that every auditor, irrespective of his professional status or academic qualifications, is required to have very clear ideas as to the exact nature and extent of the work to be executed by him. Without framing the audit programme, the auditor will be groping in the dark with no clear ideas as to what has been done and how he has carried out his work so that he may be able to prove that he has carried out his work ***logically and efficiently*** and has ***applied due skill and diligence***. Audit programme will also guard against possible omissions through systematic checking, thus helping to avoid waste of time and energy resulting from haphazard and unsystematic checking. The auditor will also be able to complete the audit within the time allotted to it. It is, therefore, needless to point out that even when the Auditor works single-handed, he must prepare his audit programme.

14.3. ***Standard Audit Programs*** **:-** The Registrar under his circular No. ADT-552-CP, dated 2nd June 1972, has prescribed the form in which the consolidated audit programme for all types of societies should be prepared. Instructions regarding framing of the programme should be carefully noted. A programme on the lines of the standard programme prescribed by the Registrar with suitable modifications as warranted by the type of the society and nature of its activities should be prepared. This programme should be referred to quite often and progress of audit ascertained.

The enclosed standard audit programmed is suitable for audit of average-sized credit societies including salary earners' societies, small industrial societies and consumers stores, etc. It is not complete in all respects although most of the items of routine checking and other aspects of higher audit including review, verification and reconciliation which are to the carried out during the course of an audit, are included therein. It has to be modified and developed suitably by the auditors in accordance with the type of business conducted by the society, and additional items may have to be included as warranted by the circumstances of each audit. "For special types of societies, such as farming societies, housing societies, Department stores, sugar factories, spinning mills and other industrial societies transport societies, forest labour's societies, labour contract societies, etc., a number of additional items will have to be included. In case of smaller societies and societies which do not conduct business to which the items relate, such items will have to be omitted and necessary changes will have to be made in the standard audit programme to ensure that all salient features of the different types of societies receive due attention. A consolidated audit programme on the line explained above will have to be drawn up for each society in charge for audit and each item of work, as and when completed, will have to be signed by the members of the audit party concerned. After the work as per the audit programme has been completed, the head of the unit should check individual items and satisfy himself that all the items of work included in the audit programme, have been carried out. The audit programme together with the audit notes, queries, draft accounts checked by the auditor, statements and schedules and other working papers should be filed in the file of the society along with the mark-sheet or explanatory note for award of audit classification to the society in the form prescribed by the Registrar.

Format of standard audit programme and applicability to the societies is appended as **Anexure I** at the end of the manual.

14.4. ***Audit Program to be revised from time to time*** **:-** It is needless to add that careful thought should be given before drawing up the audit programme. Different aspects of the transactions to be checked, should be carefully studied, so that all-important items receive due attention. The audit programme thus drawn up enables the audit party to proceed with their work methodically. It has, however, to be noted that the audit programme may have to be ***revised quite often*** during the progress of audit. In fact, it should never be allowed to become stereotyped or obsolete and it should be revised from time to time according to circumstances and should be continuously kept up-to-date.

14.5. ***Allocation of work amongst the assistants*** **:-** Since the work involved in the auditor of large institutions such as District Central Co-operative Banks, Urban Banks, Marketing societies, processing societies, Sugar Factories, Spinning Mills, etc., is voluminous, it is not possible for the Chief Auditor to attend to all the work himself. A major portion of routine checking and other work will have to be entrusted to the audit assistants. It is needless to add that important items of work should be attended to by the Chief Auditor himself and only routine checking and other work of lesser importance may be entrusted to the assistants. The following items of work will have to be attended to by the Chief Auditor himself : -

1) Vouching of the debit side of the cashbook, except minor payments and other fixed charges, which are being paid regularly. The Chief auditor may check vouchers on the sample basis.
2) Breaches of the provisions of the Act, Rules and byelaws.
3) Perusing the minutes of the general meeting, Board/managing committee and sub-committee meetings.

4) Verification and valuation of assets and liabilities including verification of cash, confirmation of bank balances, verification of share certificates, securities title deeds to immoveable properties, etc. Verification of collateral securities including government securities, shares certificates, insurance policies, gold and silver ornaments, inspection of godowns, periodical stock returns, insurance policies of godowns, etc.
5) Scrutiny of loan balances and other sundry debtors' balances, checking overdues statements and classification of overdues into good, doubtful and bad.
6) Adequacy of provisions made for doubtful debts (NPA's) and loans.
7) Scrutiny of control accounts, and agreements with schedules of balances and supporting lists.
8) Scrutiny of financial position of the society including scrutiny of balance sheet and profit and loss account.
9) Appropriation of profits, treatment of capital profits and provision for income tax.
10) Allocation of expenditure between capital and revenue, deferred revenue expenditure, etc.
11) Provision for outstanding liabilities and provision for overdue interest, depreciation, taxes, etc.
12) Reconciliation of bank accounts, accounts of branches and other balances.
13) Scrutiny of operational efficiency of processing and manufacturing units by application of normally accepted standard and norms. Reconciliation of cost accounts with financial accounts.
14) Scrutiny of reasons for losses, shortages, wastages, etc.
15) Observance of conditions in respect of borrowings from Government and financing agencies.
16) Proper utilization for financial assistance received from Government.
17) Scrutiny of terms and contracts entered into with various parties.
18) Scrutiny of store accounts, cost accounts, processing and production account, allocation of stores and wages and overheads.
19) Scrutiny of use of vehicles.
20) Physical counting of cash, securities and stores.

There might also be other items of work, which the Chief Auditor might consider to be sufficiently important to be attended to by him. The other items of work may be entrusted to his *assistants according to seniority, experience and qualifications*. However, these would depend on the circumstances of each case, considering the importance of the society, volume of its transactions and the qualifications and experience of the staff assisting the auditor. No matter, how qualified and experienced the staff assisting the auditor,no matter, how qualified and experienced his assistants may be, the Chief***Auditor should always bear in mind that the entire responsibility for the proper conduct of audit rests on him***. He should, therefore not leave important items of work like those enumerated above to his assistants, but should pay his ***personal attention*** to them. He should also exercise proper control and supervision over the work of his subordinates.

The Registrar has issued a number of circulars specifying the various items of work, which should be attended to by the Chief auditor himself. Such instructions have been issued in respect of audit of urban and central banks, salary earners societies, sugar factories, etc. [Please see circulars No. ADM/ 243 dated 3-6-54, No. ADM/Sugar factories dated 26-11-69 and No. ADM/243 (CFAs.) dated 7-11-67]. The instructions issued by the Registrar should be carefully studied and in view of their special importance, these items of work should not be left to audit assistants. Whatever work is entrusted to the audit assistants, clear instructions should be given, orally or in writing where necessary, so that they may have a ***clear idea as to what is to be done, how it is to be done, what points are to be noted*** in connection therewith, etc. The various processes and procedures for conducting audit, the types of

tests to be applied should be explained to them in detail and they should also be aware of the types of irregularities they are likely to come across. After the audit assistants have carried out their part of the work, it should be test checked to see if any important points are missed. In this way, the auditors are encouraged to gain self-confidence and encouraged to become Active partners in all that pertains to performance of efficient audit.

14.6. ***Method of working and training of audit assistants*** **:-** Auditors are ordinarily expected to work in batches of two, one senior and the other junior, the more mechanical part of audit work like vouching, posting, calling over, etc. being shared both by the auditor or his senior assistant and the assistant. This should ensure that the junior members of the staff are given ample opportunities for acquiring knowledge and experience in various branches of audit work. The division of work in the offices of Chief Auditors is no doubt a matter of internal organization, but it should be so arranged as to give a thorough insight and experience to the junior members in the difficult and more complicated part of audit. The need for training the clerks and assistants so as to get an adequate output of work consistent with efficiency is all the more in case of Chief Auditors as it is practically impossible for them to pay adequate attention to all the work. In order that the work is not carried out in a mechanical way, and the audit clerks and other subordinates in charge *do not lose their sense of responsibility*, it should be impressed upon all the members of the staff that the programme set out for them is the basis upon which the audit has to be conducted and that they must use their intelligence while carrying it out. They must be encouraged to think out for themselves and make surprise checks outside the audit programs and suggest additions and improvements in the scheme.***Experience has shown that serious discrepancies are generally revealed by surprise investigation and intelligent enquiries***, which fact should always be borne in mind. In order to give time to the Secretary or the Accountant to bring the books up-to-date and also to draw up the information required for audit, the order of the various items of work to be carried out, specified in the audit programme, may suitably be changed. Thus, for example, vouching the payments side of the cashbook might have to be postponed in order to give time to the Secretary to attend to the payment vouchers so that the time of the auditor in tracing the supporting vouchers will not be wasted. Similarly, if the personal ledger balances are not extracted and agreed with the total accounts in the general ledger, other items of work remaining from the audit programme like scrutiny of the minute books, checking of the members' register etc., will have to be taken up.

14.7. ***Responsibility of Auditor for proper conduct of audit*** **:-** As we have seen, Auditors in charge of large and important societies are given audit assistants to assist them in their audit, as it is not practicable for them to attend personally to all the work connected with audit. The extent of work, which the Auditor would do personally, and work, which is to be entrusted to his assistants, will have to be decided by him. *However, the Auditor alone will be responsible for the proper conduct of audit even though much of the audit work will have to be carried out actually by his assistants*. It is, therefore, necessary that the progress of audit work should be kept under careful watch in order to ensure that it is proceeding on right lines and according to the programme prepared by him. Auditors should see that the audit assistants assisting them have properly understood the nature of their work, the manner in which it has to be carried out and the departs and irregularities which are likely to exist and have to be noted by them.

14.8. ***Control of the quality of audit work*** **:-** The Institute of Chartered Accountants of India has issued guidelines, regarding quality of work in general and procedures to be followed when work is delegated to assistants in and individual audit. The guidelines suggest that the quality of work is maintained if the following objectives are achieved.

1) ***Personal qualities*** **:-** The auditor should follow the principles of integrity, objectivity, independence and confidentiality.
2) ***Skill and Competence*** **:-** The auditor has attained and maintains requisite skills and competence.
3) ***Assignment*** **:-** Audit work should be assigned to personnel who have the degree of technical training and proficiency required in the circumstances.

4) ***Directions and supervision*** **:-** There should be adequate direction and supervision of work at all levels.

14.9. ***Maintenance of worksheets*** **:-** Separate worksheets mentioning details of work done in respect of every society audited should be maintained by each member of the audit staff **(including the Auditor himself**), taking part in the audit. Worksheets will be of two types, one will contain details of work done from day-to-day and the other will be regarding total checking and other work done, i.e. consolidated audit programme. As already suggested, before commencement of actual audit, a detailed consolidated audit programme should be prepared on the lines of the model audit programme. As soon as a particular item of work is completed, by a particular member of the audit party or by a batch of two assistants, his or their signatures should be obtained against that item. The audit programme should cover all the items to be covered during audit although the various items of work will be distributed amongst the different members of the staff according to their seniority and experience. From the work sheets maintained by the different members of the audit staff, the consolidated audit programme will be filled in. The worksheets and the consolidated audit notes, query sheets, statements, final accounts and other routine papers relate to the audit of the society.

The Registrar in his circular No. ADM/243 dated 12-6-59 has directed that all audit assistants should maintain their worksheets, showing details of work done by them in the following form: -

Daily Worksheet of Shri……..……..……..……audit assistants …….

Name of the Society …….

Period of audit : From:……To……..

Date	Serial No. of the item in the audit programme	Particulars of work done	With whom done name of the other member of the batch	Period covered from-to	Other details regarding vouchers, specific books, files, etc.	Initials	Initials of the officer
1	2	3	4	5	6	7	8

The last three columns in the consolidated audit programme should be filled in the form as worksheet.

14.10. ***Technique of audit. -Use of ticks or check marks*** **:-** While carrying out the routine checking for the mechanical part of the audit, the auditor has to make **"ticks"** or **"check marks"** for every entry in an account book or register examined by him and also initial or cancel vouchers by means of rubber stamp. Every receipt or voucher, invoice, bill, statement or other supporting documents initialed or signed by him is an evidence of his having been satisfied about the genuineness of the documents and the correctness of entry passed by him in his audit. The making of these ticks or check marks is quite necessary as they serve as an evidence of an Auditor having checked and compared the entry with the particulars mentioned in the supporting Documents, statements, or other records and passed it in his audit. The tick or the check-mark and the initials of the auditor also serve as an evidence of cancellation of the supporting document after having served its purpose, *viz*., serving as evidence of the correctness of the entry made in the books so as to prevent its production once again in support of another subsequent entry. The ticks or check marks should, therefore, be clear enough so that they can be recognized at any time. The use of these ticks and check-marks, their size, length, angle and other peculiarities are not uniform and every auditor is, therefore, free to have his own method of ticking or marking an entry in

the books as evidence of his having **"passed"** it in his audit. Most of the professional auditors use rubber stamp bearing the names of their firms for canceling receipts, vouchers and other supporting documents signed by them.

14.11. ***Type of "ticks" or "check marks"*** **:-** The following are the usual ticks or check marks which are supposed to be used by the Auditors to indicate the different processes and procedures of audit carried out by them. If some auditors are using different tick or check marks, they should use following ticks or check marks for items of audit work shown against them with a view to having uniformity in this respect: -

	Work	Area	Types of ticks
1)	Posting	On the right hand side of the figure close to the last digit.	**\ Or /**
2)	Casting or totaling	On the left hand side of the figure checked	
3)	Carry forward	Same as above with an additional posting tick across the tick like	
4)	Calling over or comparing	At the bottom of the figure.	
5)	Vouching	On the left side of the figure, the horizontal line covering a part of the figure. Some time, the tick is put on either side of the figure.	
6)	Bank pass-books or statements	The posting tick on the right hand side unticked items; *i.e.* items appearing in reconciliation would have the letter "R" place on the right hand side.	 **R**
7)	Contras or transfers	On the right hand side.	**C**

These ticks or check marks should also be distinctive and should be indicative of the particular process or procedure carried out or the test applied for. Particular care should be taken to see that the staff of the society whose accounts are being audited does not know the significance of these ticks. While carrying out different processes and procedures which form part of routine checking, distinctive ticks or check-marks should be made so that every member of the audit party including the principal should always be able to recognize his own ticks and state definitely what books and registers have been seen by him and what portion thereof or what type of entries have been checked by him.

14.12. ***Use of coloured pencils*** **:-** For marking the ticks or check marks, the auditors are required to use coloured pencils. Auditors of the Cooperative Societies are required to use **green pencils** and their audit assistants are required to use **blue pencils**. The staff of the society should be requested not to make use of these pencils for their internal checking.

14.13.*Calling out figures and description* **:-** While calling out the figures, audit assistants should be careful to speak out clearly or otherwise mistakes may be easily passed. For example, while calling out figures, "Twenty", "Thirty", "Sixty", etc., the **'ty'** should be emphasized and called out as twenty (twentie), thirty (thirtie), sixty (sixtie) etc., the **'ty'** being called out as **tie**. Rs. 20.06 should be called out as twenty zero six or Twenty Rupees and six paise. As already explained, audit staff work in batches of two, the mechanical part of audit work like vouching, posting, calling over, etc. being carried out by two persons, one calling out the figures and description of the entry from the cashbook or other register and the other person tallying the particulars with the figures and description in the voucher or other document or entry in another book.

14.14. ***Corrections and overwriting in accounts*** **:-** While carrying out this audit, ***the auditor should be careful not to make any alternations in the figures originally entered. He should not also make any entry in the books or statements himself or make any notes in the vouchers, statements or other documents which he is checking***, *if the figure appearing in any book or register is not distinct or appears to have been corrected or overwritten, it should be very carefully examined in order to see whether the correction made is authentic or deliberate*. Use of eraser or knife for scoring out or earnings figures should be discouraged. If many corrections are required to be made, the original figure should be dislodged. If there are many figures, they should be entered distinctly on the top of the original figure or along side. ***The Accountant or any other responsible officer in charge of accounts should be asked to make the corrections and the Auditor should not make any corrections himself.*** All corrections should be invariably supported by initials of the officer authorizing them.If any figure is illegible or the auditor is not clear about it, he may encircle the figures with his coloured pencil and write the correct figure distinctly in the margin or along side the original figure so as to assist him in recalling the figure. In any case, it should be seen that the figure checked while vouching is taken both in totalling and posting.

14.15. ***Entries in Pencil to be got inked before checking*** **:-** Many times, the auditor comes across entries made in pencil. ***It should be noted that entries made in pencil, particularly figures written in pencil, can be very easily altered and hence no auditor should accept entries in pencil. He should immediately ask the accountant or any other officer of the society to ink out the figures and initial them.*** Many times, totals and balances are entered in pencil. Although totals or balances might be correct, still, it is necessary that they should be inked out and the Auditor should ***take particular care*** to see that all entries passed by him in his audit are inked out before he puts his tick or check mark on them.

14.16. ***Account books to be got written up completely before commencement of audit*** **:-** As far as possible, the auditor should not commence checking up of an account book until it has been written up completely for the period for which the audit has been taken up. On no account should he check figures in pencil even though he is assured that the figure would be inked out in due course. Each stage of work should be completed at one sitting, if possible. For example, while checking cashbook vouchers, for a month or other specific period, the whole should be checked and notes made of missing vouchers and irregular payments. Similarly, each part of the other work like checking of loan bonds, posting, calling over, etc. should be completely checked and record made in the ***"Daily Work Sheet"*** maintained by the auditor and his assistances of the exact stage upto which the checking has been carried out. These suggestions are of special importance to the auditors who are in charge of audit of certain types of societies.

———

CHAPTER No. 15

ROUTINE CHECKING AND HIGHER AUDIT

15.1. ***General :-*** As we know, the work of audit consists of carrying out certain processes and procedures and applying certain tests, which would enable the auditor to satisfy himself about the reliability of the accounts and the correctness of the profit and loss account and the balance sheet. It is therefore, needless to add that the auditor should be fully acquainted with the nature and significance of the various processes and procedures that are required to be carried out and also be able to determine the appropriate tests for ascertaining the reliability of the accounts. Further, since he has to express his opinion on the balance sheet and profit and loss account, he must do all that he deems necessary to form an opinion thereon and report to the management of the society and the Registrar.

Audit work may, therefore, be divided into the following parts.-

(i) ***Preparation*** **:-** In order to provide a close and complete study of the system of internal control, with a view to finding out deficiencies and loopholes and its effectiveness in practice, the desirable features of a sound system of internal control have already been discussed

(ii) ***Routine checking*** **:-** An exhaustive examination of the routine transactions, the extent of which would depend upon the auditor's assessment of the soundness of the system of internal control and its effectiveness in practice. In case of most of the smaller and medium size co-operative societies, however since a satisfactory system of internal control cannot be introduced for want of adequate paid staff, the transactions will have to be checked on a cent percent basis. The method of checking routine transactions and points to be noted during the course of checking, have been discussed in the following paragraphs.

(iii) ***Review or higher audit:Checking of profit and loss account*** **:-** The principles governing preparation of the profit and loss account and certain specific items which call for special attention, such as allocation of expenditure between capital and revenue, depreciation, provision for bad debts and losses, etc., and also allocation of the net profits will be discussed in the following chapter.

(iv) ***Checking of the balance sheet*** **:-** verification and valuation of the various items of asset, verification of liabilities, etc. These would be discussed in another chapter.

These are fundamentals to which adequate time and attention should be devoted by the auditor and his staff. Routine checking or mechanical checking also forms an important part of audit work and has to be carried out diligently and intelligently.In fact, routine checking forms the very base of audit work as many of the tests to be applied and the extent of their application would depend upon the results of routine checking. The educative value of routine checking also assumes considerable importance in the audit of the smaller societies, since it is only by observing how the auditor conducts his audit and noticing what types of defects he has pointed out, that the management becomes aware of their mistakes and how they could be avoided in future. It has also to be remembered that the auditor has also to act as an advisor and thus to function as an aid to management. In order to discharge this function properly, he has to examine a number of documents and call for additional information, which the professional auditor is not normally required to do.

15.2. ***Importance of Routine checking :-*** As regards the mechanical part of audit, routine checking as it is generally called, different processes and procedures are known by different names such as vouching, posting, casting, tracing, balancing, calling over, etc. In the following paragraphs, attempt will be made to explain the meaning and the significance of these processes and the manner in which they are to be carried out.

At the outset it may be observed that routine checking will disclose merely clerical errors and very simple frauds and will seldom, if ever, reveal errors of principle or clever frauds. In order to

discover these, the auditor must go behind the books of accounts, examine the original records and make intelligent enquiries. In fact, he will be required to trace the entries to their very source. He has always to remain watchful bearing in mind the weak spots in the system of book keeping in respect of which errors or frauds are likely to occur. This routine checking or "tick work" as it is sometimes referred to, is of course, important and must be carried out thoroughly *with care and diligence:* but, unless other higher and more important matters enumerated above have also been properly attended to, only clerical errors are likely to be discovered. Routine checking is apt to become monotonous and consequently is likely to be done in a mechanical fashion. However, it is the very basis of audit and is required to be carried out *thoroughly and intelligently*. This part of audit mostly devolves on junior members of the staff. They should be encouraged to think out for themselves and understand exactly what part the checking they are doing, plays in the whole plan of audit, what are the likely frauds or errors that might take place and how they could be detected by their checking. In this way, the work will become quite interesting and an intelligent junior will soon be able to grasp the entire principles of practical auditing.

Some of the frauds that can be found out by the routine checking are detailed below.

A. ***Cash :*** While checking totalling the cash in inner column less credited can be searched out, as well as the credit side total will reveal the short credit and on debit side the excess debited cash will be found out. Totalling of cash receipt on the inner side of cashbook and receipt would reveal short credit of cash. The total of vouchers at inner side of debit side of cashbook will show the excess debited cash in cashbook.

B. ***Stock :*** Totalling of stock register will reveal understated purchases and overstated sales, however, the amount does not be with commensurate with the quantity and amount. The totals of sale register are under-stated by an amount of sale which is not properly credited, and this amount is misappropriated.

C. ***Ledgers*** *:* The personal ledger is credited for sum received, however the same amount is not credited to the cashbook. And the General ledger is over or under-summed for cancellations of entries that are passed in personal ledgers, and not credited to cashbook.

Most professional auditors are now of the opinion that in the past far too great proportion of time was devoted to detailed checking. The modern view is that an audit is made much more effective by devoting a greater proportion of time to the more advanced part of the audit programme in case of bigger institutions. It has also to be remembered that if the auditor confines himself to the entries as they appear in the books and does not go deep enough, his information will be incomplete and he may pass over matters of importance which affect the accounts materially.

15.3. ***Vouching :-*** The term ***" vouching"*** is used to describe the examination of a document or a series of documents for the purpose of verifying a transaction which is recorded in the book and in appropriate cases ensuring that the system of internal control relating to the transaction has been duly followed. *Vouching is the very essence of auditing and the whole success of an audit depends upon this intelligence and thoroughness with which this part of audit work is carried out*. It has , however, to be understood that vouching does not mean merely comparing receipts and vouchers with the cashbook. During the course of vouching, the auditor has to examine a whole set of documents such as receipts , vouchers, bills, invoices, statements of accounts, minutes of meetings and such other documents on the basis of which the entries in the cashbook and other books of prime entry have been made. A careful comparison of the entries in the cashbook, journal and other books of prime entry with the supporting documents would ensure:-

As regards receipt :-

(i) That all moneys due to or receivable by the business have been duly brought into account and there has been no impropriety or irregularity in the realisation of moneys due to the business.

(ii) All moneys received by the business have been properly accounted for and credited to their proper heads of account.

As regards payment:-

(i) That all payments made and liabilities incurred are regular, properly authorised and payable out of the funds of the business and have been shown under correct heads of accounts distinguishing between revenue and capital expenditure and in particular that the expenditure incurred and liabilities contracted were necessary and incidental to the business of the society;

(ii) No fraudulent or unauthorised payments have been debited which reduce the cash balance of the society and ;

(iii) The daily closing balances have been correctly extracted and carried forward.

In the examination of transactions, it should be noted that neither the entries in the books of account nor the documents from which the entries have been made are to be ***blindly*** accepted at their face value, but have to be relied upon after applying due tests which are described in detail in the following paragraphs. It is also necessary that the auditor should apply to the audit his knowledge of the conditions, under which the society conducts its business. Thus, for example, in agricultural credit societies, loans to members are to be made only in accordance with the credits sanctioned to individual members in the Normal Credit Statement / Kisan Credit Cards finally approved by the financing agency. In case of marketing societies, period for payment of sale proceeds, scales of commission and expenses and other matters are governed by the rules of the Market Committee or by custom. In Co-operative sugar factories, payment of cane prices and advances to members and sales of sugar are regulated by policy decisions taken by the State and Central Government. It is , therefore, necessary that the auditor before commencement of his audit should familiarise himself with:

(*a) the nature of the business conducted by the society.*

(b) The account books maintained and the method of bookkeeping adopted. And

(c) the system of internal control in force and the nature and extent of external supervision and control over its operations.

15.4. ***Vouching of cash transactions-control over cash :-*** Since a majority of frauds are in connection with cash, it is important that an adequate and scientific system of internal check should have been in operation as regards receipt and disbursement of cash, remittances of cash and for the custody of the cash balance. Where a cashier is appointed, he alone should attend to the receipts and disbursement of cash and remittances to and from bank and preparing cheques. The "Day Book" or the " main Cashbook" should be written by the accountant and not by the cashier who should maintain only a rough cashbook or cash diary and cash summary book.

15.5. ***Vouching of receipt-Internal control over receipts :-*** It has to be noted that vouching receipts is always more difficult than vouching payment, since, in many case, no direct evidence as regards regularity and correctness of the amount received, would be available. The system of internal check should be carefully enquired into and special attention should be paid to any part that is considered inadequate.

To ensure proper control over receipts, the following arrangements are necessary:

(i) All incoming letters should be opened by the Manager or other responsible officer. All cheques, drafts, postal orders, registered letters, etc. should be specially crossed to the Bank account and entered in a separate register along with other remittances in currency notes and coins received under insured covers or by money orders before being passed on to the cashier. At the close of the day, entries in this book should be compared with the entries in the Cash Diary or Rough Cashbook maintained by the cashier.

(ii) All remittances should invariably be acknowledged. Specially printed receipt books with duplicate serially numbered receipts to facilitate retention of the carbon copy in the book itself, should have been issued for acknowledging all remittances whether received in cash or by cheques, drafts or by money orders. Counterfoils are required to be written up separately and it is likely that an unscrupulous employee might enter different amount in the counter foil and the outer form. No acknowledgements should be made on the invoices, bills, or statements issued to the customers. The employees should be strictly forbidden from acknowledging remittances on the ledger account of the society kept by the customer or on the copy of the invoice or bill sent to him. This practice followed by some the marketing societies, should be discouraged. Notice should be given to all members and customers that no receipt would be valid unless issued from the printed receipt book of the society and countersigned by the authorised person. All receipts in a receipt book should have been pre-numbered and the serial numbers should be examined before a new receipt book is brought into use.

(iii) Spoiled and cancelled receipts should not be destroyed, but should be pinned to the carbon copy as evidence of what has taken place. Cancellation should be made under initials of the officers authorised to sign the receipts. While checking receipts, it should be seen that the serial numbers run consecutively and that no receipts are missing.

(iv) Where there is a system of issuing temporary or katcha receipts on plain paper or recording acknowledgements on the books of the customer by recovery clerks, salesmen or representatives, the constituents should have been duly notified that such receipts or acknowledgements are merely temporary acknowledgements and that they must insist on obtaining official receipts. The practice of issuing temporary receipts should be discouraged. Wherever possible all temporary receipts should be called back at the time of issue of the official receipts. Where necessary, specific mention should be made in the official receipt about the cancellation of the " katcha" or temporary receipt already issued for the same remittance.

(v) Where remittances are received in cash, signature of the person paying in the amount should be obtained on the receipt itself in the space provided for it or at the back of the receipt as evidence of the delivery of the receipt.

(vi) Any material alteration in the receipt, if necessary, should be made only under initials of the person or persons authorised to sign the receipts.

(vii) All unused receipt books should be kept in safe custody. An account of the receipt books received from the Printing Press and issued should be maintained and a fresh book should be issued only when the receipt book in use has been completely exhausted. When different receipt books are simultaneously in use for acknowledging different classes of receipts or receipts under different heads, the receipt should be of different colours or sizes so as to be easily distinguished.

(viii) The cashier should not be allowed to make any entry in the ledger and the ledger clerk should not be allowed to handle cash.

(ix) In banks and other large concerns, all remittances are first entered in a scroll book by a clerk before they are paid over the counter to the cashier. The scroll clerk examines the chalans, paying in slips or other documents accompanying the remittance and makes entries in his scroll book. At the close of the day, entries in the scroll book are called over into the rough cashbook or cash diary maintained by the cashier which would ensure that all remittances are properly accounted for.

(x) Cash ,cheques and other remittances received either by post or from cash sales collections, cash paid in by travelling salesman, recovery, clerks, etc. cash remitted by disbursing officers (employers) in case of salary earners' societies and also canteen takings, cash takings of

milling or grinding charges in societies, running rice mills ,flour mills and rendering other services should be banked intact daily except where the collections are too small and are allowed to accumulate until a substantial amount is collected to justify remittance to bank .However as far as possible no payments should be made out of cash takings.

15.6. ***Nature of documentary evidence available for checking receipts :-*** Counterfoil or carbon copies of receipts issued to the remitters should be available for checking the following types of remittances:-

(i) Shares and entrance fees.

(ii) Deposits (Except in banks) where the persons paying the amounts are required to prepare pay-in- slips or chalans explained in paragraph (3) above.

(iii) Miscellaneous receipts such as hire charges of machinery and equipment, fees and charges for services rendered, share transfer fees, copying charges, fees for issuing duplicate documents, etc.

(iv) Repayment of loan by members, recovery of dues on account of credit sales and other outstanding dues.

In an Institution doing banking business and in some other institutions as well, customers are required to fill in pay-in-slips or chalans for moneys paid by them. Similarly, for issue of drafts or transfer of funds and also for payment of hundies and release of railway receipts and other documents of title to goods, application forms which furnish full particulars of the amounts paid, are required to be filled in by customers and would be available to the auditor for his verification. For such remittances, generally no separate receipts are issued.

15.7. ***Method of checking receipts :-*** The entries in the cashbook should be compared with the office copy of the receipt issued to the party and it should be seen that the following particulars correspond:-

1) Date of receipt.

2) Name of the person paying in the amount and name of the person on whose behalf remittance is made.

3) The amount received should have been mentioned both in words and figures.

4) Mode of remittance if received by cheque, name of the bank on which drawn should be specified. If received by money order, postal order, insured post etc., the mode of receipt should be specified.

5) Head to which credited: Carbon copies of the receipts issued to the remitter retained in the Receipt Book only provide indirect evidence. There will also be different types of documents, which will have to be examined for verifying certain types of receipts. These will be discussed in the following paragraphs.

———

CHAPTER No. 16

CHECKING OF DIFFERENT TYPES OF RECEIPTS

16.1. ***Share and entrance fees*** **:-** Share certificates bearing distinctive numbers are required to be issued for all shares subscribed. Counterfoils of share certificates issued will also be available and information contained therein, will have to be checked with the entries in the share register, share ledger and the member's register. Byelaws of co-operative Societies generally provide that allotment of additional shares should be made by the committee. Minutes of committee meetings will, therefore, have to be seen.

Printed receipts are generally issued for acknowledging amounts received towards shares and entrance fees paid by members and prospective members. Since entrance fees and share money are required to be paid before admission to membership, pending approval by the committee, of the application for membership, ordinarily, the amount would be credited to a share suspense account in the first instance and subsequently adjusted to the share and entrance fee accounts after the resolution admitting the applicant to the membership of the society is passed. His name will thereafter be entered in the member register.

16.2. ***Recovery of shares by installments*** **:-** Except in case of co-operative sugar factories, spinning mills, and a few other types of societies, where the value of a share has been kept high, the full value of the share is recovered in one lump sum. As such, except in case of the above types of societies, there is no system of making calls towards balance of share money due from subscribers to share capital. In case of salary earners' societies, monthly subscriptions at rates specified in the Byelaws are collected from the members along with other dues of the society and shares are allotted to them when the full amount of a share is received. In consumer societies, rebate or purchase bonus payable to non-member customers is also credited to their accounts and when the full amount of a share is collected, they are enrolled as member and the undisbursed bonus payable to them is credited to their share account.

16.3. ***Share Capital of newly registered societies :-*** Before a society is registered, the promoters of the proposed society are required to collect deposits from the prospective members towards initial share capital of the proposed society. No society is registered until initial share capital considered adequate by the registering authority is collected and paid into the bank. The amounts collected from time to time by the promoters are required to be deposited with the head office or nearest branch of the district central bank of the district and Maharashtra state co-operative bank in Mumbai, or Urban Co-operative Bank or Postal Savings bank. An account is opened in the name of the proposed society to be operated jointly by the Chief Promoter and one or two other promoters. Not depositing the amount in the said manner is offence under section 146(d) of the M. C. Societies Act, and punishable with a fine of Rs. 5000 under Section 147(d) of the Act. No amount is normally allowed to be withdrawn from this account until the society is registered and the account transferred in the name of the registered society. If the society is not registered, the chief promoter can withdraw the amount only on production of a letter signed by the registering authority stating that the society has not been registered and the promoters are permitted to withdraw the amount and refund to the prospective members of the proposed society, the initial capital contributed by them.

The newly registered society at its first general meeting is required to pass a resolution intimating the Bank that the society has been registered and requesting that the account opened in the name of the promoters should be transferred to the name of the society. Copies of the resolution along with account opening form duly filled in and signed by the authorised persons are sent to the bank. After the account is transferred in the name of society, the amounts paid in by the promoters and other applicants for membership of the society are credited to their respective share accounts and the entrance fee account.

16.4. ***Treatment of Deemed members shares*** :- Section 23 1-A provides for deemed membership. If the society refuses to accept the application from an eligible person for admission as a member, or the payment made by him in respect of membership, such person may tender an application in such

form as may be prescribed together with payment in respect of membership, if any to the Registrar. The Registrar shall forward the application and the amount, if any so paid, to the society concerned within thirty days. From the receipt of such application and the amount and thereupon, if the society fails to communicate any decision to the applicant within sixty days from the date of receipt of such application and amount by the society, the applicant shall be deemed to be member of a such society. From this provision it is clear that until the period of sixty days from the receipt of amount and application he is not a member of the society. During this period, the amount so deposited by the person shall be credited to the share suspense account. After the completion of legal procedure if accepted by the society or become a deemed member the amount of share suspense account should be transferred to the respective entrance fees and Share Capital account.

16.5. ***Audit of accounts of societies prior to their registration :-*** Promoters of cooperative societies are required to maintain proper accounts of all amounts received and payments made by them prior to the registration of the society. If the transactions prior to the registration of the society merely relate to collection of share capital and incurring normal expenditure for getting the society registered, such as expenditure over postage, reasonable conveyance charges, printing of receipts and books, typing of Byelaws etc.,they are generally entered in the cashbook of society and should be checked by the auditor. However, if the promoters have already started business in the name of society and considerable period has elapsed before the society has been registered, the auditor should obtain a statement of receipts and disbursement made by the promoters on behalf of the society and the transactions should be checked and in detail. *If the auditor is of opinion that he will be required to spend considerable time over checking the transactions prior to registration of the society, he should seek instructions from the Registrar whether the accounts should be audited by him or the society should be asked to get the accounts audited by another auditor appointed by the society for this purpose.* In either case, it should be seen that the statement of receipts and disbursement prepared by promoters and duly signed by the Chief Promoter is considered and adopted at the First General meeting of the society.

16.6. ***Checking of members register :-*** Entries in the Members' register will be checked with applications for membership, resolutions of the committee and entries in the cashbook relating to receipt of entrance fee and share money. As regards deletion of names from the Members' register, remarks regarding cessation and also the date of cessation and reason for deletion of name from membership should be recorded in the remarks column. If the society fails to remove the name of the person who has ceased to be member, the Registrar shall be competent to direct the society to remove the name of such person and the direction is binding on the Society, as per Section 25 A of the M.S.C. Act.

16.7. ***Refund of shares :-***

i) In case of resignation or transfer of entire share holding, resolution of the committee accepting the resignation and approving refund or transfer of the shares held should be seen and it should be seen that the restrictive provision in the Act, rules and the Byelaws regarding refund of share capital are duly observed. It should also be seen that the resigning member has repaid all his outstanding dues to the society and has also discharged his liability as surety. The main restrictions regarding share refunds are:

ii) The shares should be refunded at the value of the last years balance sheet as certified by the auditor in his audit memo.However, the value of refunding share should not exceed the face value of the share. In other words,if the value is less than the face value of share, the lower value should be refunded and if it more than the face value, the refund should be restricted to the face value. This will not apply to the refund of shares by way of transfer. (MCS Rule No. 23).

iii) In case of liquidation, societies' shares should not be adjusted through recovery dues form the member. (MCS Rule No. 23).

iv) The limit of refund of shares in the year in which they are refunded is 1/10th of the share amount outstanding in the last year's balance sheet. (MCS Rule No. 23).

v) **The method of valuation of share** :- The method is prescribed in the Rule 23 as "amount arrived at by a valuation of shares by dividing net worth of the society by number of shares." This means the net worth of the society shall be calculated by the auditor and then he has to arrive at the valuation of the share, and to see the refund of share is made accordingly.

vi) **Net worth :-** Under Rule 23, explanation given for net worth is, 'for the purpose of this rule, net worth means paid up share capital plus free reserves (Reserve fund, unutilized building fund, dividend equalisation fund, carried forward balance of net profit , any other fund which is not marked specifically for any liability) and deducting therefrom accumulated losses, shortfall in provisions.

vii) **Calculation of Net Worth :-** From the above explanation the calculation of Net worth can be arrived at as-

Sr.. No.	+ or -	Particulars of funds and capital	Amount in Rs.
1		Paid up share Capital	
2		Free Reserves	
A	+	Reserve Fund	
B	+	Building fund – (Utilised portion of the building fund)	
C	+	Dividend Equalisation fund	
D	+	any other fund (which is not marked specifically for any liability.)	
E	+	carried forward balance of net profit	
F		Total of A to E	
		Total Funds (Total of 1+2)	
3	-	Accumulated losses	
4	-	Shortfall in provisions	
5	=	Net worth	

viii) **Free Reserves** :- Except the funds mentioned above in A, B, C, the other funds are required to be explained. Free reserves are those reserves which are created from the distribution of net profit, having no charge on them. It is explained in rule as 'which is not marked specifically for any liability'. The auditor shall keep in mind while calculating the net worth, free reserves shall comply with two conditions :- one, that it shall be appropriated from the net profit, and another, it shall not be created against any liability. Hence, the funds created for member welfare fund, employees welfare fund or such funds shall not form part of Net worth. Also funds created from debiting profit and loss account such as Bad and doubtful fund, investment fluctuation fund, Investment amortisation fund and as such will not form part of calculation of the Net worth.

ix) **Net worth by NABARD/ RBI** :- For District Central Cooperative Banks, State Cooperative Banks, and Urban cooperative Banks, the inspectors of RBI/NABARD calculate net worth according to the provisions of the Banking Regulation Act 1948, as explained elsewhere.

x) **Another method of calculation of net worth** :- The net worth is a concept wherein as on a specific date, after the assets are realised at their realisable value, after paying all the liabilities, the amount of balance is Net Worth.It can be calculated as given in the following table.

Sr.. No	+ or -	Particulars of funds and capital	Amount in Rs.
1	+	Liquid Assets (Comprising of cash, bank balances, and investments for less than 1 year's duration) - losses not provided for on these assets	
2	+	Current Assets (Comprising of stocks in trade, vehicles, and assets which are of current assets nature) - losses not provided for on these assets	
3	+	Fixed assets (Comprising of building, sheds, godowns, Plant and machinery, etc. Fixed in earth) - losses not provided for on these assets	
4		Total of All Assets	
5	+ or -	All receivables – All payables	
6		Net of Assets (Net Worth) (4-5)	

16.8. ***Admission of new members :- Points to be noted :-*** While checking applications for membership, compliance by the prospective members of the requirements of the relevant provisions of the Act, Rules and Byelaws of the society will also have to be seen. Some of them are mentioned below:

1) Declaration in form '**K'** to be furnished by applicants for admission to membership of a credit society, who are members of more than one credit society specifying the society from which alone they would borrow.

2) Declaration under section 48 to be furnished by members of agricultural credit, multipurpose and service societies, creating charge on agricultural lands held by them, or their interest in the lands cultivated by them in form '**M'**

3) Undertaking under Section 49 to be furnished by members of salary earners' societies, authorising their employees to deduct from their salaries or wages, dues of the society as communicated by the society.

4) Undertaking to be furnished by members of cooperative farming societies authorising the society to borrow on moneys on the security of lands pooled by them.

5) Undertakings furnished by members of co-operative sugar factories, spinning mills, ginning and pressing factories, oil mills, rice mills and other processing societies to deliver to the society their entire sugarcane, cotton, groundnut, etc. grown by them.

6) Declarations furnished by members of housing societies regarding buildings plots, houses, or tenements already owned by them.

7) Compliance of the provisions of the Byelaws regarding purchase of shares in proportion to acreage under specified crops held, loans borrowed, cost of tenements to be constructed, etc. will also have to be seen.

16.9. ***Receipt of Government share capital, loan and subsidy :-*** Receipt of Government share capital- this has been dealt with separately elsewhere.

As regards receipt of Government loan and subsidy, copy of the order sanctioning the loan or subsidy should be inspected, and it should be seen that the ***terms and conditions*** subject to which the loan/subsidy has been sanctioned are duly complied with. The auditor, during the course of his audit, should watch over the proper utilization of the loan and / or subsidy and point out in his report non-compliance of any of the conditions. Joint Registrar, District Deputy Registrars and other officers

sanctioning loans and subsidies are directed by the Registrar to forward to the auditor concerned a copy of their order sanctioning loan and / or subsidy. (Registrar's circular NO. ADM-6/20-ADT, dated 10.8.69). Where loans and subsidies are sanctioned by other Departments of Government (Industries Department, Fisheries Department, Social Welfare Department, etc.) Or by the Central Government or other authorities (NCDC), Maharashtra Small Industries Development Corporation, Finance Corporation etc. The Divisional Joint Registrar or the District Deputy Registrar, to whom a copy of the order sanctioning the loan or subsidy is addressed, should invariably supply a copy of the order to the auditor concerned to enable him to note compliance of the conditions of the loan or subsidy. Even though the auditor receives no copy, he should ascertain the terms and conditions from the copy of the order received by the society and point out non-compliance of any of the conditions, if noticed by him.

Institutions acquiring permanent and semi - permanent assets wholly or mainly out of grant- in-aid received from the state or central government, are required to maintain a register of such assets in the form prescribed by Govt. They are also required to furnish an undertaking to the sanctioning authority not to dispose of, encumber or utilise for other purpose such assets without prior concurrence of Government. Auditors during the course of their audit should verify the proper maintenance of the prescribed register and also see that the condition laid down are adhered to by the grantee institutions.

16.10. ***Accounting of subsidies granted by Government*** **:-** Subsidies granted by Government towards capital cost of the scheme should invariably be taken to the Reserve Fund of society. Subsidies received towards secretarial cost or other management expenses may be taken to profits except cases where specific instructions are to be given for its treatment. Where any conditions have been laid down or special instructions are have been issued by the Registrar for the utilisation of Government assistance, it should be seen that these condition or instructions complied with.

In case of co-operative consumer societies, special instructions have been issued for the accountings of subsidies vide circular No. E/cons/FA/ACT dated 29 -1- 72. The circular lays down that if there are adequate profits to enable the society to declare the dividend, the amount of subsidy received should be directly credited to Reserve Fund and is not available for distribution as dividend.

Subsidies granted by Govt towards capital cost of a scheme, should invariably be taken to the Reserve Fund of society.

All societies receiving grants -in-aid required to furnish an undertaking agreeing to abide by the conditions attached to the grant-in-aid. The grantee institutions are also required to maintain a register, in the proforma, prescribed by Govt., of permanent or semi-permanent assets acquired wholly or mainly out of Govt grants and not to dispose of, encumber, or utilise them for other purpose without prior concurrence of Govt.

In case of certain type of institutions like fishery societies, dairy societies and other societies, which receive loan or subsidy under special scheme of development of these societies and providing them financial assistance, the orders of Government sanctioning the loan or subsidy contain specific instructions as regards treatment in accounts of subsidies granted to them. The provisions of these orders should be carefully studied by the auditors and their compliance noted.

16.11. ***Indian Accounting Standard for Government Grants*** **:-** The Institute of Chartered Accounts of India has issued an accounting standard ***AS 12*** on accounting of the Government grants which is described below -:

1) Government grants should be included in accounts on or after receipt of them and no accrual basis should be adopted.

2) Government grants received for acquiring specific purpose should be treated in the following manner -:

a. The grants may be shown in the balance sheet as a deduction from the gross value of the relevant fixed asset (It may be noted that this method is also in conformity with the provisions of the Income Tax Act 1961)

b. Secondly, the original total cost and the related depreciation may be left undisturbed and the grant treated as deferred income which should be recognised in the profit and loss statement by allocating the income over the periods and in proportions in which depreciation on the asset concerned is charge. If however, the grant relates to non-depreciable asset, it should be credited to capital reserve under this method except where the grant is relating to non-depreciable asset, it should require the fulfilment of certain obligations. In the latter case, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income balance should be disclosed separately in the balance sheet.

3) Sometimes, a grant or subsidy is given as a compensation for the extra costs associated with the operations on a systematic basis in the profit and loss statement over periods necessary to match them with the related costs, which they are intended. Such grants should either be shown separately under "other income" or deducted in reporting the related expense.

4) Sometimes, government grants have the characteristics similar to those of promoters' contribution. For example, grants may be given with reference to the total investment in an undertaking or by way of contribution toward its total capital outlay (as in the case of Central Investment subsidy scheme). Such grants should be credited to capital reserve and treated as part of shareholders' fund.

5) Government grants in the form of non-monetary assets, given at a concessional rate, should be accounted for on the basis of their acquisition cost. In case a non-monetary, asset is given free of cost, it should be recorded at a nominal value.

6) Government grants that are receivable as compensation for expenses or losses incurred in a previous accounting period or for the purpose of giving immediate financial support to the enterprise with no further related costs, should be recognised in the profit and loss statement of the period in which they are receivable and disclosed as an extraordinary item, if appropriate.

7) In case Government grants become refundable, the resultant debit should first be adjusted with reference to the relevant item in the balance sheet, e.g., in the case of a refund of a grants in the nature of the promoters' contribution, the refund should be set off against the capital reserve. The balance, which cannot be so adjusted, should be charged to the profit and loss account.

8) The following should be disclosed -:

a. The accounting policy adopted for government grants, including the method of presentation in the financial statement.

b. The nature and extent of government grants recognised in the financial statement, including grants of non-monetary asset given at a concessional rate or free of cost.

16.12. ***Related provisions of Co-operative Societies Act related to Government grants:*** Section 62 describes various aids given to co-operative societies, such as:

1) loans.

2) Guarantee for payment of principal of debentures issued by the society.

3) Guarantee for repayment of loans given by a bank to the society.

4) Guarantee for repayment of principal and interest for loans and advances given by the RBI / NABARD /IFCI or other financial Institute.

5) Financial assistance, in other forms (including subsidies).

State partnership with societies in share capital is covered under section 51 to 60 of the Act which is described elsewhere.

The major kinds of subsidies provided by the department are managerial subsidy for tribal vivid karykari societies, which is compensation for their expenses for management. Loans are sanctioned

with some subsidy to various types of societies, for construction of godowns, storages facility, and for other purposes.

Auditors should observe the terms and conditions of sanction order, and whether accordingly the accounting policy has been opted for by the society or not.

16.13. ***Deposits :-*** For fixed and call deposits, printed receipts from counter-foil receipt books specifying the terms and conditions of the deposits such as rate of interest, period, due date etc., are issued to depositors. Counter- foils of the receipts and retained in the receipt book should be compared with the entries in the cashbook and the Fixed Deposits Register.

In Co-operative Banks and societies accepting saving deposits, pay- in -slips or chalans, as they are called, which are filled in by the remitters, would be available for amounts credited to their respective accounts. The Reserve Bank of India has issued various guidelines for accepting the deposits, their repayment, opening of accounts, their renewal, premature repayment, are described in another chapter in this manual later.

16.14. ***Receipts of loans from central banks and other financing agency*** **:—** Receipts of bank loans will be checked with the advice of the bank and correspondence with the bank regarding sanction of the loan and entry in passbook crediting the proceeds of loans. Duplicate copy of loan bond or agreement and promissory note, copies of the application for loan, and resolution of the committee on the record of the society should also be seen. The auditor should verify the terms and conditions laid down by the central financing agency for repayment of loan, rate of interest, verification of assets created from the loan, insurance required to be taken, mortgage of property deeds and other relevant records.

16.15. ***Repayment of loans by members*** **:-** For acknowledging repayment of loans (principal / interest and other expenses) made by member, printed receipt from the official receipt book are generally issued. Entries in the cashbook should be checked with the carbon copies of the receipts contained in the receipt book. Passbooks are also issued to borrowers. During the course of audit, a certain number of pass books should be called and compared with the account in the ledger

16.16. ***Special Receipts:Sale proceeds of Government securities and other investments*** **:-** Since purchases and sales of Government securities and other investments are made through broker or bank, broker' "sold notes" or "bankers memoranda" would be available for checking the correctness of the amounts received. The Reserve Bank of India has issued detailed instructions regarding sale purchases of Government Securities in its circulars: the details of these circulars are given in Urban Banks and DCC Banks section of this manual. Auditors are required to study these circulars carefully and verify the securities transactions, their valuation method, auditing procedure and their reporting method, CSGL/SGL accounts, limitations with business through brokers, etc. It will have to be seen that necessary adjustments are made for interest and premium amounts included in sale and purchase transactions and verified accordingly. The Reserve Bank of India issues master circular on 1st July of every year regarding different aspects of banking business. The auditor should see that the banks have complied with such circulars. These master circulars are available on Reserve Bank of India's website viz.,www.rbi.org.in

16.17. ***Capital Receipts***: ***Sale of immovable property and other fixed assets :-*** Resolution of the committee / Board will have to be seen for agreement of the sale. If sales were made by private negotiations, the agreement for the sale and the sale deed and other correspondence would be available for ascertaining the price realised. If sold by public auction, the auctioneer's report would be available. Where fixed assets are disposed of, it is the duty of the auditor to see by reference to the sale agreement and other correspondence that the prices realised are reasonable. It has also to be noted that no officer of the society can have any interest directly or indirectly in any property sold or purchased by the society. (Indian Accounting Standard ***AS 10***)

16.18. *Disposal of fixed assets* :- Sales or scrapping of fixed assets should be authorised by the committee or by a responsible officer. Where fixed assets are sold or scrapped, the value of which is shown in the books should be alienated from balance sheet. Where a register of fixed assets is maintained, the accumulated depreciation pertaining to the items disposed of, should be ascertained and written off against the original cost of the items and the remaining net book value, if any, should be charged against the proceeds of the sale. If the sale proceeds received are in excess of the net book value of the assets shown in the balance sheet, the surplus should not be taken to the profit and loss account, but, should be credited to a **"special capital reserve "** or similar other fund. Any deficit remaining after adjusting the sale proceeds against the net book valued should be written off against the profit and loss account. (Indian Accounting Standard ***AS 10***) The profits or losses incurred on disposal of the fixed assets should be clearly disclosed in the accounts. Where fixed assets are disposed of, it is the duty of the auditor to see by a reference to the sale agreement and other correspondence that the prices realised are reasonable. This should be particularly seen when fixed assets are sold to parties who occupy a *fiduciary position* as regards the society. Thus, for example, where a motorcar is sold to a relative or friend of a director or an employee of the society and the price realized is below the market rate, further investigation is called for.

16.19. *Replacement of Machinery* :- In processing societies like Sugar Factories, and Spinning mills, the machinery is partly replaced. While recording the transactions of purchase, the auditor should verify that the machinery replaced is properly capitalised and the replaced machinery with its scrap value is properly charged to the fixed assets account and deleted from the balance sheet and recorded in the machinery register. (Indian Accounting Standard ***AS 10***)

16.20. *Income received- Cash sales* :- Cash memos, showing particulars of goods sold such as quantity rate, etc., and amounts received would be available for checking cash sales entered in the Daily Sales Register. The procedure for checking cash sales has been discussed elsewhere.

16.21. *Interest Received on loans and advances:* Interest received on loans and advances to members will be checked from the printed receipts issued to them. Interest calculation will have to be checked while checking posting into the loan ledger. The quantum of checking will be according to instruction issued by the Department in this behalf.

16.22. *Interest received* :- Interest received in amounts deposited with bank will be checked from the entries in the passbook. As regards interest on fixed deposits with bank and other investment, since the rates can be ascertained from the deposit receipts and the securities, the amount of interest received can be verified by checking the calculations on the amounts of the deposits or the nominal value of the securities. In case of dividend on shares, the counterfoils of the dividend on warrants will have to be seen. Where the number of investments is large, it will be convenient to have a separate investment Register, or ledger. At the top of each account, a full description of the investment should be given together with the date or dates on which the interest or dividend falls due.

16.23. *Rents received from properties* :- Agreements executed by tenants should be seen. It should be seen that all rent received has been duly brought into account and received. Enquiries should be made into arrears and action taken for recovery should be ascertained. Housing societies, Industrial estates and other societies, which hold large properties, should maintain a *"property Register"* prescribed in the form X-1 under Rule 65. It is also necessary to maintain a register showing full particulars of the tenement, names of tenants to whom they have been let out and the monthly rent, compensation, service charges and other charges recoverable from them. The registrar has prescribed various rates and issued instructions regards service charges to be charged and recovered in respect of housing societies, auditor are required to study these circulars and verify accordingly. Non-occupancy charges on service charges are fixed by the Government by its No. Co-operation and Textile / sagruyo/ 1094/ 15165/ pra kra/ 317 14-C dated 1.8.2001. A "Demand Register" showing current demand and arrears of previous month, amounts collected and balance due should also be maintained. Receipts issued to

the tenants should be traced to the Rent Register. Enquiries should be made into arrears outstanding for a long time and action taken for recovery ascertained. Similarly, where properties or tenements are shown as assets, enquiries should be made as to why and how long they have been vacant.

16.24. ***Hire charges of trucks, tractors and other vehicles and machines:*** - Societies which own trucks, tractors and other costly machinery and equipment are required to maintain log books for each transport vehicle or other machinery owned by them showing particulars of the journeys performed, works or jobs executed or other services rendered. Where these are hired out to member, applications should be obtained from the hirers regarding the nature of service required or job to be executed, period for which the transport vehicle or other equipment would be required, etc. Rates of hire charges should be fixed by the committee. A hire register is required to be maintained and printed receipts are required to be issued for hire charges received. Where the number of such vehicles or machinery is large, daily reports should be obtained from the officer-in-charge.

16.25. ***Miscellaneous Receipts :-*** Occasional receipts such as sale proceeds of fixed assets, scraps, unused stores and spare parts, discarded material, waste papers, etc., and also receipts from insurance companies and from railways in respect of claims, should be vouched from the receipts issued, correspondence, minutes and relevant documents.

———

CHAPTER No. 17

VOUCHING PAYMENTS

17.1. ***General considerations*** **:-** It is the duty of the auditor to see that *all payments made are* ***genuine, correct, duly authorised and properly payable*** *out of the funds of the society.* In order to satisfy himself on these points, he has to examine the entry in the cashbook and compare it with whatever documentary evidence is available in support of the payment made. The most important document is the voucher, which not only contains the acknowledgement of the payee receiving the amount, but also other evidence which should satisfy the auditor about the ***regularity, correctness and propriety*** of the payment made. Since most of the frauds perpetrated in cooperative societies are connected with cash and commonest method adopted by the culprit to conceal the fraud or misappropriation committed by him is to keep on record a bogus or fabricated document as voucher, this part of routine checking viz. vouching debit side of the cashbook has to be done very carefully.

In addition to the regular voucher containing acknowledgement of the payee, the auditor will have to examine a number of other document, minutes, notes, memoranda, correspondence etc., which are known as supporting documents. It has to be noted that for checking different types of payments, different types of document, such as official receipts issued by the payee, acquittance on payrolls or payment registers, debit slips, receipted chalans, counterfoils of pay-in-slips, debit notes, advices etc., would be available. It is, therefore, necessary that the auditor before commencing vouching familiarises himself with the nature of the supporting evidence that would be available to him and the type of document that he will have to examine which, as we know, would be different according to the nature of the transaction and the practice followed by the business.

17.2. ***Control over payments*** **:-** Payment by cheque -:All payments other than those made out of petty cash should have been made by cheques. Where no petty cash is maintained separately, a maximum limit for payment in cash should be fixed. Byelaws of some of the societies specify that all payments in excess of a specific amount should be made by cheques. Where there is no provision in the Byelaws, the auditor should insist that the management should pass a resolution prescribing a limit for payments to be made in cash. Where large payments are made in cash, reasons for it should be ascertained. It has to be noted in this connection that Rule 107 D of the MSC Rules lays down that all payments should be made by cheque as per provisions of the Income Tax Act 1961. The Income Tax Act also provides the limit of Rs. 20,000/- for cash payment, laying some exceptions. The auditor should study this provision carefully.

Cheques should only be drawn against properly authenticated documents, which should be presented to the officers who are authorised to sign them along with the cheques. These supporting documents may be invoices, payrolls, bills, etc., duly checked and passed for payment or reimbursement of petty cash or may consist of other evidence such as requisition for issue of cheques, a remittance, advices, etc., which contain necessary evidence that, the payments are to be made in respect of transactions which have been checked with the relevant documents and the payment duly sanctioned.

In case of very large societies, which have set up a separate "Accounts Department", officer, who are authorised to sign cheques, should be different from those who have approved the voucher for payment. The clerk who prepares cheques should not have taken part in the approval of the voucher.

Before signing the cheques, the officers signing the cheques should see by reference to the supporting documents that the cheques are made out in the name of correct payee. All cheques should be crossed *" Accounts Payee", " Not negotiable".* Under no circumstance, should ***bearer cheques*** be issued. Banks generally supply chequebooks, containing cheques with printed crossing when demanded. Where the cheques is required to be signed by two officers, signature of one of the signatories, mostly honorary office bears, viz. Chairman, Treasurer or other committee member, is obtained in advance on a number of blank cheques under the plea that he may not be available when urgent payments are to be

made. This practice is fraught with danger and the auditor should bring this pointedly to the notice of the Committee. When two or more cheques books are simultaneously in use, their issue should be properly controlled and all numbers should be accounted for. This is ensured by maintaining a **"Cheque Issue Register"** in which all cheques are entered before they are put up for signature. All supporting documents, accompanying the cheques should be cancelled either at the time of signing or after issue of the cheques. This may be done by means of a special **"Paid"** rubber stamp which should also have a provision for entering the date of payment and the cheque number.

As for as possible, payments should be made in full and promptly so as to avail of the cash discounts admissible. Where part payments or payments on accounts have been made, enquiries should be made as to why payments are not made in full. It should be noted that part payment on account affords opportunities for errors and frauds. The auditor should note that, cheques above Rs. 50000/- are required to contain PAN of concerned recipient of the cheque, by way of crossed or transfer by NFTS, RTGS system of payment through banks.

17.3. ***Nature of documentary evidence available :-*** In vouching payments, acknowledgments of the payees and other documents containing evidence of payment will be available. However, in order to be satisfied about the priority, authenticity and correctness of the payment made, a number of supporting documents like bill, invoices, statements of accounts, etc., and also entries in other books and registers and minutes, correspondence and other papers will also have to be seen. Thus, although the official receipt issued by the payee would be sufficient evidence of the genuineness of the payment made; still, in order to ascertain the propriety and correctness of the amounts paid, the transactions will have to be traced back to its source. Thus, in the case of payment for purchases, it will be necessary to commence from the issue of purchase order, issued to the supplier. In the course of such an examination, which is known among the professional auditors as ***" examination in depth",*** a whole series of document, such delivery chalans, goods inward notes, inspection reports, suppliers' invoices, goods returned notes, statement of accounts, credit notes, etc., will have to be carefully examined in an orderly sequence. This process of " auditing in depth" will have to carried out in respect of as many transactions as possible.

17.4. ***Checking payments -points to be noted :-*** 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 manures is not expected to buy jewellery or cloth.

(ii) Known as ***official receipts, printed receipts bearing the name of 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 authorised officers***of the society. This may be done by them either signing the original vouchers or preparing home vouchers, which should have an approval column. 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 authorising the person to receive the payment on his behalf***should have been obtained.

(v) When payment has been made to a person in his official capacity, it should be seen that ***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 known to the auditor, it should have been translated into English or the 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.5,000/-, the voucher should have been duly stamped.

(viii) Where ***large amounts*** are paid in cash, ***payment should be witnessed*** **and the** ***payee properly identified.***

(ix) Vouchers should have been 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 society. All usual discounts *and* ***special discount*** agreed upon should have been deducted.

(x) 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 voucher should be ***initialled*** by the auditor in a prominent place, preferably in the middle.

17.5. ***Sanction for payments***: It is necessary that all payments should have been regularly ***sanctioned by the committees*** **or an** ***officer properly authorised*** to do so, such as Secretary, Manager, Managing Director, etc. Where the Secretary, Manager or other officer has been authorised to sanction payments, it should be seen that the ***extent of the 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 authorised 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 of 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 extra ordinary expenses and expenses which are not incidental to the business of the concern or connected with any of its activities, should have been ***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 authorised to incur the expenditure or disburse amount upto a specified limit, all expenditure incurred by him and all disbursements made by him should be placed before the committee or Board periodically and its approval should be obtained.

17.6. ***Petty Cashbook: Control over petty cash: -*** For recording small payments made in cash, it is convenient to maintain a petty cashbook. Only payments upto a specified limit should be made from petty cash and all payments exceeding the amount should be made by cheque.

Petty cash should be kept ***on the imprest system*** and the ***fixed float with the petty cashier***should normally cover his payments for a ***period of a fortnight or one month.*** The petty cashbook along with the vouchers should be produced to the officers authorised to issue cheques for reimbursement by way of a fresh cheque. He should sign the petty cashbook as evidence of having checked and approved the payments made. This arrangement provides an automatic and regular scrutiny of the petty cash expenses every time a reimbursement check is signed. It will also render difficult any manipulation of accounts or entering of fictitious or double payment by the petty cashier.

For all payments made from petty cash, proper vouchers should be obtained. These should be duly cancelled at the time of reimbursement of petty cash so as to prevent their further production in support of a fictitious payment. All vouchers should be serially numbers at the time they are recorded in the petty cashbook. All supporting documents such as bill, sub-voucher, cash memos, etc., should have been attached to the debit slip or home voucher.

The petty cash balance should be kept as low as possible. I owe you (I.O.U.) or unauthorised petty advances with or without vouchers should not be made from petty cash. The petty cashbook should be regularly examined and surprise verification of the cash balance made by a senior officer at frequent but regular intervals. The only receipts entered in the petty cashbook should be proceeds of cheques cashed for petty cash purposes. The method applied as already stated for reimbursement should be that of the imprest system, with the***amount of the float being specified by a resolution of the committee.*** Where employees are allowed to cash cheques, limits upto which cheques can be cashed by them should be laid down.

17.7. ***Method of checking petty cashbook*** **:-**

(1) Cheques from the cashbook to the petty cashbook should be checked and it should be verified that all cheques drawn for petty cash have been entered in the petty cashbook.

(2) Payment voucher should be checked and ***list prepared of all missing vouchers***. All petty cash payments should have been *properly authorised,*

(3) ***Totals and cross totals*** of the petty cashbook should be checked. Totals of the different columns should be called over into the main cashbook. It should be seen that proper double entry system is being operated with an imprest as the balance.

(4) Where no contra entries are passed in the main cashbook (or the daybook) postings into the general ledger should be seen.

17.8. ***Payment of advances*** **:-** Advances are required to be made to the members of the staff and officers of the society for various purposes, such as for making purchases or payments to be made to creditors, for meeting expenses connected with purchases and also for meeting their personal expenses such as travelling expenses, conveyance charges, etc. Many times, advance payments have to be made or deposits kept for purchases or for services to be rendered. Advances are also required to be made against works to be executed or supplies to be made etc. There can be no objection for payment of such advances provided the***purpose is genuine, and payment of advances is necessary in the normal course of business***of the society. The reasons for the payments of advances or the ***purpose, for which the advance has been paid, should have been specifically mentioned in the body of the voucher and the advances should have been adjusted within a reasonable time.*** Thus, if advances are taken for making purchases or for meeting travelling and other expenses they should be cleared as soon as the officer returns to headquarters. Where advances have been made against supplies to be received or services to be rendered or against running bill, these should have been adjusted in the invoices or final bills. However, where ***advances have been given for no specific purpose or consideration, they should be objected to,even if such advances have been subsequently credited back in cashafter some time, as 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 unauthorised 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 a long time, the reasons for not recovering the advances or adjusting them should be ascertained.

17.9. ***Anamat or Tasalmat*** **:-** In some societies, the advances are paid in the name of "***Anamat" or "Tasalmat."***The auditor should check these *anamats* as stated in the above said paragraphs.

In some societies the anamats are credited for fictitious payments made, as there is no cash balance in cashbook to pay the expenses, which are in the nature of fictitious. Such entries are required to be checked by the auditor very carefully.

17.10. ***Procedure for checking payment voucher*** **:-** While examining the documentary evidence in support of a transaction, the auditor should satisfy himself that the system of internal control in the business provides for such evidence to be properly checked before presenting it to the official approving the transaction. The transaction should have been properly authorised in accordance with the system of internal control. Thus, for example purchases should have been made against orders for supply of goods signed by a responsible officer. The terms of the transaction should also be *prima facie* reasonable. For example purchase or sale of a motorcar at a figure well above or below the market price should put the auditor on further inquiry.

While examining ***documentary evidence*** in support of a transaction,particulars entered in the cashbook and those mentioned in the body of the voucher or other document it should be seen that they tally in respect of the following: -

(i) Date of payment.

(ii) Name of the payee.

(iii) 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.

(iv) Supporting documents like invoices, statements of accounts, cash memos, bill for expenses, service charges, etc., should have been attached to the voucher or reference to such document made therein.

(v) Amount paid should have been mentioned in both in figures and words.

(vi) Head of the account to which debited. If the amount paid has been debited under different heads of account, an analysis should have been prepared. This should be checked by the auditor and the total agreed.

(vii) 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 or postal order, National Electronic Funds Transfer System (NEFTS), Real Time Gross Settlement System (RTGS), money order or insured post, or whether the payee's account with the society has been credited and a credit note issued in his favour.

Besides comparing the particulars entered in the cashbook and those mentioned in the voucher, the following additional points will have to be examined.

(a) Signature or thumb impression of the payee or the person authorised to receive payment on his behalf and the letter of authority of the payee.

(b) Whether the voucher is duly stamped in cases of where the amount exceeds Rs. 5000/- and is free from other defects such as want of authority to receive payment, want of sanction, irregular payment etc.

(c) Whether the voucher has been properly checked and payments authorised by a competent authority.

17.11. ***Notes to be taken of usual and irregular items*** **:-** While checking voucher, ***careful notes should be taken of all unusual items or items requiring further clarification or explanation*** and also of items which call for additional 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 required 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 obtainregular 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 or *"home voucher"* have been kept on record without the payment having been actually acknowledged 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 case, payee's acknowledgements should be obtained. There are instances leading to *creating of bogus liabilities, by making adjusting entries in book of accounts and then after paying it in cash, which result in misappropriation of the funds of the society*. Hence, the auditors will have to verify more entries without supporting vouchers, and take note accordingly; also call explanations and supporting documents to avoid misappropriations and verification of genuineness and correctness of the transactions.

17.12. ***Vouching different types of payment*** **:-** The more important types of payments that are ordinarily met with-in cooperatives are discussed below: -

a) Refund of shares **:-** Refund of shares has to be made as provided for in the Byelaws of the society. It has to be seen that the conditions prescribed in sub-section (3) of Section 29 of the MSC Act and Byelaws of the society have been duly fulfilled. Where shares are to be refunded, the share certificates issued to the member should be called back, duly cancelled and attached to the voucher itself or kept in a separate file, unless it is intended to reissue the shares or transfer them to other allottees. Resignations submitted by the member and resolutions of the committee accepting the resignation and sanctioning refund of the share capital should be seen. Remarks about the cancellation of the share certificates should also be made on the counterfoils and also in the share register and the members' register *(Section 25 A of M.S.C. ACT)*.

In case of the societies whose value of share is less than the face value, the auditors should check that the value refunded accords with the value assessed by the auditor in the last audit report. The method of valuation of share should be based on the net realisable assets of the society, as explained earlier in this manual.

b) Refund of fixed deposit **:-** The original fixed deposit receipts should have been called back and got discharged. In cases where no separate receipts are issued for fixed deposits, the original receipts issued for the deposits should be called back and a separate voucher obtained from the depositor for refund of the amount of the deposit and payment of interest thereon. The original deposit receipt called back from the depositor *duly cancelled* should be kept attached to the voucher. The RBI has issued detailed guidelines in its various circulars regarding care to taken while refunding fixed deposits which is explained elsewhere in this manual. Auditors must study them.

17.13. ***Payments of savings deposits*** **:-** Although under the provisions of the Byelaws of agricultural credit societies, these societies are permitted to accept saving deposits from members, very few societies have been conducting deposit business. As regards other types of societies, they cannot accept such deposits in view of the provisions of the Banking Regulation Act, 1949 (AACS). Withdrawal forms should be supplied to the depositor and his signature obtained thereon in the presence of the Chairman or a member of committee. If this is not feasible, the payment made should be got attested by an independent witness. The urban banks and district central banks are governed by Banking Regulation Act, 1949 (AACS), and they have to frame rules for saving deposits and transact business accordingly. Auditors should study the rules framed by the bank, and guidelines issued by the RBI while checking deposits. ***It should be remembered that Urban credit and Rural credit societies are collecting deposits, as provided in their Byelaws, from their members only. They are prohibited to collect deposits from the non members and general public.As per circular no.CCR-1108/P.K./647/7-C Dated 17/10/2008 issued by the Government.***

17.14. ***Payment of interest on deposits and loans*** **:-** The deposit receipt itself generally contains provision for recording payment of interest on the deposit and also for obtaining acknowledgement of the depositor. If interest is paid separately, regular voucher mentioning full particulars of the deposits, interest accrued, period in respect of which interest is paid etc., should have been obtained from the depositor. Interest on saving bank account would generally be credited to the account of the depositor and added to the deposit. As such, no separate voucher would be necessary. Amount of interest paid should be checked with particulars furnished in the deposit ledger.

As regards interest paid on other borrowings, interest on bank loan or cash credit would normally be debited to the account of the society half yearly on 30th September and 31st March. When the loan or cash credit is fully repaid, interest *upto the date of closing of the loan or cash credit account* will be debited and the entire balance including interest charged would be recovered. Advices regarding debiting of interest and other charges, such as godown rent, insurance charges etc., would be generally sent by the bank. These advices and entries in the Bank Pass Book should be seen.

17.15. ***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 the rate at which bonus or rebate is paid and total amount of rebate or bonus earned 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.

17.16. ***Refund of suspense amounts*** **:-** Refund of amounts credited to suspense or to **"sundry creditors account"** should be supported by regular vouchers specifying and the particulars the amount of deposits refunded or paid. Where official receipts have been issued, the original receipts issued to the parties should be called back, cancelled and attached to the voucher itself. In lieu of separate vouchers, the original receipts obtained back duly discharged would also serve as voucher. Where these amounts are adjusted, contra entry should be seen. It should be confirmed that the amount has been credited to the proper head of account.

17.17. ***Repayment of bank loan, cash credit and overdraft*** **:-** Repayment of bank loan would be checked with counterfoils of paying -in-slips receipts issued by the bank which would also show separately the amounts credited to principal and interest account. Entries in the passbook should 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. 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 pass book or the statement of account.

17.18. ***Management expenses:-Payment of sitting fees and travelling expenses to members of the committee*** **:-** Members of the committee and other office-bearers of cooperative are honorary workers and their services have for long been gratuitous. However, there is a growing tendency to pay on a liberal scale, allowances and fees particularly in the larger societies. Section 160 A and B have been incorporated in the MCS Act and in the rule number 107 A, wherein, the rates are fixed for travelling allowance and sitting fees by the Government by notifications issued in this respect from time to time. The rule provides that, ***'no member of a committee of any society, class of societies shall be entitled to receive from the society travelling allowance, daily allowance and sitting fees, which are paid to the members for attending meeting of its committees, or for performing any other function as such members are entrusted withby the society, at the rates higher than the rates notified by the government from time to time, and all societies or the societies concerned, as the case may be, shall be bound to comply with such rates.'*** Auditors are required to study these provisions, and verify the payments are made accordingly.

Since fees to the committee members are payable for attending a meeting, it is necessary that Director's attendance book showing attendance of directors at each meeting should be maintained. The fees and travelling expenses paid to the directors should be checked from this book. Regular bills showing particulars of journeys performed and expenses claimed should have been obtained in support of travelling expenses paid. Attendance of each member should be verified from the attendance Book.

17.19. ***Payment of Conveyance charges*** **:-** A number of co-operative societies now maintain motorcars and jeeps. It should be seen that when the vehicles belonging to the society are used, no conveyance charges are paid either to the committee members or members of the staff for whose use the vehicles have been purchased.

17.20. ***Travelling Expenses of staff*** **:-** Rules should be framed regulating payment to staff of travelling expenses, daily allowance and other charges and allowances. Where advances have been paid for meeting these expenses, it should be seen that travelling allowance bills are obtained promptly and the advances recovered or adjusted. Enquiries should be made into outstanding debit balances.

17.21. ***Expenses over maintenance of vehicles*** **:-** "Where motor cars or jeeps have been purchased from out of the funds of the society, it should be seen whether the investment is proper and necessary rules should be framed regarding use of the vehicles .A log book should be maintained for each vehicle and times of departure and arrival of the vehicle noted therein . For each journey, duty slip should be issued to the driver of vehicle and signatures of the committee members or member of the staff , who has travelled , should be obtained on the log book or the duty slip The rules framed should also provide recovery of charges for private use of the vehicles. It should be seen that all journeys not on the business of the society are charged and the charges recovered from the persons making use of the vehicles. The specific purpose of the journey should invariably be noted in the logbook. It is not sufficient to mention merely ***"official purpose", " office work"*** , or some such vague expression. Details of office work should be specified.

Separate accounts should be maintained for each vehicle for recording expenses over its maintenance and repairs. The total expenditure incurred should not exceed the provisions made in the annual budget. Monthly statements of expenditure incurred over petrol, repairs, renewals, etc. should be submitted to the committee or Board and its approval obtained.

A register of unserviceable parts like tyres , tubes, etc. Returned when they are replaced by new ones, should be maintained. It should be seen that sale proceeds of unserviceable parts and other scrap are duly credited.

For control over vehicle expenses and its verification, the auditor should suggest conservative measures to the society. For obtaining information on vehicles, various forms should be prepared and got filled by the society.

17.22. ***Expenses over maintenance of guest house:***- A number of cooperative societies particularly sugar factories, spinning mills and other large marketing, processing and industrial societies and also some of the central and urban banks maintain guest houses primarily for the convenience of their directors and distinguished visitors, who visit the institutions. Many times, directors of the institutions, senior members of the staff and their relatives and friends are also permitted to make use of the guest houses. It should be seen that rules governing use of the guest houses have been framed and charges recovered from such of the persons who cannot be considered as guests of the society. A register showing names of visitors, dates of their visit, times of arrival and departure and charges recovered from them if any should be maintained. It should be seen that the expenditure incurred over the maintenance of the guest houses is not excessive and does not exceed the budget provisions made under this head.

17.23. ***Payment of Honorarium:***- Payment of honorarium or allowances to the chairman or honorary Managing Director is governed by provisions contained in Section 65(2) of the MCS Act and **can be paid only out of profits by way of appropriation of the net profits by the general meeting**

and cannot be charged to the profit and loss account. There should also be a specific provision in the Byelaws permitting payment of such allowance or honorarium and also the scales of their payment. These are to be fixed by the general meetings specific resolution of the general body should have been passed.

17.24. ***Payment of salaries*** **:-** Co-operative Banks, marketing societies and other institutions, which employ a large salaried staff, should have evolved a scientific system of internal control over recruitment, promotions, transfer, retirement, dismissals, etc., of the salaried staff. In the case of new employees regular orders should be issued stating the salary, the scales of pay and other allowances admissible, and the category in which the employee is to be engaged.

In case of staff, which has been in continuous service, authorisation for drawing increased salary, payment of periodical increments earned or the promotion to a higher grade, should be seen. Total payments of salary paid during a month should be compared with the amount paid in the preceding months. Reasons for any increase or decrease in the total amount disbursed should be enquired into.

Acknowledgements of all employees should have been obtained on the salary book itself. All deductions made should have been credited to the respective accounts.

Deductions made from salaries should have been properly authorised. Deductions made on account of provident fund, income-tax, dues of employees' societies and other amounts payable to outside parties like Provident Fund Commissioner, Co-operative society, canteen, etc., should be paid over promptly. It should be seen that various registers and service records are kept regarding leave, increments, punishments given etc.

17.25. ***Payment of donations and charities*** **:-** It should be seen that provisions of Section 69 of Maharashtra Co-operative Societies Act are being scrupulously observed. It should be noted that no donations or contributions for any charitable purpose can be made ***except from out of the Charity fund*** created for the purpose. All payments made should have been duly approved by the Maharashtra State Co-operative Union , which has been declared Federal society for purposes of this Section.**The tendency to debit as current or trade expenses payment of donation needs to be strongly objected to by the auditors**. Such payments will have to be made out of charity fund and debited to charities or donations paid account and not to the profit and loss account. If there is no charity fund, these amounts should be debited to suspense or sundry debtors' account in the first instance and shown as recoverable and subsequently written off against charity fund when created out of net profits.

The Registrar has directed that auditors should invariably point out in their audit memos, all payments made in contravention of Section 69. A special report should also be submitted to the District Deputy Registrar pointing out specific instances of such irregular payments.

17.26. ***Payment of Rent, rates and Taxes :-*** Payment of land revenue or ground rent and other fees and taxes paid to Government and local authorities should be checked with the receipts issued by the officers of the Revenue Department or other officers who are authorised to receive cash and issue receipts. However, if payments are to be made into Government Treasury or the State Bank of India, the receipted chalans would be available.

Ground rent paid to landlord where land in held on lease should be checked with the lease deed and the receipt issued by the landlord. It should be seen that all the terms and conditions of the lease deed are properly complied with. For a society having more than one lease-hold properties, the lease register maintained by the society, should be checkedto see that required provision for lease rent payable is made and lease rent paid in terms of premium should be written off as per duration of the lease.

Payment of rates and taxes paid to the municipality or other local authority and electricity charges would be checked with the demand notices and / or monthly, quarterly or yearly bill received from them and receipts for payment made to them.

Payment for rent of office premises, godowns and other buildings hired will be checked with the receipts issued by the landlord will have to be seen for ascertaining the amount or rent or compensation payable and other terms. Hiring of premises and approval of rent or compensation should have been sanctioned by the Committee. If any deposits or advances towards rent or compensation have been paid, they should have been sanctioned by the committee and the terms of their repayment or adjustment should be seen. If any expenditure is incurred towards repairs and maintenance of premises, the amount spent should be recouped from the rent payable.

17.27. *Payment of electricity and water charges* :- Payment of electricity charges would be checked with the monthly bills issued by the State Electricity Board or the Electricity providing Company as the case may be. The receipted bills themselves would serve as voucher as no other receipts are ordinarily issued. It should be seen that the rebate for prompt payment, wherever admissible, has been obtained. Where rebate has not been obtained and penalty for late payment has been made, inquiries should be made. Where water charges are to be paid separately and included in the municipal taxes, bills received from the municipality should be seen.

17.28. *Telephone and Internet Charges* :- Telephone charges paid would be checked with the monthly or quarterly bills received from the Accounts Office of the Telephone section of the Posts and Telegraphs Department or telephone company. In case of landline phones, a Register of calls booked will have to be maintained for each phone and bills for calls received should be checked from the entries in this book. Charges for private calls should be recovered from the parties marking the calls. In case of mobile phones provided to the officers and office bearers of the society, it shall be seen that they are used for society's work. If the limit has been prescribed for such phones, excess amount over the sanctioned limit of the bill should be recovered from the officers concerned. If mobile phones are purchased and provided by the society to the officers, it should be seen that adequate provision for depreciation has been made, considering the provision of Income Tax Act, for such machinery and or considering the life of such phones and policy adopted by the society for charging depreciation on such phones.

17.29. *Postage charges* :- Amounts of postage stamps purchased should be traced on the credit side of the postage account. The balance of postage stamps on hand on the date of audit should be counted. For a payment of telegram charges, receipt which mentions the value of postal stamps affixed or charges paid and bearing the date stamp of the post office would be available. A copy of the telegram/ fax sent should have been attached to the voucher from which it could be verified that the telegram was sent for the purposes of the society. For payment of postage on under paid or not-paid envelope and letter, the envelope or other cover or wrapper on which is entered the amount of under paid charges to be recovered, should be seen. Similarly, for payment of V.P.P. charges, the original wrapping or envelope on which the amount is mentioned, should be seen. For payment of registration charges for articles sent by registered post, post office issues separate receipts. It should be seen that the cost of revenue stamps purchased is not included in postage and telegram charges. Society has availed fax facility, it should be seen that the fax receipts generated from the machine are zeroxed and attached with the voucher, as the writing on these receipts vanishes after a short period. Society which has contracted for courier services, the contract deed and payment made and receipt provided by the agency should be seen accordingly.

17.30. *Stationary 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 lowest tender or quotations , are being duly observed. If lowest tenders are not accepted, reasons for the same need to be recorded. It should be seen that large advances are not to be 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, register, notes, reports, etc., bills received from the printing press specifying the printing work executed, quantities, rates, dates of delivery, etc., should be seen. Proper account of receipts and issues 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 this inward register. Issues and consumption of stationery articles should have been properly controlled. Quantity account of stationery articles and printed materials should have been maintained and checked by a responsible officer at frequent intervals.

17.31. ***Payment of insurance premium*** **:-** Receipts issued by the insurance company acknowledging payment of premium due should be seen. The amounts of premium to be paid should be ascertained from the Insurance policy or temporary cover note issued by the Insurance Company. A "Register of insurance policies" should be maintained showing particulars of assets insured, risk cover, policy number, period, date of expiry, premium paid, claims preferred , etc. Government has established an Insurance Fund and societies are directed to insure their assets with the fund. Various circulars are issued in this regard by the Registrar, Government, and Director of Sugar, and other officers of the Department. Auditors should study the circulars and insure that the instructions are followed by the societies. In case of Banking societies the Reserve bank and NABARD has issued circulars to pay the premium to Deposit Insurance and Credit Guarantee Corporation within stipulated time for safe guarding interest of the depositors, the auditor should see that the premiums required in proportionate to the deposits collected is paid within time limit, and the information as such is disclosed in the annual report of the society/ Bank.

17.32. ***Advertising charges*** **:-** A newspaper cutting of the advertisement and the bill received from the newspaper should have been attached to the voucher. The date or dates on which the advertisement has appeared as mentioned in the bill should be checked with the copy of the issue supplied by the press. Auditors should verify that there are no donations in kind of advertisement, as well as the Registrar has issued circular No.S.V.K./D-1/JAHIRAT/96 Dated 19/01/1996 advertise for well-wishing advertisements, anniversaries and wellcome advertisements. ***The auditors are advised to make special report for such advertisement.*** This circular contains some financial limits for advertisement expenses, and the auditors should verify that the limits have been adhered to.

17.33. ***Website Development and Software expenses*** **:-** In the case of expenses on website development, the contract for website development should be verified and the period for which the contract has been made is to be considered for accounting treatment of these expenses. So far as software exepenses are considered, normally Operating softwares are added to computers and system softwares are shown separately in the financial statements and depreciation is charged accordingly. The software expenses in respect of which licnense is obtained for a short term duration are treated as Revenue expenses. It is to be verified whether the society has obtained Source Code of the software and if necessary accounting as per existing life of the software and for the extension of the same is to be made.

17.34. ***Miscellaneous.-Trade expenses, general charges, office expenses, expenses on meetings and ceremonials, etc.*** **:-** In case of fixed charges payable at regular intervals, the scales will have to be fixed and mentioned by the committee. In case of other expenditure it should be seen that the expenditure incurred is incidental to the business of the society. It should not also be disproportionately high having due regard to the size and importance of the society, the importance of the occasion, nature of the business conducted by the society, need for publicity and similar other considerations.

17.35. ***Observation of budgetory provisions*** **:-** It would be desirable to have annual budget prepared and maximum amounts sanctioned for expenditure to be incurred over different items and under different heads. Section 75 of the Act provides that the annual budget should be presented to the Annual general meeting and its approval obtained. It should be seen that the expenditure incurred under different

heads shall be within the provisions made for them in the annual budget expenditure over ceremonials, celebrations, general meeting and other meetings, visits of important persons (V.I.P.'s) etc., should not be more than what should ordinarily be necessary. Expenditure over publicity, propaganda and advertisement should have some relation to the expected increase in the volume of sales or business of the society in a particular line or general expansion of business or soliciting for new membership and customers. If there is excess expenditure on certain items of the budgets, a re-appropriation statement will have to be prepared and kept before the next general meeting for its approval. The society should establish committee for observation of provisions of budget on periodical basis, headed by the Chief Executive Officer of the Institute and members of the committee, and the heads of various departments of the society. The allocation to the various departments should be made on the basis of the demands received by them at the time of preparations of budget. It should be seen that the budget should be prepared before the commencement of the year. And also should be approved before commencement of the year, otherwise the purpose will not be served. The budget should be in two parts for the capital expenditure and receipts and revenue receipts and expenditure. It should be seen that the capital expenditure should be met from the capital funds realised in the particular year or the carried forward balance of such funds, available with the society.

17.36. *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 auditors-

(i) Expenses which are not incidental to the business conducted by the society, expenditure incurred which cannot be said to be for the purpose of the society, e.g. *Personal expenses of the directors, officers or employees.* The Section 71(A) also prohibits using society funds for defraying the costs of any proceedings filled or taken by or against any officer of the society, in personal capacity. The auditor should strongly object to this expenditure as the legal responsibility in this regard rests with the auditor under section 81 (2) (vi) of the M.S.C. Act.

(ii) Expenses, which are not necessary and should in ordinary course have been avoided.

(iii) Expenses, which are considered heavy or disproportionate, considering the size of the institution and importance of the occasion.

(iv) Abnormal expenditure over publicity, propaganda and advertisement.

(v) Unprofitable expenses, i.e. Expenses, which would yield no results.

(vi) Fraudulent, false or fictitious expenses.

(vii) Other irregular or improper expenses such as illegal commission or allowance, payment of money, pugree, black money, etc.

(viii) Loans and advances made by the society have been shown as deposits.

(ix) Expenditure not in furtherance of the objects of the society.

(x) Financial assistance received from the Government or Government undertakings or financial Institutions for a particular purpose is not utilised for that purpose only.

Detailed notes of all objectionable expenses 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.

17.37. *Checking of Journal* :- When transfer entries are passed through the cashbook itself, both the credit and debit entries should be seen simultaneously. Such contra entries should be marked with a special tick in order to distinguish them from other entries, which involve passing of cash. ***All***

contras or transfer entries should be checked very carefully. Because these contra entries do not affect the cash in hand and no cash actually passess through hands there is a tendency to pass these entries without proper scrutiny. However, since contras also create monetary obligations, they are as important as cash transactions and should , therefore, receive due attention.

While vouching entries in the journal or in the cashbook, the auditor should see that not only is there ***sufficient evidence*** in support of the entry, but also that the ***entry itself correctly records the transaction***. 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 should be passed through the journal or through the cashbook*** **and** ***no posting into the ledger should be made directly in the ledgers***. The following are the types of entries, which are ordinarily passed through the journal.

(1) Transfers from one account to another.

(2) Adjusting entries.

(3) Rectifying entries.

(4) Entries relating to depreciation, writing off of losses, bad debts, preliminary expenses, deferred revenue expenses etc.

(5) Making provisions, carrying over amounts to reserves.

(6) Appropriation of profits.

(7) Allocation of expenses between capital and revenue and amongst the various departments of business.

(8) Bringing into account outstanding creditors, income receivable, expenses payable, prepaid expenses, income received in advance, etc.

(9) Closing of nominal accounts.

(10) Opening and closing entries.

The narration below the entry or contained in the transfer vouchers (both credit and debit) should be gone through carefully and it should be seen that the entry has been correctly passed. ***Most care should be taken while passing the adjusting and rectifying entries and entries passed for transfers from one account to another, a***s these entries may result in fraudulent or fictitious entries. While checking rectifying entries, it should be confirmed by the auditor that the original entry requires rectification and the entry passed for rectification really rectifies the original entry. Necessary documents and records must be verified in these cases.

CHAPTER No. 18

VOUCHING TRADING TRANSACTIONS

18.1. *Purchase* : -

1. *Internal control over purchases* :- The basic objective of the purchases is to buy the goods on r***easonable price and of required quality***. The system of internal control relating to purchases should be very carefully evaluated. Proper ordering procedures are necessary to ensure that purchases are made ***only on terms and conditions acceptable to the society***, that they are in respect of goods and services that are necessary for the business, and that they are made from approved suppliers, a list of whom should be maintained and always brought up-to-date. Proper buying procedures require that there is a clear-cut definition of functions and authority between (a) requisition of supplies, (b) placing of order, (c) inspection and recording of goods when received (d) checking and recording of invoices and (e) payments to suppliers and other creditors. For Sugar Factories, the Director of Sugar has issued a circular describing detailed procedure for purchase. The auditor should go through the circular and verify that the procedure has been adhered to. Only the storekeeper , Chief Engineer, or other specified officer/ heads of departments, should be authorised to issue requisitions. The buying department should then take steps to invite tenders or quotations. A comparative table of quotations received should be prepared and normally the lowest quotations should be approved. The comparative table should contain (1) descriptions of supplies (2) rates (3) technical norms specified in the enquiry floated/ advertisement calling tenders (4) taxes (5) terms of destination. If required, the comparative table for technical specifications and financial terms may be separately prepared. 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 or non-availability of the goods in the open market or other reasons, regular quotations cannot be obtained, 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, 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. In case of the bigger societies, it would be desirable to have a separate "Buying/ Purchase Department" headed by a senior officer with expert ***knowledge of markets***. The officers authorised to issue purchases orders should be clearly specified and the extent of their authority defined. As for as possible official, who are required to submit requisitions for supplies, should not themselves issue purchase orders.

Goods when received should be immediately inspected as regards quality, quantities, conditions, taxes etc. Goods received should be entered into the "Goods Inward Register". The storekeeper should also prepare a " Goods Received Note" (GRN), copies of which should be sent to the Buying /Purchase Department and Accounts Department. The goods received note should be issued from the printed goods received notebook with pre-numbered folios.

2. *Purchase returns* :- Goods which are damaged and are not according to the samples or otherwise not satisfactory, should be returned to the suppliers immediately, along with a *Goods Returned Note*. Copies of the Goods Returned Note should be sent to buying department and accounts department. The suppliers should be requested to send their credit notes immediately. It should be seen that credit notes from suppliers are received for all goods returned or the amount deducted from the total amount of the invoice.

3. *Checking of invoices* :- Invoices when received should be checked both by the buying department as regards, prices, quantities, discount allowed, terms of payment etc., and also by the accounts department as regards their arithmetical accuracy. It should also be seen that the invoices received are according to the orders of the buying department. Where more than one copy of the invoice has been received, all other copies should be stamped to indicate that they are duplicates. All invoices and credit notes should be consecutively numbered on receipt and entered in an *" Invoice Register".* Outstanding items should be investigated.

Invoices, after being checked by the Accounts Department, should be passed for payment by the respective officers. These officers should be independent of the Buying/Purchase Department.

All persons taking part in the checking of invoices should have initialled invoices in appropriate places. During the course of their audit, auditors should see that the procedure prescribed for making purchases and payments to creditors is strictly followed as can be seen from the initials appearing on invoices. They should also check the arithmetical accuracy of the invoices. The entries in the Purchase Journal or Register should be checked with invoices and the Goods Received Note or materials received certificates stamped on the invoices. They should also check postings into stock ledgers. Casts and cross-casts of the invoices and the Purchase Journal should be checked and agreed with the amounts posted in the General Ledger.

4. ***Allocation*** **:-** Allocation of charges and credits to nominal accounts and cost accounts should be done by proper authority. ***The basis for allocation should have been shown on the invoices of the credit notes themselves*** .

The procedure prescribed for purchase of capital items should be ascertained . Resolution of the Board /Committee sanctioning acquisition of or additions to fixed assets should be seen.

The Auditor should see that proper arrangements to ensure that all liabilities relating to goods received during the accounting period , have been duly brought into account.

Where statements of accounts are received from suppliers , these should be checked with respective ledger accounts. Wherever necessary, direct verification with suppliers should be made .

The control account in the general ledger should be frequently checked by an independent officer with the balances in the supplier's accounts .

5. ***Method of checking invoices*** **:-** While checking invoices, the following points should be noted:-

(i) The invoices should be ***addressed to the society and not to any individual*** director or officer of the society .All invoices should have been compared with the original requisitions and copy of the order issued by the Buying /Purchase Department

(ii) The goods purchased should be such as are being dealt in by society in the course of its trading transactions or are required for manufacturing processes.

(iii) Quantities and rates should conform with the purchase orders . Where these are not mentioned in the purchase orders, they should be verified from the agreements, tenders accepted, supplier's price lists or catalogues or other evidence that may be available

(iv) Certificates as regards receipt of goods should have been recorded by the storekeeper on the invoice itself or mention made of the serial number of the goods received note under initials of the storekeeper .

(v) All calculations, extensions and additions should have been checked and signed by the authorised person in token of having complied with the above requirement.

(vi) ***Terms of payment*** - Where credit is allowed, it should be seen that payment is made before the expiry of the credit period .

All trade discounts normally allowed should have been deducted from the amount of the invoice. Cash discount , if allowed, should have been availed of by making prompt payment.

6. ***Inventory control- Organisation of the Purchase Department*** **:-** In case of processing or manufacturing units, auditors will have to also to acquire sufficient ***knowledge of the modern inventory management methods.*** They will have to know how the Purchase Departments are to be organised on sound lines and made to function.

The following points will have to be borne in mind. It may be seen whether,

(1) A qualified and competent purchase officer is appointed ,

(2) Minimum re-order and maximum levels are fixed ,

(3) Proper material planning is done ,

(4) Economic order quantities are fixed , and

(5) Procurement time is contracted properly .

It is necessary to see that a follow-up register is kept in the purchase department. An up-to-date register will be very helpful in following the pending orders ,evaluating vendors , to find out the total cost of purchases, to find out total procurement time ,etc. It is also necessary to evaluate vendors before any order is placed. The most common method by which venders are evaluated is by considering quotations received and placing orders with the **lowest cost suppliers. It may also be borne in mind that the lowest cost may not be the best quality products always.** Hence, whenever the lowest prices are not accepted, the reasons must be recorded by the expert, or the head of the department who has demanded the goods , that ***why the lowest should not be accepted***. Evaluation of vendors should be done every six months. It will not only assure procurement time, but will also assure quality and hence ultimately low cost of purchase optimised inventories. While evaluating vendors, marks will have to be given against various factors like procurement time ,quality, and cost after sale service and general conditions of the suppliers.

18.2. ***Organisation of the store section*** **:-** The auditors will have to see whether the store section has been organised on proper lines. He should see that there is***no tendency to stock materials in excess of requirements*** . The auditors must be able to suggest remedies against excess stocking by providing or using modernised inventories management techniques . Thus , if re-order level is fixed , orders will have to be placed automatically and goods will be readily available in the stores. Naturally, the usual complaint that ***"the intimation was short"*** will not hold good if the re-order level is fixed properly. If vendor' evaluation is done and if the purchase system is simplified, the procurement time will be reduced. If the imprest system is employed for low-priced items, excess stocking in them will be reduced. If the levels for the season and off-season are different, there will be no excess stocking in the off-season. There are various principles underlying optimisation of inventories. The most commonly-used system is the system of ***ABC analysis***. It is the system of arranging the items in the inventory according to their importance. The objectives of this analysis are briefly as follows:

(1) To determine the importance of each and every item in the stores.

(2) To fix the levels of stock based on the above ranking.

(3) Ultimately to optimise the stock.

Such a division facilitates maximum control over the inventory with minimum effort. Thus, the principle under ABC analysis states, ***" Control most which is important most."***

According to this analysis

"A" items will be as under :-

(1) High value items, (2) Highly used, (3) Scarce (4) Not very difficult to get, (5) Less control, (6) Near to optimum, (7) Periodical checking

"B" items:-

(1) Medium value items, (2) Used not very highly, (3) Not very difficult to get, (4) Less control, (5) Near to optimum, (6) Periodical checking.

"C" Items :-

(1) Low value, (2) Seldom used, (3) Readily available, (4) No control, (5) Less checking.

The **objects** of fixing the levels are :-

(1) To lay down a minimum to be maintained in stock. This must be maintained to run the factory.

(2) To lay down when to place an order for goods in such a way that the goods are readily available in stock and yet without stocking them in excess.

(3) To lay down a maximum above which stocks should not rise in the interest of the organisation.

(4) Ultimately, to optimise the inventories, thereby reducing the idle investment to the minimum.

Thus, there are three levels, -

(1) Minimum level (2) Reorder level, (3) Maximum level.

Just as the stores can be divided according to their importance, they can also be divided according to their movement. Thus, they can be fast moving, slow moving or non-moving. If any item has not moved to the extent of its inventory, it is slow moving. If the item has not moved at all, it is non-moving and the rest of the items are fast moving. There should be study at society level for these levels based on consumptions for the last 3 years related with production.

18.3. ***Auditors' responsibility for proper organization of the store*** **:-** Auditors should be able to trace out slow moving or non-moving items and they can thus advise the management suitably to dispose of such items. If the non- moving items are idle ***for 3 years continuously***, they should be disposed of immediately. If the ***items have moved at least once in these three years, the items are slow moving:*** the difference between the existing stock and the maximum level should be calculated. If this difference is more than 10 percent of the maximum level, the inventory making the difference should be immediately disposed of. Thus, the auditor should see that the first steps with regard to ***ABC analysis*** are taken.

The second step would be to fix the levels as suggested above, and then there would be a question of optimisation of the stores .

The auditors will have also to make suitable suggestions regarding classification and modification of stores. The Cardex system will have to be introduced instead of the old system of keeping bin cards in the bins or tagged to the bins, where there is every possibility of getting them spoiled . The ***system of taking perpetual inventory in some of the A and B class items will have to be suggested***. The auditors should apply their minds to all the problems as suggested above and make suitable suggestion.

18.4. ***Store accounting*** **:-** The auditor should see that proper control over stores and works-in-progress comprising of reliable stocks and/or cost records are maintained. These records should either form part of the financial accounts, or if separately kept, they should be reconciled with the financial books. To ensure proper control over stores, the storekeeper should have full control the stock material lying in the stores. He should be responsible for receiving the stores and also issuing materials. Issue of materials should be only against properly authorised requisitions or indents signed by the foreman and sanctioned by the Factory Manager or other responsible officer. The storekeeper should personally maintain quantity accounts on bin cards of raw materials, stores and finished goods. Wherever possible, the Cardex system should be introduced instead of maintaining quantity accounts on bin cards, tagged to the bin or other containers. Accounts may be kept both in quantities and values in Accounts Department. Financial control accounts should be maintained in the Accounts Department against which the individual balances should be periodically proved. Where quantity accounts are not maintained in the Accounts Department, the accuracy of the accounts should be checked physically by continuous stock taking and also by periodical evaluations of the detailed quantity balances and reconciling them with the corresponding financial control accounts. Under this system , the need for duplicate maintenance of accounts in the Accounts Department and in the stores Department is avoided. However, where a second record is maintained in the stores, this not only will provide a cross

checking and ensure accuracy of the stores records, but listing of the balances for agreement with the control accounts maintained by financial books is facilitated . The auditor, during the course of his audit, should examine the system carefully. He should check the Goods Inward Register with the copies of the Delivery Chalans, Goods Inwards Notes and the original invoices. The entries in the Issue Register should be checked with the requisitions or indents submitted by the Manufacturing and other departments. Where quantity accounts are maintained separately, the balances as per the books should be compared with the balances shown on the stock cards and discrepancies, if any , should be inquired into.

In modern computerised accounting system, the store accounting as well as financial accounting is maintained simultaneously, which helps the management for immediate information of stores and about its consumption, balance and the cost of such stores. For such accounting, special programming has been developed by the societies from the system supplier. Auditors should check the norms prescribed for the programme, and see that the norms are proper and correct and no manipulation is possible by the store accountants or the financial accountants.

The ***basis for allocation of costs for the stores issued should be ascertained.*** The procedure for charging labour and other direct costs and overheads to works-in-progress should also be ascertained. Transfer from work-in-progress to finished goods account or "Cost of Goods sold" accounts should also checked . The cost accounts should either be integrated or periodically reconciled with the financial accounts .

18.5 ***Valuation of Inventories*** **:-** The method of valuation of inventories should be verified by the auditor. Major changes in valuation mode will have more impact on the cost of production and profits. The auditor should see that the valuation is proper and according to the standard accounting policies that are fixed by the Board Policies as laid down as per the *Indian Accounting Standards* ***AS 2.***

18.6. ***Sales*** **:-**

1.Retail sales are mostly confined to consumers' societies and other societies , which deal directly with customers. So far as consumers' societies are concerned , the Byelaws require that sale should be for cash only or against deposits kept with the society by the customers. Where credit sales are made, it should be seen that *necessary provision for selling goods on credit is contained in the Byelaws*. It should also be seen that credit limits are fixed for individual customers and these are not exceeded.

2. ***Control over cash sales*** **:-** A cash memo is 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 invariably 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 prices should be ascertained.* The society should be advised to maintain a Price Register for showing details of calculations for fixation of selling rates. The rates mentioned in the cash memos should be checked with the Price Register.

3. ***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 Dairy. The accounts of sales tax collected should be maintained separately. The total amount of sales tax collected should be paid into Government treasury in the specified period along with the return of the sales for the period .

4. ***Sales in manufacturing and processing societies*** **:-** As regards sales in manufacturing and processing societies, *the procedure followed should be ascertained.* Where goods are manufactured against orders a register of orders received from customers should be maintained. The customers'

orders should be formally approved before they are accepted. Where credit sales are made to customers, credits limits should have been properly fixed and checked before orders are accepted. The procedure adopted by the society, should ensured that orders are accepted only on terms and conditions acceptable to the society. Where special concessions in rates or terms of payments are shown, reasons therefore should be recorded.

A review of uncompleted orders should be taken up from time to time and where the completion of orders is unduly delayed, reasons for the same should be ascertained . It should be seen that deliveries are made within the period agreed for the execution of orders. Where part deliveries are made, outstanding commitments should be ascertained and their terms and delivery period should be reviewed. *Such type of control is of particular importance in determining the liabilities or losses arising out of the outstanding orders and also in assessing the values of stocks on hand works-in-progress.*

It should be seen that sale invoices are prepared for all goods despatched or works completed. Invoices should be sent immediately on despatch of goods. Sale invoices should be checked with entries in the Sales Register or Sales Day Book. Acknowledgements of receipt of goods by customers such as receipted chalans, delivery notes, etc., should be attached to the office copies of the invoices .

Where goods are returned by the customer or claims made in respect of short deliveries, incorrect prices, damages in transit, etc., credit notes should be issued. Quantities sold as per sale invoices should be traced in the stock register and also compared with the issues of finished goods. Where there is a system of issuing pro-forma or provisional invoices before actual despatch of goods are vogue, the proforma invoices should be compared with sales orders and the goods despatched notes and also with the final sale invoices and receipts advice notes or delivery chalans. Sales invoices should be checked with the sale orders as regards prices and terms of payment and delivery. Calculations, and additions should also be checked. Credit notes issued for goods returned should be compared the Goods Inward Register and other evidence. Price calculations , extensions and additions should also be checked. All credit notes should have been properly authorised by a responsible officer, who is not concerned with the Sales Department or the Sales Ledger clerk.

18.7. *Consignment accounts* :- Where goods are consigned to outstations for sale, the *agency terms and conditions should be ascertained*. In particular, procedure for preparing invoices and recording sales should be ascertained. Separate accounts should be maintained in respect of each consignment. *Goods sent on consignment should be included in stocks on hand and not treated as sold until regular account sales are received from the consignee*, when consignment account should be debited, crediting sales. Certificates should be obtained from the consignee of all goods lying with him unsold. It should be seen that balances in the consignment account are not mixed up with the sundry debtors account.

18.8. *Sales on approval or return* :- Where goods are delivered for sale on approval or return basis or ***'jangad'*** sales as they are called, the goods sent, should be treated as stocks on hand and the sales account should not be credited until the customer has conveyed the acceptance of the goods or the period within which the goods, if not approved, should have been returned, has expired.

18.9. *Goods lying with third parties* :- In case of goods lying with third parties, the auditor should see that the certificates are obtained from holders of the goods for the stocks lying with them. These certificates should specifically state that the goods are the property of the society and that they are held by the consignees or the agents on behalf of society. It should be ensured that these stocks have been periodically confirmed by such certificates.

18.10. *Goods received on consignment* :- Where goods are received from third parties for sale on consignment, it should be seen that these good and the sales of these goods are not mixed up with the stocks or sales of the society. The stocks belonging to the third parties should be excluded and the account of such sales should also be kept separately.

———

CHAPTER No. 19

PAYMENT OF WAGES

19.1. ***Internal control over payment of wages*** **:-** In societies, which have undertaken manufacturing activities, such as Co-operative Sugar Factories, Spinning Mills, etc., a large number of workers are engaged in manufacturing activities, Wages, therefore, constitute a major item of manufacturing cost and should, therefore, receive a particular attention of the auditor. The system in force with regard of the compilation of the payrolls and payment of wages varies considerably with the size of the society and the nature of its activities. The procedures involved in evolving a satisfactory system of internal control over payment of wages can be grouped under the following broad categories:—

(a) Recruitment, promotions, transfer and dismissal of employees.

Written orders should have been issued for:-

(i) Appointment,

(ii) Rates of pay and other allowances,

(iii) Retirement or dismissal,

(iv) Promotions, increments , punishments, etc.

Rules should have been framed governing (a) service conditions including grant of leave, retirement benefits etc. and (b) provident fund. Approval of the Registrar should have been obtained where necessary.

History sheets should be maintained for all employees and all matters, such as appointments, promotions, rates of pay, retirement, dismissal, etc. should be recorded therein. The specimen signatures should also be obtained at the time of recruitment. These history sheets should be maintained by the Personnel Department.

(a) All general increases in pay, deductions from wages, payment of advances against wages, etc., should have been properly authorised.

(b) Attendance and job recording: Where wages are paid on time basis, the auditor should ascertain the normal working hours and regulation regarding absentees.

(c) Compilation of sheets and analysis of wages.

(d) Disbursement of wages.

19.2. ***Principal features of Internal control in respect of wages*** **:-** The principal features of sound internal system for controlling payment of wages are as follows :—

(a) Muster rolls should be maintained to record the attendance of all employees. Where clock are in use, it should be seen that all workers have been provided with cards and they gets their cards duly punched on arrival into the factory and when they go out. Arrangements for checking clocks cards and clocks should be ascertained and it should be seen that there is proper supervision over the punching of cards or marking attendance on muster roll. The timekeeper responsible for the maintenance of the muster roll and also the attendance cards should be an independent officer. Where the number of employee is large, a separate office should be set up.

(b) Where wages are paid on piece rate basis, the system of maintenance of job-cards and clock-cards and their agreements should be carefully studied, as also the methods adopted for calculation of piece works and particulars of bonus scheme, if any. Arrangements made for checking and authorising of piece work and treatment of partly completed jobs should be examined.

Quantities produced by individual workers and entered on piece work, tickets or job-cards, should be checked with the Daily Production Report and entries in the Production Register or Finished Goods Register. It should be seen that all work is recorded as and when completed and not carried forward.

(c) Where there is large number of employees, a regular procedure should have been prescribed for periodical checking and testing of the records of the wages Department as regards names of employees, rates of pay, deductions to be made and other standard information. Such testing should be made by a person who does not take part in the preparation of wage sheets. The method of preparing wage sheets or payrolls should be examined. Attendance should be called over from clock cards or muster rolls and production should be compared with job cards, production reports and other piecework records.

(d) The system of notifying to the employees particulars of gross wages payable and deductions to be made therefrom should be examined. Slips containing necessary particulars are generally delivered to the workers in advance or are inserted in the pay envelopes. These should be checked on a percentage basis.

(e) In case the society has appointed workers on contract basis from the agency providing them, the auditor should see that the workers possess required skill, the terms and conditions of contract, compensation for any accident, responsibility of necessary legal deductions from the wages, and other terms and conditions are included in the contract, as also followup of the terms and conditions by the contractor. Necessary documents of the workers, if required may be obtained from the contractors.

19.3. ***Method of checking payrolls*** **:-** ***(***a) The auditor should carefully examine the system of internal control in force by calling for the time office record (attendance cards and piece works cards, inspection reports, production reports, muster rolls from the contractor or maintained by the time department duly verified) and checking these with the entries in the pay roll or the wages sheets. He should also check calculations and additions of the payrolls and also acquittances of the employees acknowledging receipt of wages . He should also see that the payrolls have been initialled by all persons taking part in the various stages.

The totals of pay-sheets of the different sections to be called over into an abstract or summary sheets and the total wages paid should be traced in the cashbook.

(b)Deductions made from wages should have been duly authorised..

Deductions made on the account of provident fund, Employees' State Insurance, Income-tax, cooperative society's dues for repayment of loan etc. should be paid over to the Provident Fund Commissioner and authorities within the prescribed time. Dues of the employees' society, canteen dues and other amounts deducted from wages and payable to third parties should be paid within a reasonable time. Totals of all deductions made under various heads should be called over into the General Ledger.

(c) Wherever possible, the auditor should attend at the time of payment of wages and satisfy himself that, the prescribed procedures are being regularly followed. In order to test the various aspect of internal control, such as new appointments, increase in pay and allowances, transfers, dismissal or resignation, etc.. the auditor should scrutinise the wage sheets for a specific period with the information available in the history sheets and relevant orders.

(d) Where wages are paid on piece basis or additional wages are claimed under a scheme of enhanced hours, appropriate job cards, piece work or bonus cards, should be examined and it should be seen that these are duly signed by the foreman or the supervisor of the section and also by a responsible officer of the wages Department. Quantities produced mentioned in the job cards should have been included in the Daily Production Register.

19.4. ***Payment of overtime*** **:-** There should be a proper procedure for authorising overtime. Overtime should be allowed only against written requisition by the foreman or a senior supervisor of the section. Reasons for overtime should have also been mentioned. Payrolls for payment of overtime should be separately prepared. The auditor should ascertain the basis for payment of overtime, method of calculating overtime and rates of overtime wages. The authority authorising overtime should be independent of the wages Department. It should be seen that the provisions of the Factory Act and the Shops and Establishments Act are duly observed.

CHAPTER No. 20

LOANS TO MEMBERS

20.1. ***Restrictions on lending by Co-operative societies*** **:-** Under provisions of Rule 45(1) of the Maharashtra Co-operative Societies Rules, where a person is a member of more than one credit society, he has to furnish declaration in form **"K"** that he will borrow from one society only, the name of which is specified in the declaration.

Under section 44(3) of Maharashtra Co-operative Societies Act, the state Government has been empowered to prohibit, restrict or regulate the lending of money by any society or class of societies on the security of any property. The Registrar has also been empowered to regulate further the extent, condition and the manner of making of loans. In case of Co-operative credit structure societies, (primary agricultural societies, district central banks and state Co-operative bank) this section does not apply; such societies have to adopt their own loan policy in conformity with the Reserve Bank of India/ national bank guidelines. Rule 42(1) empowers the Registrar to *prescribe margins* to be maintained, with reference to different commodities, securities or classes of societies. In case of Co-operative credit structure, the societies have to follow the guidelines issued by the RBI/ NABARD(National bank) in this respect. Under Rule 42(2), they have the power to specify the ***multiple of owned funds*** of the borrowing society up to which advances by way of cash credit may be sanctioned by the central bank, or the apex Bank. Under Rule 42(5), the Registrar has been empowered to prescribe condition for grant of loans to member including maximum amount to be advanced and period of repayment both in regard to total advances and also against different types of securities. In exercise of these powers, the Registrar has issued a number of orders regulating and restricting grant of loans by societies and banks. Auditors will have to study carefully the contents of these orders and watch their compliance during the course of their audit. The orders are mentioned in this manual elsewhere.

Section 21 of the banking Regulations Act (Applicable to co-operative societies) gives wide powers to the Reserve Bank, to regulate and control advances by co-operative banks. Rule 44(3) provides this for co-operative credit structure to follow the guidelines issued by RBI/ National bank.

Under section 44(1) of Maharashtra Co-operative Societies Act, no loan can be given to a non-number or against the security of a non-member or on the security of its own shares, or on the security of any person who is not a member. However, loans may be made to non-member depositors against security of their deposit, to the extent prescribed in its loan policy as per directives of the RBI, the amount of the deposit and for a period, which does not exceed the date of maturity of the deposit. Although inter-lending between societies has been prohibited, the Registrar may permit such inter lending in special circumstances, and the special sanction of the Registrar is necessary as per this section .

Although a borrowing member cannot offer shares in the society held by him as security for his loan, still, under Rule 43 (1), he is required to hold shares in proportion to the amount of the loan applied for by him.

20.2. ***Finance with Collaboration and partnership*** **:-** The societies can make collaboration with the prior approval of the State Government and subject to such terms and conditions as the State Government imposes or prescribes. The collaboration under section 20 (A) should be for specific business or businesses, including industrial investment, financial aid or marketing and management expertise. Societies to whom there is no Government aid of any kind do not require prior approval of the Government.

Under section 20, the two or more societies can enter into partnership for carrying out any specific business or businesses. A prior approval of Registrar is necessary for partnership if the society has any financial assistance from the Government, in the form of share capital,loan, or guarantee. The societies entering into partnership have to pass a resolution in the General Meeting with three-fourth majority.

20.3. ***Restrictions on lending operation of certain type of society*** **:-** Different types of institutions have been set up to cater to the credit needs of different set of people and also according to the purposes of which finance has to be provided. Thus agricultural credit, multi-purpose and seva societies cater to the credit needs of agriculturists. In towns and cities, urban bank or people's bank urban credit societies cater to the needs of the small traders and industrialists. Employees of Government Departments, large and small business concerns and industrial establishment have organised salary earners' societies, which give them loans for purposes, such as medical attendance, education of children, housing etc. Societies have been set up for factory workers, teachers and other salary and wage earners, which advance loan for short and long periods to enable them to tide over their temporary difficulties. Land development banks (Agricultural and Rural development banks) have been organised for provision of long term credit for development of land, provision of irrigation facilities, purchase of tractors and other costly equipment which increase the productivity of land of farmers.The DCCB's are also permitted to finance for these purposes. Although the main object of all the institutions is provision of credit, their constitution and operations are different. In the following paragraphs, an attempt would be made to explain the salient features of the operations of these institutions.

Under section 48 of the Act, every borrowing member of an agricultural credit society is required to execute a declaration creating a charge in favour of the society, on the lands held by him or his interest in the lands cultivated by him as tenant for the outstanding dues of the society.

Section 49(1) of the Act lays down that every member of a salary-earners' employees society, while applying for a loan, shall execute an agreement authorising his employer to deduct from his wages or salaries, the dues of the society as communicated by the society. It is mandatory for the employer to deduct the amount as called for such societies, subject to the provisions of Payment of Wages Act.

20.4. ***Transactions with non-members*** **:-** As regards credit transactions and advances to non-members, Section 45 of the Act lays down that transactions of a society with non-members shall be subject to such restrictions as may be prescribed. Rule 46(B) requires that credit sales to non-members where permitted by the bye-laws can be made to only such tenders and other persons who give undertaking to the society to refer any dispute to the Co-operative Court for arbitration.

There are also restrictions on the loaning or credit operation of society, which are not permitted to undertake lending business. Under Rule 44(1) of the Maharashtra Co-operative Societies Rules, no society , ***the object of which do not include grant of loan or financial accommodations to its members, can grant loans or sanction credit to any member without the sanction of Registrar***. However,a society which has as one of its objects supply of goods or services required by members for production purposes may supply goods or services on credit against sufficient security on condition that, the cost of the goods supplied or services provided shall be recoverable from the sale proceeds of agricultural produce or other goods produced by the member. Under provisions of sub-rule (2) of Rule 44, a consumer's society may sell goods on credit to its members and other customers up to the extent of deposits received from them.

These are important provisions and it is responsibility of the auditor to see that the transactions of credit as well as non- credit societies are conducted or regulated according to this provision. Besides these restrictions, byelaws of co-operative societies contain number of provisions regulating advances and loans, grant of credit to members. Purposes and periods for which and limits up to which loans can be sanctioned are generally specified in the byelaws.

20.5. ***Checking of loan operations-Procedure and appraisal*** **:-** Bye-laws of most of the Co-operative banks and credit societies provide that all loans to be made to members are to be sanctioned by the managing committee or the Board of Directors of the bank or society. However, in case of banks and salary-earners' societies, where the membership is large, the byelaws provide for the appointment of a loan subcommittee to consider and dispose of loan applications. In case of some of the banks and

societies, the President, Chairman, Managing Director, Manager or other principal executive officer is also empowered to sanction loans up to a specified limit. In such cases, the extent of and restriction over the exercise of such authority by the officer, should be ascertained by the auditor.

The Managing Director, Manager, Secretary or other principal officer required to verify the correctness of the information furnished in the loan application from the records of the bank or society and to see that all necessary certificates and documents accompany the loan application. He has also to record his recommendation or otherwise on the application and the amount for which the applicant is eligible and the amount which he recommends. During the course of his examination of loan transactions, the auditor should satisfy himself so far as is evidenced by initials of the clerks taking part in the scrutiny of loan applications that normal procedure has been properly observed.

It has to be seen that regular applications for loans in the prescribed form are obtained from all borrowers and duly considered and sanctioned by the Committee. The proceedings of the meetings of the committee will, therefore, have to be seen in order to ascertain whether all the loans have been duly considered and sanctioned by the committee. The resolution sanctioning loans should be specific and all the terms and conditions subject to which the loan has been sanctioned and the purpose for which it is to be utilised should be contained in the resolution.

Prior to sanction of loan, the loan application is required to be scrutinised and appraisal of loan should be made, on the basis of need of loan amount, purpose of loan, necessary qualification of the borrower, repaying capacity of the borrower, security offered by him, terms of loan, repayment period, and realisation of sales or revenue. The NABARD and RBI have issued several guidelines in this regards which the auditor should be familiar with;he has to see that the banks have complied with the same. For any failure by the bank to comply with such circulars, necessary qualification should be included in audit report.

In order to be satisfied that the ***loan sanctioned is a genuine one and not a renewal of an existing loan or conversion of a debit balance or mere book adjustment entered as a fresh advance against repayment of an overdue loan*** with a view merely to extend the period of its repayment, the date or dates of repayment of the previous loan and the date of remittance of the amount to bank will have to be ascertained and it will have to be seen that there is a sufficient time lag between the repayments of old loan and disbursement of fresh loan. It should also be seen that all repayments of loans made by members are promptly credited into bank intact and not kept on hand and utilised for giving fresh loans. Even if the society has not borrowed from the bank, all recoveries should first be credited to current account intact and cheques drawn for fresh loans.

20.6. ***Documents*** **:-** It should be seen that all necessary documents such as application for loans, loan bonds or agreements, surety bonds or mortgage deeds and promissory notes wherever necessary are got ***duly executed from the borrower and registered where ever necessary***. Although certain documents executed by members of co-operative societies are exempted from payment of stamp duty and registration fees , other documents have not been so exempted and it is the duty of the auditor to see that all documents, which have not been exempted from payment of stamp duty , have been properly stamped . However, so far as agricultural credit, multipurpose and seva societies are concerned, there are practically no documents, which are required to be stamped. Regarding loans advanced by the urban banks, urban credit and rural credit societies, salary earners societies require stamp duty to be paid.

The documents required for various types of loans are ascertained, specifically the documents related to security, continuing security, registration certificates, documents creating charge, transfer documents of property if required. Whether documents after creating a charge, insurance policies, have been taken or not should be verified. An annexure of documents to be taken loan wise is enclosed, it is not exhaustive, and may change as per requirement of the societies business.

20.7. ***Checking of loan bonds*** **:-** Where a separate loan register is maintained, the entries in the loan register should be compared with particulars contained in the applications for loans and loan bonds and it should be seen that the following particulars in the loan register and the application correspond,-

(i) Date of advance,

(ii) Amount advanced,

(iii) Name of the borrower,

(iv) Names of the sureties and/or particulars of other security obtained,

(v) Date fixed for repayment for loan or period of the loan and the terms for its repayment, viz., the number of instalments in which repayable, amount of each instalment, date on which instalment falls due.

(vi) Rate of interest,

(vii) Purpose for which the loan is sanctioned.

It should be confirmed that loans have been sanctioned ***only for purposes provided for in the byelaws.*** The amounts entered in the loan register should be called over in the cashbook. Where no loan register has been maintained, the above particulars should be mentioned in the loan bonds and application should be compared with entries in the loan ledger. While checking loan bonds, the following additional points should be noted:-

20.8. ***Additional points to be noted while checking loan bonds*** **:-** (i) The signature of the borrower and signatures of the sureties should be examined. All signatures should have been properly witnessed. Thumb impression should have been properly described and attested. The signatures of the borrower and sureties are required to be taken before the authorised officer of the society/ bank.

(i) ***Mode of disbursement*** **:-** Whether the amount of the loan has been paid in cash or by cheque, should be seen. If any deductions have been made on account of shares or compulsory deposits, it should be seen that the amounts deducted have been properly credited.

(ii) ***Disbursement of loans by cheques*** **:-** The societies should disburse all the loans by Account Payee cheques only. Where the loans are disbursed by bearer cheques, it should be seen that the payees themselves present the cheques for encashment at the bank. Some societies disburse the loan by bearer cheques and the chairman and secretary encash all the cheques together, which is not a good practice and the auditor should report such practice in their audit report. This should be specifically checked in the case of Seva or Vikas Societies, where this system is used for renewal of loans without keeping proper time lag as required by the policy of NABARD. Where loans are disbursed in cash, it is desirable that the borrower should be paid in the presence of the Chairman or a member of the committee, who should initial the bond or the voucher (if separately obtained) in token of the amount having been disbursed in his presence. In case of large societies, where a separate cashier is appointed, it should be seen that adequate arrangements for control over cash disbursements have been made.

(iii) It should also be ascertained whether any portion of the loan is to be disbursed in kind i. e. in the form of seeds, fertilisers, insecticides, etc. or payment is to be made directly to the suppliers of machinery like engines, pumping sets, etc. If so the arrangements made for the supply of these requirements should be ascertained and it should be seen that purchases have been made only from approved parties.

(iv) ***Disbursement of loans in instalments*** **:-** It should also be seen whether the entire amount of the loan has been disbursed in one lump or in instalments as and when required according to the purposes for which the loan has been sanctioned .

20.9. ***Scrutiny and verification of loans and advances :-*** Different kind of loans, advanced by Urban Banks and societies :- Loans are generally classified into two broad types- ***fixed loans and cash creditsand overdrafts -*** the difference being in the nature of operation of the accounts. Fixed loans are generally drawn in lump sums in one or two instalments only; **whereas advances to members generally take the form of cash credits or overdrafts, are operated as if they are current accounts.** Although in agricultural credit societies and small urban banks and societies, advances to members generally take the form of fixed loans repayable in one lump sum or in suitable instalments, Central Co-operative Banks sanction what are known as maximum credits to their affiliated societies based on the loan requirements of their members. However, advances to other types of societies, generally take the form of cash credits. Urban banks and also commercial banks ordinarily sanction cash credits and overdrafts. The difference between an overdraft account and a cash credit account is that the cash credit account begins with a debit entry. Both cash credits and overdrafts are arrangements under which cheques drawn by the constituents up to the limit sanctioned are honoured by the Bank. The arrangement is also for a fixed period, generally for a year, and can be renewed for a further period. However, before being renewed, the entire outstanding balance is ordinarily required to be repaid and the account cleared. Interest is generally debited on a monthly basis. Generally, there is a minimum interest or half interest clause contained in the agreement and this amount is debited even if the accrued interest is less than the amount. Sometimes, the operations are also subject to certain restrictions such as crediting of entire sale proceeds of goods sold into the account, maintenance of minimum balance, etc. RBI/ NABARD banks guidelines are followed by the societies coming under preview of the Banking Regulation Act 1949(AACS).

Cash credits include hypothecation, pledge, clean cash credits and overdrafts, which are described elsewhere in urban banks section in this manual.

20.10. ***Loans against different kinds of securities*** **:-** In banks and other institutions doing loaning business, loans are generally sanctioned against the following types of securities:-

(i) Loans against fixed deposits.

(ii) Loans against insurance policies.

(iii) Loans against gold and silver ornaments.

(iv) Loans against pledge of Government securities and other trustee securities, share bonds and debentures.

(v) Loans against mortgage of immovable property .

(vi) Loans and advances against pledge or hypothecation of agricultural produce or other goods.

(vii) Book debts

(viii) Housing Loans, and

(ix) Loans specified in byelaws for the purposes specified.

(x) Vehicle loan

We shall now proceed to consider the various points, which are required to be noted while checking different kinds of advances.

20.11. ***Loans against security of fixed deposits*** **:-** Loans against fixed deposits is an important facility available to the depositor, since he can always secure financial accommodation to tide over temporary difficulties without being compelled to ask for refund of his deposit or being required to furnish other security. Obtaining refund of deposit before maturity would involve considerable loss of interest as per rules and guidelines issued by the RBI in this respect, and policy decided by the concern bank or society. This is an important concession allowed to the depositors. From the point of view of the lending bank also, the security is most perfect since availing it would amount to extinguishing an existing liability. Although Co-operative societies have been debarred from advance loans to person

who is not their members, an exception is made in the case of advance against the security of his deposit. Proviso below section (2) of section 44 of the Maharashtra Co-operative Societies Act permits a co-operative society to make a loan to a depositor against the security of his deposit. Thus, loans even to non-members are permissible if they are made against the security of the deposit , held by them by society. As per provision of Rule 45-A, loans against fixed deposit amount and the period for which the loan is granted should not extend beyond the date of maturity of the deposit and the advance amount should bot exceed 90 % of the deposit. As per Rule 45 A- 2 if the depositor does not repay the loan within the period for which it is granted, the fixed deposit amount may be adjusted towards repayment of the loan amount and interest thereon and only the balance, if any shall be paid by the society to the depositor on the date of maturity. However the Reserve Bank of India in its Directive directed the urban banks and DCCB's to decide the margin for advance against fixed deposit.

Since deposit receipts are not negotiable, they will have to be got discharged and assigned in favour of the lending society/bank before a loan can be made against the security of the deposit. Instead of the usual rate of lending, interest at one or two percent over the rate paid on the deposit is charged on such loans. Advance should have been made against the deposit receipts issued by the bank itself. If advances are to be made against the security of deposits with another bank the assignment of the deposit of the receipt in favour of the lending bank will have to be got registered with the branch issuing the receipt. The conditions subjects to which the deposit has been accepted will also have to be carefully examined in order to ascertain that advance by another bank on the security of the deposit of that bank and creating charge thereon are permissible. It has always to be noted that in case of co-operative societies, what section 44 of the Maharashtra Co-operative Societies Act contemplates made by a societies against deposit with itself and not with another institution. and the RBI/ NABARD has also issued guidelines not to advance against the fixed deposit of another institution as far as possible.

20.12. ***Loans on the security of Insurance Policies :***- Ordinarily, insurance policies are accepted only as collateral security, Moreover, since loans are also granted by the LIC itself, there would be very few borrowers who would offer their life insurance policies as security. All the same where insurance policies have been offered as security, the following points will have to be seen:-

(i) It should be seen that the policy is in the name of the borrower himself.

(ii) Receipt for the payment of the latest premium should have been attached to the policy. An undertaking should also have been taken from the borrower that he would pay all the future premia and keep the policy alive during the currency of the loans. In the case of failure by the assured to pay premia as and when they fall due, the bank should have authority to pay them and debit the amounts to the account of the borrower, along with other charges and expenses incurred by it.

(iii) The policy should have been got assigned in favour of the bank or society, which has lent the money and the *assignment registered with LIC*.

(iv) A certificate should have been obtained from the LIC for the *surrender value* of the policy. Advance should be limited to 80% of the surrender value. It should be ascertained whether the policy is subject to any charge encumbrance, etc.

20.13. ***Advances against gold and silver ornaments and gold silver bars etc***. **:-** It is necessary that a *qualified appraiser*be appointed to test and value the ornaments and other articles offered as security. Resolution of the Board or the Committee regarding appointment of the appraiser, the terms and condition of his appointment his duties and responsibilities, remuneration payable to him etc., should be seen. A regular agreement should have been got executed and *adequate security* should also have been obtained from him. Every advance should be supported by a certificate of the appraiser containing a brief description of the articles pledged, their contents, gross weight, net weight, fineness, rate at which valued, market rate prevailing on the date of the certificate, total value of the articles and

the amount recommended for being advanced. When the loan is repaid and the articles are sufficient to cover the balance of loan still outstanding.It should also be seen that the gold and silver articles lying in the safe or strong room of the bank have been *fully insured*. It should be observed by the auditor that the procedure followed by the bank for keeping the ornaments is safe, andthe bags are properly sealed by the branch manager, borrower and the appraiser. Adequate *margin* should always have been maintained and if owing to fall in the market price return of some of the articles or for other reasons, necessary margin is not maintained, notice should be issued to the borrower either to pay up the difference in cash or furnish additional security. *Rules governing* such advances should have been framed and it should be seen that these rules have been duly observed. The auditor should go through the rules carefully and satisfy himself that they generally confirm to the model rules framed by the Department for guidance of co-operative banks. As this business is risky, no advances should be made unless the fineness of the gold and its value is guaranteed by an expert goldsmith or dealer of high professional standing and unquestioned integrity. Actual inspection of the articles in possession of the bank should be carried out during the course of audit.

20.14. ***Advances against pledges of Government and other trustee securities, shares, bonds and debentures*** **:-** Particulars of the securities pledged, their markets-value etc., should be seen. Since it is difficult to ascertain the value of the shares and bonds, etc., which are not quoted in the market, advances should ordinarily be restricted to Government securities and other bonds, shares debentures, etc. for which market quotations are available. Valuation should be based on guidelines from RBI prevailing on the date of advance and should be obtained from FIMMADA. If the borrower himself has not purchased the securities, it should be seen that the last endorsement is in his name. It should also be seen that all interest warrants not due for payment are intact. Actual inspection of the securities, if in possession of the bank, should be carried out during the course of audit. Since the Reserve Bank of India has prohibited physical possession of the securities, and only permitted them to be in the form of ***demat***, a certificate in respect of the certificate of bank/ depository, in which the securities are deposited, should be called for from the bank for verification.

If the securities have not been endorsed in the name of the lending bank , a ***letter of assignment*** should be got executed along with ***blank transfer forms*** duly signed by the owner of the securities. Wherever necessary, the ***charge created in favour of the lending bank should be got registered with the authority*** issuing the bonds or certificates and with the depository. Restrictions on the transfer of some of the securities like rural debentures issued by the State Co-operative Land Mortgage Bank and certain other institutions should be noted. In view of the restrictions on the transfer of shares of co-operative societies and the right of set off available to the societies against shares held by their members, ***shares of co-operative societies should not be accepted as security*** for loans. It has also to be noted that Co-operative Societies Act ***forbids societies to advance loans on the security of the shares issued by themselves.*** Since seconds charges are not recognised in case of certain bonds and debentures, care should be taken to see that ***prior encumbrances have not been created*** on such securities.

Securities carrying Government guarantee should be preferred. Quotations should always be obtained before making advances. Necessary margin should always be insisted upon. Since securities not quoted in the market are not ordinarily in demand, it would be risky to make advances on the security of partly paid shares, the contingent liability in respect of the unpaid calls should be duly considered. RBI has issued detailed guidelines in this respect, and the auditor should carefully study these circulars while checking this type of advances.

20.15. ***Advances against pledge of goods*** **:-** Certificate of the Manager or other responsible officer for having taken possession of the goods should be seen. Every time additional goods are taken into custody, ***"intake notes"*** signed by the borrower should be obtained and certificate of receipt of goods by the Manager should be seen. Similarly, when goods are released, ***"delivery orders"*** signed by the Manager mentioning the amount credited and the quantity of goods to be released should be issued.

Goods should have been released only against repayments and it should be seen that the market value of the remaining goods adequately covers the outstanding balance .

The Advances Register maintained by Bank / Society should furnish full particulars of the goods pledged, their type or quality, period of production and if perishable goods are pledged, the perishable period, prevailing market rate, total value, amount advanced and margin required to be maintained and margin actually maintained. Agricultural produce or other goods pledged by different borrowers should have been ***stored separately***. All the goods should have been ***adequately insured*** and the insurance policies taken out in the name of the lending bank . If the godown in which the goods are stored is not owned by the bank, it should have been hired in its name. The lease agreement should be examined with a view to ascertain whether there are any restrictions on the use of the godown for storage of certain types of commodities. There must always be a ***signboard bearing the name of the lending bank*****,** hung over the main entrance. The locks should also bear the name of the bank.

The produce or the goods should have been so arranged as to facilitate easy checking. The gunny bags or other containers in which the agricultural produce or the other goods are stored should have been neatly arranged in convenient rows so that they can be easily counted or taken out for measurement or for weighting. Where agricultural produce is stored in loose condition (that is in bulk or heaps), measurement will have to be taken to estimate the quantities. *All the godowns may be visited and the goods actually verified and counted during the course of audit from the point of view of the internal control for the godowns.*

20.16. ***Advance against hypothecation of goods*** **:-** As regards advance against hypothecation of goods, it has to be noted that, although a charge exists against the goods hypothecated in favour of the lending bank, the possession of the goods continues to be with the borrower and he is free to dispose of the goods as he likes, provided, the remaining goods are sufficient to cover the outstanding balance as per terms stipulated in the agreement. In some of the agreements, the borrower binds himself to credit to his loan account all sale-proceeds of the goods sold by him.

The borrower is required to submit, as may be stipulated daily, weekly, fortnightly or monthly ***statements of stocks*** lying in the godown and hypothecated to the bank. The stock statements submitted by the borrower are required to be ***carefully examined*** and it has to be seen that the***required margin*** is always maintained . The ***insurance policy*** is also required to be taken out in the name of the lending bank. The actual stocks should also have been inspected by the officers of the bank at frequent intervals. In addition to the periodical stock statements, monthly trial balances and other statements showing the financial position of the borrowing institution are required to be obtained. In case of the individual borrowers, ***confidential inquiries*** regarding their financial position and their dealings in the market should be made periodically.

It has to be noted that several restrictions have been placed by the Reserve Bank of India on such types of advances. Although in the case of advances against pledge, advances up to sixty percent and in some cases even up to seventy per cent of the value of goods pledged are generally allowed, the restrictions pledged by Reserve Bank of India advances against agricultural produce and in particular against food grains and industrial raw materials, such as cotton, oil seeds, etc., should also be taken into consideration, and it should be seen that the directions issued by the Reserve Bank of India in this regard are being scrupulously observed. As already stated, Rule 42empowers the Register to issue with the approval of the Apex Bank, directions regulating grant of loans by co-operative societies. The following are the more important orders issued by the Registrar in exercise of powers vesting in him:-

(1) Registrar's Order No. BNK-110/Fin., dated 8-9-1964 regarding crop loan systems.

(2) Circular No BNK-110(Fin.) Dated 16-2-1963 regarding policy to be followed for financing defaulters.

(3) Circular No BNK-75(Fin),dated 12-10-1964, regarding crop loan system.

(4) Order No. BCB-110 (Fin), dated 18-10-1965, laying down conditions for acceptance of deposits and raising of loans.

(5) Order No.-75 (Fin), dated 17-12-1966, under Rule 42 (1), regarding regulation of loans.

(6) Order No. BCB-75 (Fin,) dated 17-12-1966, under Rule 42(2), regarding grant of cash credits.

(7) Order No. BCB-75 (Fin,)dated 17-12-1966, under Rule 42 (5), laying down conditions for different types of loans.

(8) Order No. BCB -75- (Fin) dated 2-2-67 regarding margins.The auditors should carefully study the above orders and circulars and see that they have been duly complied with.

MASTER CIRCULARS :- The Reserve Bank has issued various circulars in respect of hypothecation and pledge loans and advances, and has consolidated them into master circulars in 2006 which are revised in July every year. Auditors have to study them, obtaining them from the website of the RBI.

20.17. ***Advance against mortgage of immovable property*** **:-** Title deeds such as sale deeds, or certificates issued by the Revenue Department or by the Civil courts showing title in the immovable property and the nature of tenure and other terms and condition subject to which lands or other immovable property has been held, restrictions on its alienation or transfer and creating charges or encumbrances thereon, should have been carefully got examined and the ***solicitor's or legal adviser's certificate*** regarding title of the borrower and his right to mortgage the property should have been obtained. The documents should appear to be genuine and should refer to the ***particular property mortgage*** to the bank or society. Other evidence such as extracts from village record of rights (7/12), city survey records, index II, revenue account abstract from *talathi*, receipts issued by Revenue Officers acknowledging payment of land revenue or ground rent, notices and receipts issued by the local authorities for payment of taxes on the property should be examined in order to be satisfied that the property belongs to the borrower and continues to be in his possession. ***Valuation report of the architect or the engineer***should also be seen in order to be satisfied about the adequacy of the security. The mortgaged property should have been insured for its full value and the policy assigned to the lending bank.

Since the lessee has no permanent interest in the land, recovery of loans made against mortgage of the lease hold property will have to be before expiry of the period of the lease. Interest of co-parceners in property held by a Hindu Joint Family will have to be examined and it will have to be seen that the purpose of the loan is one for which the joint family estate can be mortgaged for securing a loan.

It should be seen that the charges created on mortgaged property are registered with the competent authority, and registration certificates are obtained. In case of companies, to whom loans are provided on mortgage of property, charges should be registered with Registrar of Companies within stipulated period as per Companies Act, 2013.

20.18. ***Discounting of bills and hundies*** **:-** Discounting of bills and hundies is an extremely popular form of temporary accommodation granted by banks. In the co-operative sector, this business is mostly undertaken by urban banks. Cheques and hundies received from the customer are immediately credited to his account and he is allowed to draw cheques against unrealised bills up to the sanctioned limit. Since drawings are allowed before the bills received for collections are realised, the ***risk of dishonour*** of the bills or cheques is always there. As such, very careful inquiries should have been made about the financial position and integrity of the customers to whom this facility is allowed. In some of the banks, what are known as ***time or usage bills*** are also discounted and the bills are presented for

payment and the amounts collected on due date. Bills or hundies may either be clean bills or documentary bills. In the latter case , they are accompanied by railway receipts or other documents showing title to the goods , which are to deliver to the drawee or consignee only against payment of the bills. Since the title to the goods consigned to the drawee continues to the vest in the drawer, discounting of such bills is quite a safe mode of investment of funds, provided due ***care and caution*** is exercised and the party is known to the bank. As regards clean bills, since in most cases, they are mere ***accommodation bills or "kites"*** as they are known, very careful inquiries are required to be made about the material assets possessed by the borrower, his integrity and reputation for honesty in his dealing and the status enjoyed by him in business circles. *The Reserve Bank of India has prohibited issuing such bills, cheques for misuse of banking channel, and the auditors should carefully examine these types of transactions and advise the bank to stop such practices.*

Discounting of bills and hundies is one of the most remunerative modes for the employment of funds short periods. However, the bills should have been purchased only from ***approved parties, whose credit limits have been fixed*** after making very careful inquiries about their financial dealings and their status and their credit in business circles. The movable and immovable properties held by them are also required to be considered. Limits should have been fixed separately for clean bills and other bills, which are accompanied by documents evidencing title to goods such as railway receipts, etc. While checking these transactions, the auditor should see whether the bills discounted are genuine trade bills or are mere accommodation bills. Cases of misuse of hundi limits, discounting of hundies beyond the credit limit fixed, meeting of previous hundies already discounted and due for payment by drawing or accepting fresh hundies, frequent dishonour of bills or delay in honouring them, cases of reimbursement of dishonoured bills by accepting cash payment from the limit-holders, etc., ***should receive particular attention of the auditor with a view to ascertaining whether this business of discounting of bills and hundies is being conducted on sound lines.***

As regards payment of cheques received for collection before they are realised, it may be observed that collection of cheques on behalf of constituents is a very important service rendered by the banks. However, this does not mean that the amounts of the cheques should be paid or credited to the account of the constituents before they are realised. Upcountry cheques are required to be sent by post to collecting banks or the drawee bank and considerable delay occurs before the proceeds are realised and there would be considerable loss of interest. As such, except in certain exceptional cases, proceeds of cheques are not credited to the account of the constituent before realisation. However there should be no objection for discounting them provided they have been received from approved parties to whom hundi limits have been sanctioned.

MASTER CIRCULARS :- The Reserve Bank has issued various circulars in respect of facility regarding bill discounting to be given to the customers, and has consolidated them into master circulars in 2006 and are revised in July every year, auditors have to study them, they can obtain them from the website of the RBI.

———

CHAPTER No. 21

INVESTMENT OF FUNDS

21.1. ***Investments in shares of Co-operatives Societies*** **:-** Under Section 70 of the Maharashtra Co-operative Societies Act, societies are permitted to invest their funds in the shares of any other limited liability society. Federal societies have been set up to facilitate the operations of different classes of primary societies. Since membership of federations is compulsory, all primary societies are required to buy shares of their respective federal societies.

All societies- both agricultural and non-agricultural- are required to purchase shares of the District Central Co-operative Bank or other financing agency from which they borrow. Marketing and processing societies facilitate the operations of agricultural credit societies, by helping to link up credit with marketing and processing. Hence, agricultural credit societies have to purchase shares of the marketing and processing societies operating in the area. Primary marketing societies are required to be affiliated to their respective District Marketing Federations and also to the State Co-operative Marketing Federations . Dairy societies are required to be affiliated to their Milk Unions and to buy their shares. Housing societies, if they want to borrow from the Maharashtra State Co-operative Housing Finance Society, have to become its members. All primary societies are thus required to invest certain portion of their funds in the shares of their federal societies.

21.2. ***Restrictions on investment in shares of other societies*** **:-** However, it should be seen that shares of only such institutions, which have been organised for the furtherance of the objects of the society or otherwise assist the society in its operations, are purchased. The amounts invested should also not be disproportionate and in no case should ***exceed a reasonable percentage*** of the paid-up share capital of the society.

Under Section 19 of the Banking Regulations Act, Co-operative Banks are not permitted to purchase shares of any society other than the Central Co-operative Bank and State Co-operative Bank except to the extent permitted by the Reserve Bank of India. It should be seen that if any co-operative bank has invested its funds in the purchase of shares of any other co-operative society, it is permissible under that Act and also that the amount invested does not exceed the limit specified in the directive issued by the Reserve Bank.

21.3. ***Method of checking investments in shares*** **:-** Receipts or other acknowledgements, acknowledging receipts of the share money should be seen. Since payments are generally made by cheques or debited to current account, entry in the Pass-book will also provide supporting evidence. The share certificate issued by the bank or other society should also be inspected.

21.4. ***Investment in fixed or call deposit with Bank*** **:-** Funds which are not immediately required for the business of the society are generally invested in fixed or call deposits with the Central Bank. The original fixed / call deposit receipts issued by the bank should be seen . If the deposits have been withdrawn, advices or credit notes and entries in the bank passbook will have to be seen. Call deposit and fixed deposit receipts, which have not matured, should be inspected. The Urban co-operative societies are prohibited to invest their funds in other co-operative urban credit societies, or urban banks without prior approval of Registrar. The Urban Co-operative Banks are also prohibited from investing their funds in the Urban Credit Societies and are required to invest their funds in Central financing Agencies, as per guidelines issued bythe Reserve Bank of India.

21.5. ***Purchase of national plan loans, saving certificates and other Government and trustee securities, bonds and debentures*** **:-** If the purchases are made through the banks, the banks' memoranda of purchases or advice notes and entries in the bank passbook would be available. If purchases are made through brokers, the brokers' ***"bought notes"***, blank transfer forms or endorsements, etc., will have to be seen. As securities are placed in demat accounts, certificates issued by the depository should be seen. In case of bearer bonds, it will also have to be seen that all the interest coupons are intact.

It should also be seen that the investment made is permissible under Section 70 of the Maharashtra Co-operative Society Act. If securities are pledged with bank for safe custody or as security against advances, certificates will have to be obtained from the bank and inspected by the auditor. The Reserve Bank of India has issued various guidelines and directives regarding purchase of securities, bonds and trust securities, PSU Bonds, and the auditors should carefully study these. Physical verification of the securities should be done. The guidelines issued by the RBI are described elsewhere.

21.6. ***Purchase and sales of investments*** **:-** In addition to contract notes issued by the broker, agreements and correspondence should also be seen to verify the correctness of the rates. All purchases and sales of investments should have been sanctioned by the committee or the committee appointed for this purpose. Resolutions of the committee should be seen. Rates at which purchases or sales have been made, should be compared with the market quotations prevailing on that date. It should also be seen that necessary adjustments on account of interest accrued and income tax deducted are properly made. Reserve Bank of India has issued various directives for purchase and sale business of investments by the urban banks, DCCB's which are covered under B.R. Act (AACS) , are described elsewhere. If the securities are purchased or sold by the bank without the help of the broker, the auditor should see the deal slip for purchase and sale, together with demat account and see that the transactions have taken place with due care, and reasonable rates prevailing at the time of purchase or sale.

21.7. ***Purchases and sales of securities on behalf of customers*** **:-** Co-operative banks and other financing institutions which purchase and sell securities on behalf of their clients, should maintain separate demat or SGL accounts of the purchases and sales made on behalf of clients. It should be seen that the income, rights and other benefits relating to them are properly charged and credited to the accounts of the customer concerned. Reserve Bank of India has issued various directives for purchase and sale business of investments by the urban banks, DCCB's which are covered under B.R. Act (AACS), are described elsewhere.

21.8. ***Investment in treasury bills*** **:-** Some of the societies, particularly, urban banks, central banks, find a remunerative outlet for their surplus funds in treasury bills or other short-term investments , which are generally sold at a discount. The difference between the face value and the purchase price represents the return on the amount invested. Reserve Bank of India has issued various directives for purchase and sale business of investments by the urban banks, DCCB's which are covered under B.R. Act (AACS), are described elsewhere.

21.9. ***Switching operations*** **:-** When certain investments are sold and the sale proceeds received are utilised for purchase of other investments, the operations are known as switching operations. The profit and loss realisation should be brought into the account and the new investment should be entered at its actual cost. Reserve Bank of India has issued various directives for purchase and sale business of investments by the urban banks, DCCB's which are covered under B.R. Act (AACS), are described elsewhere

21.10. ***Badla transactions*** **:-** These are purely speculative transactions involving purchase and sales of securities not with a view to investments of funds, but merely to profit by the rise and fall in the prices of security and no delivery of securities purchased or sold is necessary. Only the differences are paid or received on dates fixed for settlement ***Auditors should see that co-operative banks do not employ their funds for such transactions.*** Reserve Bank of India has issued various directives for purchase and sale business of investments by the urban banks, DCCB's which are covered under B.R. Act (AACS) , are described elsewhere.

CHAPTER No. 22

INVESTMENT IN IMMOVABLE PROPERTY, PURCHASE OF LANDS AND BUILDINGS

22.1. ***Purchase of lands buildings*** **:-** Where lands and buildings are purchased, agreement for sale and the sale-deed itself will have to be seen. Both the documents should have been properly stamped. The sale-deed should also have been registered. Title deeds showing title of the vendor to the property and also such other evidence like 7/12 extracts, 8A abstracts from village record-of-rights, city survey records, sanads granted etc., should be inspected. Receipts for payment of ground rent or land assessment, municipal taxes, etc., which show that the property continued to be in the possession of the vendor till the date of sale, should also be seen. The title deeds should have been carefully examined by legal advisers. They should appear to be genuine and refer to the particular property to be purchased. The dates and sequences of the conveyance should be checked and it should be seen that, the last conveyance is in the name of vendor. The valuations of the building should also have been made by a competent architect or engineer. Stamp duty, registration charges and also legal charges and architect's fees may be allowed to be capitalised. If the buildings were purchased in an auction sale or through the Civil Court, the auctioneer's report , or certificate granted by the court would be available. If the building is sold under an order of a Civil Court, certificate of transfer of title to the property issued by the court will also be available. It should be seen that all the documents of title to the property are delivered and conveyance duly completed. Resolutions of the Board, Managing Committee or of the general body may be seen. It should be seen that ***necessary permission of the Registrar*** as required under Section 70 of the Act for purchasing the building has been obtained. When buildings are purchased or constructed out of the Reserve Fund and other surpluses, permission of the Registrar for utilisation of the amounts for construction works will also have to be obtained in addition to the permission for investment of funds in immovable property as required under Sections 70 of the Maharashtra Co-operative Societies Act. In case of Banking institutions, provision of Section 9 of the Banking Regulations Act 1949, will have to be observed regarding disposal of the non-banking assets. According to this section, no co-operative bank is to hold any immovable property, howsoever acquired, except such as is required for its own use for any period exceeding 7 years from the acquisition thereof or from the commencement of the said Act, whichever is later, or within such extended period as is provided in the said Act, with permission from the RBI.

22.2. ***Investment of Reserve Fund in immovable property*** **:-** As regards investment of the Reserve Fund in immovable property, it has to be noted that under clause (iv) of sub-rule(i) of Rule 54 of the Maharashtra Co-operative Societies Rules, co-operative societies may utilise or invest their reserve fund in any immovable property specified by the Registrar by general or special order. Societies, which desire to withdraw any portion of their reserve fund for investment in immovable property, are required to obtain specific sanction of the Registrar. The Registrar in his Circular No. ADM/ 184(28), dated 16-8-1963 has directed that the following norms should be invariably followed while granting permission to any society for utilisation or investment of its reserve fund in immovable property:-

(i) The amount to be invested in immovable property should not exceed half the total amount of the reserve fund.

(ii) The society concerned should be of at least 5 years' standing.

(iii) The society should be in 'A' or 'B' class.

(iv) The society should agree to the creation of a first charge for the amount to be so invested on the profit which it would earn in subsequent years to make good the amount within a period which may not ordinarily exceed 10 years.

(v) The land purchased or the building to be purchased or constructed should be advantageous to the society in the conduct of its business.

These conditions are generally specified in the order permitting investment of reserve fund in immovable property. Auditors should see that the conditions specified in the order are duly complied with. The committee has been constituted by the Registrar for permitting such investment, headed by the DDR, DJR and CRCS at various levels, for specified amount.

22.3. ***Construction of buildings, approval of layout / building plans*** **:-** Before commencement of construction work in rural areas and in towns and cities outside municipal limits, permission for use of the land for non-agricultural purposes should have been obtained. The layout plans and plans for building prepared by the architects, qualified engineers or engineers, should have been got approved from the municipal or other local authorities wherever necessary. Where godown or buildings are to be constructed out of loans sanctioned by the Government , it should be seen that the plans and layouts conform to standard pattern approved by the Government Engineer. All changes in the plans and layouts should also have been got duly approved from competent authorities.

22.4. ***Appointment of contractors*** **:-** Where construction of buildings is entrusted to contractors, it should be seen that the normally accepted canons of financial propriety, such as calling for tenders or obtaining quotation, comparison of rates and acceptance of the lowest tender, enquiries into financial position and past performance of the contractors, etc. are duly observed. If tenders are not called for and the contract is entered into by private negotiations or where the lowest tender is not accepted, reasons for not calling for tenders or for not accepting the lowest tender should be ascertained. The rates agreed upon should not be more than the prevailing rates for similar works. The following points should also be seen :—

(i) Whether tender deposits have been collected and regular agreement on stamped paper has been got executed in the form prescribed by the Institute of Chartered Architects.

(ii) The terms and conditions should be examined particularly in regard to (a) supply of materials and deduction of the cost thereof from the bills, (b) payment of advances, deduction of retention money from the amount of the bills, (c) payment of damages for delay in completion of works, appointment of subcontractors, etc.

(iii) Measurement books should be maintained by the building supervisor, clerk of the work or other employee of the society supervising over construction work. Measurements of all works executed should be taken at regular intervals under the direct supervision of the architect.

(iv) All running bills should be duly checked by the architect. ***Quantities shown in the bills should be checked from the measurement books and rates*** should be compared with rates specified in the tender form filled in by the contractor and accepted by the society.

22.5. ***Payments to contractors*** **:-** The agreement entered into with the contractors should be seen and it should be ascertained whether lump sums are to be paid on completion of specific stages of the work or advances are to be paid from time to time against running bills to be submitted according to progress of work. Advances to contractors during progress of work should only be made against progress reports and valuation of work as ***certified by the architect***. Running bills should have been submitted through the architect who should have checked them and initialled them in token of (a) having compared quantities with the measurement books, (b) having compared rates with those specified in the tender submitted by the contractor and accepted by the society, and (c) having checked calculations, extensions and totals of the bills (d) having checked that the work completed by the contractor is of ***assured quality and quantity***. The valuation certificate should mention specific items of the work executed and value thereof, total value of the work executed so far, amounts paid to the contractors upto submission of the bill, amount to be deducted on account of supply of materials and retention money , necessary taxes and the net amount of advance recommended to be paid. If additional amounts are to be paid on account of materials purchased and stored at the site by the contractor both

quantities and rates at which different materials have been valued should be mentioned and the amount of advance paid against stocks of materials lying on the site should not ***exceed 75 percent of the value of the materials***. All running bills should be serially numbered and filed along with the architect's certificates.

The running bills should also be checked by the accounts department as regard rates, quantities, etc. Calculations, extensions and totals should also be checked. Quantities mentioned should be compared with those mentioned in the immediately preceding bill and it should be seen that increases are shown only against items of works which are still in progress. In respect of completed items of work, as for example, excavation for foundation, filling in and construction upto plinth level, columns, slabs of lower floors, etc., the amounts shown against these items in previous bills should have been repeated, since in respect of these items , there would be no further progress.

22.6. ***Final bills and completion certificates*** **:-** Final bills submitted by the contractor should have been duly checked as to quantities, rates, calculations extensions and totals, carry forwards and final total, by the architect who should also certify the completion of the building and correctness of the cost incurred over the construction. The architect also arranges to obtain the completion or occupation certificate from the municipal authorities without which the building cannot be occupied. Where buildings or godowns have been constructed out of Government loan, after completion of the building, a valuation certificate is also required to be obtained from the Executive Engineer of the State Government, or of the Zilla Parishad or other Engineer ,as specified in the Government order sanctioning the loan. ***The Actual expenditure incurred and quantities should be compared with the estimates originally prepared and the difference under different heads, if material, should be inquired into.***

22.7. ***Construction of buildings Departmently*** **:-** Where construction work is carried on departmentally, the society itself buying materials and engaging labour, the following points should be noted:—

(a) Layout plans and estimates should have been prepared by the architect and approved by the general body.

(b) A qualified Civil Engineer or overseer should be appointed to supervise over construction work. One or more mistries, works clerks or other assistants may be appointed where construction work of considerable valve is undertaken.

(c) Attendance of labourers should be checked with the muster rolls, job cards, job registers and supervisor's Daily Reports.

(d) Payments of wages should be checked from the acquittance rolls, at the top of which particulars of the works or job executed should be mentioned

(e) Purchases of building materials like bricks, cement, lime, iron and steel, timber, etc., should be checked from suppliers' bills, delivery notes, materials received notes and entries in the materials received register.Building materials, are stored in the open on the site. It is, therefore, necessary to appoint a watchman who will attend to the safeguarding of materials . However, cement and building stores like bolts and nuts, hinges, screws, nails, etc., should be stored in a godown or closed room and should be under the control of store keeper, Purchases should only be made against requisitions submitted by the Civil Engineer.

(f) A register showing receipts and issues of different kinds of building materials should be maintained. All entries in this register should have been checked and initialled by the Civil Engineer .

(g) Basis for allocation of wages, building materials and also supervision charges including salaries of the building supervisor and Civil Engineer to different buildings and other civil works should be ascertained.

22.8. ***Construction of godowns by Co-operative Societies*** **:-** In order to encourage agricultural credit societies, marketing and processing societies to construct godowns for storage of agricultural produce of members pending sale and also chemical fertiliser, insecticides and other agricultural requisites , both the Central and the State Governments formulates special schemes for giving them financial assistance both by way of loans at concessional rates of interest and subsidies. During the course of audit, auditors will have to see that terms and conditions subject to which the loans and subsidies have been sanctioned , are complied with. It has also be noted that the amount of ***subsidy received is credited to the Reserve fund*** and the full cost of the construction including cost of the land should be shown on the assets side. If the Actual cost of the godown exceeds the amount of loan and subsidy received from Government, permission of the Registrar for investments of additional funds in the construction of the godowns as required under Section 70 of the Maharashtra Co-operative Societies Act should be obtained.

———

CHAPTER No. 23

CAPITAL AND REVENUE EXPENDITURE

23.1. ***Treatment of capital expenditure*** **:-** It is necessary that all capital expenditure incurred should have been properly authorised. The resolution of the managing committee / board or the order of the authorised officers sanctioning such expenditure should be seen. Similarly, all major repairs and maintenance charges, though not capitalised, should also have been sanctioned by the committee or the authorised officer.

The expenditure capitalised should be added to the cost of the assets and not for replacement, unless the asset itself is scrapped and a new asset acquired in which case the sale- proceeds of scrap received should be credited to the account of old assets and the cost of replacement debited to the account of the new assets . The difference between the value of the old assets and the sale-proceeds received should be adjusted to the profit and loss account. Where assets are not acquired from an outside agency, but, have been created by the concern itself by supplying materials and employing workers, it should be seen that the expenditure capitalised is limited to the actual cost of the work done, i.e. the cost of material and labour charges and only a reasonable portion of the factory overhead. Administrative overheads should not be capitalised and no profit margin should be charged.

23.2. ***Apportionment of expenditure between capital and revenue*** **:-** The distinction between capital and revenue is of vital importance as it directly affects the amount of profit or loss and the correctness of the balance sheet.

Capital expenditure is all expenditure incurred for purpose of acquiring assets of a parent nature by means of which the business is carried on or for the purpose of increasing the earning capacity of the business.

Revenue expenditure is all expenditure incurred for carrying on the business and in maintaining the capital assets in a state of efficiency.

The allocation of expenditure between capital and revenue calls for the auditor's careful examination. Where the expenditure is directly incurred for capital purposes, it can be vouched during the course of examination of the cashbook or Purchases Register. However, in many cases,as for example, when an additional wing is constructed to the building , the expenditure incurred is first debited to the general revenue account such as wages, etc., and then transferred to capital. In such cases, precise particulars should be obtained as to number of men employed, nature of work, rates of pay, etc., and the portion thereof applicable to capital. The Works Manager and other officers concerned should certify such analysis.

As regards expenditure on materials, schedules of all goods taken from the store for such purposes, should be prepared by the store keeper and certified by the Works Manager, value being calculated at cost price.

23.3. ***Vouching of capital expenditure*** **:-** All capital expenditure should be very carefully vouched to ensure that payments are in order, have been properly authorised and are proper capital charges. The question as to what documents will have to be examined depends on nature of the payment. For example, where plant, machinery, furniture and fixtures, etc., have been newly acquired , invoices and receipts will be seen. Where adjustments have been made to revenue accounts in order to segregate capital expenditure, inquiries should be made in order to ascertain that the items to be capitalised are bona fide capital charges, have been properly authorised and no repairs and expenses of manufacture are added to the capital account. In addition to invoices price, carriage and other expenses connected with the purchase can be capitalised. In case of plant and machinery, cost of erection can also be properly added to the cost of machinery or shown separately under the heading "Machinery Foundation", or "Erection charges". As regards purchase of new buildings or addition made to existing buildings,

the expenditure should be verified by inspecting agreement for purchases, architect's, engineer's certificates, supplier's invoices, wages sheets and other documentary evidence that may be presented to him for purposes of his audit. Where buildings are purchased the amount paid should not only be verified by a reference to the solicitor's statement, agreement and sale deed, but a certificate regarding reasonableness of the amount paid should be obtained from a qualified architect, qualified architect, qualified Engineer or Government Engineer. The title deed and conveyance or the lease should be examined. If the buildings are in course of erection, the auditor should examine the builder's account, his running bills and receipt and certificates of the architects or qualified engineers. Solicitor or architect's charges will be vouched from their statements of accounts and theses expenses may be treated as being part of the capital cost.

In case of societies, which have undertaken development of land and constructions of building, *viz.*, farming societies, housing societies, industrial estate, etc., the expenditure incurred over development of the property may be allowed to be capitalized. In case of farming societies, the entire expenditure incurred for developing land, levelling and constructing bunds and providing irrigation facilities, should be capitalized. In case of housing societies and industrial estates, in addition to the cost of land, the expenditure incurred over the development of land including construction of roads, drainage, provision of electricity and water, division of land into plots and similar other expenses may be capitalized. In the case of tenant co-partnership housing societies, not only the cost of land, development charges and the cost of construction of the building, but also the expenditure incurred for supervision over construction work and reasonable administrative charges incurred during the period upto the date when the flat s are ready for being let out to members may be capitalized.

In case of newly established societies, all expenditure incurred upto the date of commencement of trading (*i.e.* Disposal of the first batch of finished goods) may be allowed to be capitalised. In cases of processing and manufacturing societies, the entire expenditure incurred including financial charges upto the date of commencement of manufacturing activities may be capitalized. However, the expenditure capitalized should be the net amount of the deficit after taking into account the income by way of interest on surplus funds invested, sale proceeds of scrap and unused material, etc.

It is the duty of the Auditor to verify additions to each type of fixed assets during the year. During the course of his audit, the auditor should make it a point to inspect any substantial capital addition to the assets, which have been made during the year covered by his audit. This is desirable for satisfying himself about the reasonableness of the expenditure, which has been capitalized. He should also be satisfied that the capital expenditure incurred is represented by some tangible assets and is not merely fictitious or replacement of an old asset which has not been written off.

———

CHAPTER No. 24

PREPARATION OF THE PROFIT AND LOSS ACCOUNT

24.1. ***Checking of posting into ledger*** **:-** While vouching the cashbook and the journal, the auditor has to see that not only is there is sufficient evidence in support of the entry, but the entry itself correctly records the transaction. By careful vouching, the auditor will be able to discover the nature of the entries in the cashbook and the other books of prime entry. However, it should be noted that the ledger is the center of all accounts, since all the transactions affecting the business are posted therein and the profit and loss account and the balance sheet are prepared from the ledger. The auditor will, therefore, *have to trace carefully the entries from the cashbook and the journal into the ledgers and satisfy himself that they have been posted to the correct ledger accounts*. Ledgers are primarily divided into two classes personal ledger and impersonal or general ledger. Accounts relating to individuals are maintained in the personal ledgers and in the impersonal or the general ledger, as it is more commonly known, aspects of the transaction as they affect the business and not as they affect individual are recorded. The impersonal ledger is further divided into two sections, on containing real or property accounts which record assets and liabilities of the business and the other containing nominal accounts, which relate to the profit and loss account. The impersonal ledger will, therefore, contain all accounts, which record the operations of the business and at the close of the accounting period are summarized into the trading and profit and loss account and secondly all accounts which represent the assets and liabilities of the business. The auditor must, therefore, check the whole of the entries in the general ledger. In fact, he can verify the correctness of the personal account by agreeing to their total with the balance of the concerned total or control account maintained in the general ledger. ***It need hardly be pointed out that one of the commonest methods of concealing manipulation in personal account is to make corresponding fictitious entries in the impersonal account either by opening a bogus account or by posting the amount of nominal or total account in the general ledger. For example, the secretary of PACS has credited principle of loan in personal ledger, of amount for which he has received actual cash, for canceling this entry; he has passed the entry in general ledger, without recording cashbook, crediting anamat account and debiting the principle of loan account.***

Generally the expenses are debited by crediting Secretary or Chairman anamat or anamat in the name of member who is relative of these officers, in the General ledger; these entries are not recorded in the original books, i.e. cashbook or journal.

24.2. ***Checking of the General Ledger*** **:-** *As already stated, the entries in the general ledger will all come from a book of prime entry, viz., the Cashbook or the journal*. In most societies, which do not maintain a separate journal, the cashbook is generally called the Daybook. The total of all subsidiary book, *viz*., Purchase journal, Sales Register, and other subsidiary cashbook are first entered in the Day Book and posted into the general ledger from the Day book, although in some societies, posting from the subsidiary book are directly made into general ledger. However, it is more usual to analyze the transactions recorded in the subsidiary books according to their classes and post the total into the Daybook under heads so classified and then post them into the general ledger. In such a case, *viz*., where total amount has been analyzed and classified under various heads, the auditor should check the analysis, reconcile the total amount and trace the individual items comprising 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 the account in the general or personal ledgers without first being entered in the cashbook 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. Routine checking of posting is usually done by two clerks or assistants working together, on calling out the amount form the cashbook and the other repeating the amount after tracing the amount in the ledger account. Entries both in the cashbook and the ledger should be ticked simultaneously.

24.3. ***Calling over of opening balances from previous year's ledger*** **:-** After the whole of the posting into the ledger has 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 unticked items and should there be any unticked item, it should be traced in the cashbook. The Cashbook and 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 account in the general ledger. However, there would be certain accounts relating to expenses and losses, which might not have, been completely written off. The balances not written off are brought forward under heading, such as deferred revenue expenditure, development charges, preliminary expenses etc. and are written off against profits of future years. The opening balances of all real or property account and all account in personal ledgers will, however, have to be called over from the previous years' ledgers.

The non-checking of the opening balance will results in canceling of any asset or liability, which is cancelled subsequently by creating fictitious assets or bogus liability.

24.4. ***Drawing up of 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 as they are debit or credit balances. This statement, which contains a classified summary or a list of all closing balances of general ledger, is known as the ***" trial balance"***. Since the cashbook 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 postings 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 total, both of the general ledger and the cashbook will have to be checked. However, in most cases, certain indication would be available after careful examination of the difference, which would assist in locating the difference.

Some indications are 1) if the difference is 1,100, 1000, 9, 99, 999 and so on, the difference must be located by totalling, 2) If the difference is of specific amount in odds there must be mistake of living the amount of the same amount. 3) If the difference of specific amount is there check in the trial balance the amount half of the same, which might have been posted on the wrong side.

The difference should be located and the trial balance agreed before drawing up the final accounts. However, the auditor should not proceed to prepare the final account unless he is presented with an agreed trial balance. In the smaller societies, particularly agricultural credit societies, instead of the trial balance, a receipts and disbursements statement is prepared from the cashbook, which serves the same purpose.

24.5. ***Checking of journal*** **:-** ***When transfer entries are passed through the cashbook itself, both the credit and debit entries should be seen simultaneously***. Such ***contra entries*** should be marked with a special tick in order to distinguish them from other entries, which involve passing of cash. ***All contra or transfer entries should be checked very carefully. Because these contra entries do not affect the cash on hand and no cash actually passes hands, there is a tendency to pass these entries without proper scrutiny. However, since contras also create monetary obligations, they are as important as cash transactions and should, therefore, receive due attention.***

There are adjustment entries, rectification entries, and routine entries of payments and receipts by transfer are recorded in the Journal. Auditors should take specific care while checking the rectifying

entries to check that the original entry is really passed in the wrong manner. Adjusting entries are passed for provisions of expenses, prepaid expenses, and pre-received income, and for the goods received but no bills are received and needs to create payments entries. The entries are as follows.

Sr. No.	Particulars	Debited to	Credited to
1.	Expenses due for the accounting period, but are not paid requires provision such as Salary, Audit fees, Interest, commission, cadre contributi on, Education fund contribution etc.	Expenses account	Expenses Payable Account
2.	Expenses paid are for the period of future accounting period requires to provide i.e. interest, Taxes paid, Insurance etc.	Prepaid expenses Account	Expenses Account
3.	Income for the accounting period is not received but due to receive *i.e.* interest, Dividend, commission etc.	Income Receivable Account	Income Account
4.	Income received for the future period requires to provide i.e. Rents, Taxes etc.	Income Account	Income pre-received Account
5.	Deductions made from salaries, commissions, Interest such as Income tax deducted at source, professions tax deducted, various deductions from salary etc.	Expenses account	Sundry payable Account
6.	Sales effected, but amounts are to be received	Sundry Debtors Account	Sales Accounts
7.	Goods received, but payments are till to be made.	Purchase account	Sundry Creditors Account.

While vouching entries in the journal or in the cashbook, the auditor should see that not only is there sufficient evidence in support of the entry, but also that ***the entry itself correctly records the transaction.****It should further be seen that all transfers from one account to another account in the general ledger from one personal account to another, should be passed through the journal or through the cashbook and no posting into the ledger should be made directly in the ledgers.*

The narration below the entry contained in the transfer vouchers (both credit and debit) should be gone though carefully and it should be seen that the entry has been correctly passed.

24.6. ***Closing of nominal account*** **:-** Unlike the auditors of joint stock companies, the auditor of a Co-operative society rarely finds that the books presented to him by smaller societies, are written up-to-date and duly balanced. In most of the cases, before the auditor proceeds to check the final accounts, he will find that necessary adjustments have not been made. In many cases, particularly, in case of the small and smaller societies, the auditor is called upon to advice balancing the books and making necessary adjusting entries for closing the accounts. He may tender necessary advice in his capacity as an expert accountant. It is necessary to note that irrespective of whether the auditor advises society officials to make adjusting and closing entries or merely checks them, he must satisfy himself that these entries are necessary and correct.

The closing entries for nominal accounts are :--

1) All expenses Credited and Debited to Profit and Loss account, and
2) All Incomes are debited and credited to Profit and loss account.

By these entries the balance of profit or loss is extracted and accordingly taken into balance sheet.

24.7. ***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 correct position of the society, it is necessary that all such overlapping transactions are taken into account and necessary adjustments made.

All nominal accounts 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 or revenue has been duly recorded. 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. He should see that all sales effected, particularly, sales made during the last few days prior to the date of final accounts. He should trace back the issue of dispatches of goods to the relative invoices or sales memos. Similarly, during the course of inspection of securities and securities and other investments, the auditor should ascertain whether all interest accrued due during the period has been received and all divided declared is duly credited. A few such entries are shown in Para 5 above

24.8. ***Adjustment of outstanding expenses*** **:-** As regards outstanding payments, the auditor should examine the ***" Good Inward Book "***or the ***" Invoice Register "*** for the last few weeks of the period and satisfy himself that all purchases made and included in 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 service rendered are not received from the suppliers and other creditors. For example, the transport contractor might not have submitted his bills for goods transported during the last few days of the year. Similarly, solicitors and other consultants might not have submitted their bills for professional services rendered to the society during the period covered by the audit. 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. Special attention should be given to the items discussed in the following paragraphs.

The society should be advised to maintain an ***accrual ledger*** in which the accounts of such outstanding items would be maintained. This would facilitate the comparison of the amounts provided during the current year with those of the previous years and the auditor's attention should be drawn to any items, which might have been overlooked. Where no accrual ledger on the above lines has been maintained, the auditor should examine the last year's journal and ascertain what adjustments in respect of outstanding items are required to be made.

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

(ii) Interest on saving Bank account **:-** This is ordinarily calculated and credited to the accounts of the respective depositors, before the close of the year.

24.10. ***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, etc., and also transport charges, godown rent, subscriptions, advertisements etc. The auditor should further inspect the ledger account, demand notes, receipts etc. noting the period covered by each payment and seeing thatany accrued and unpaid proportion from the date of last memo till the date of the balance sheet noticed during the inspection of these documents is provided for. The amounts paid under these headings should be compared with those appraising the corresponding nominal accounts for the previous year so as to ensure that all rents, rates, taxes, etc., payable have been duly provided for.

24.11. ***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 balance sheet. The auditor should examine the nominal accounts and also demand notices bills and receipts and see that correct calculation has been made of the proportion of the amounts relating to the unexpired periods.

24.12. ***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,. Interest on loans and advance 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 for undeclared dividend. Sometimes, rebates and bonus shares are also receivable. However these should not be taken to 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 inquiries 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 prevision is made for them. As regards outstanding interest on loans and advances, this has been treated separately.

24.13. ***Deferred Revenue expenditure*** **:-** Many times, heavy expenditure is incurred, the benefits derived from which would extend to periods beyond the date of the balance sheet. It is, therefore, equitable that the expenditure incurred should be spread over a period of years during which the benefits of the expenditure would be available. For example, heavy expenditure might have been incurred on advertisements, the benefits of which would be derived in future years. Similarly, considerable expenditure might have been incurred over development and also expenditure over research and experiments, alteration to premises and equipment and heavy repairs might have also been made. The auditor should examine carefully all these aspects in order to satisfy himself that the carry forward of part of such expenditure is fully justified.

———

CHAPTER No. 25

DRAWING UP OF THE PROFIT AND LOSS ACCOUNT

25.1. ***Division of the Profit and Loss Account into three sections*** **:-** In the case of co-operative banks and other institutions, the profit and loss account will contain all the items relating to the income and expenditure of the institution. However, in case of trading societies such as consumers' societies marketing societies etc. the Profit and Loss Account has to be divided into two sections, the first relating to trading operations and the second the Profit and Loss Account proper. In case of manufacturing and processing societies, there would be three sections, the first section being styled as manufacturing or production account, the second and third sections will be the trading and profit and loss account respectively.(as per note below 'N' form of profit and loss account) The basis upon which the manufacturing, trading and profit and loss account are prepared, is explained in the following paragraphs.

25.2. ***Manufacturing account*** **:-** The object of the manufacturing account is to show the manufacturing cost of the goods produced. As such, the manufacturing or production account will contain only items relating to the manufacturing operations of the society. The main heads under the manufacturing expenses are shown as under;

(1) (1)The work in progress or value of unfinished goods at the beginning of the year.

(2) (2) Raw materials used (opening stocks plus purchases *minus* closing stock)

(3) Fuel, oil, electricity and other power charges.

(4) Stores and spare parts consumed.

(5) Direct or indirect labor.

(6) Maintenance of factory building, plant and machinery tools and other equipments.

(7) Insurance of factory building, plants and machinery and tools stores, etc.

(8) Depreciation of factory building plant, machinery looses tools and other equipment.

(9) Factory heating lighting and water charges.

(10) Rent, rates and taxes of the factory premises.

(11) Salaries of the technical staff and officers including works manager, factory superintendents, etc,

(12) General administrative expenses strictly pertaining to the factory.

From the total of these items, i.e., the total of works in progress or unfinished goods in the beginning of the year and manufacturing expenses incurred during the year, the value of the work in progress at the end of the period is deducted and the results give the manufacturing cost of the goods produced during the period, which are available for sale. This figure is brought down to trading account-

25.3. ***Trading Account*** **:-** In the trading account, the opening stock (value of finished goods at the beginning of the year) appears as the first item. The cost of goods purchased, which would also include all expenses connected with purchases, or manufactured appears as the next item and thereafter all trading expenses are debited to this account. In case of a manufacturing business, the cost of goods manufactured brought down from manufacturing account takes the place of purchases. This account is credited with the net sale proceeds received (total sales minus returns) and value of closing stock. The difference between the two sides, viz., net sale proceeds received minus cost of goods sold which would include selling expenses, will show gross profit. This gross profit is brought down to the credit of the profit and loss account. Whereas the object of manufacturing account is to show the manufacturing cost of goods produced during the year, which are available for sale, the object of the trading account is to determine the gross profit which is the difference between the sale proceeds received and the cost

of goods sold. In the trading account of trading societies, in addition to the invoice price of the goods purchased, direct charges such as carriage and freight, insurance, godown rent and other expenses connected with the purchase and storage of goods are included. In some of the societies, particularly in consumer stores, rent of shop premises and also salaries of salesman and other staff directly engaged in selling goods are also shown in the trading account. Adjustments, however, will have to be made for the value of opening and closing stocks before arriving at the figure of gross profit.

25.4. ***Profit and Loss account proper*** **:-** The third section of the profit and loss account is the profit and loss account proper. This account is credited with the gross profit brought down from the trading account together with any miscellaneous income such as cash discount, interest rent, dividend, share transfer fees, commission, etc. On the debit side, the various items of expenditure are grouped usually under the following heads: -

(i) Selling and distribution expenses.

(ii) Administrative charges including audit fees, legal charges, etc.

(iii) Financial charges.

(i) Selling expenses **:-** The selling and distribution expense include cost of packages and packing material used, labour employed for packing goods, carriage fright, insurance and other charges incurred for dispatch and delivery of goods to customers where these are not to be charged to the customer, home godown delivery expenses (in case of consumers' societies) expenditure incurred over advertisement and publicity, cost of samples, printing charge of catalogues, price and lists and other publicity material, salesmen's salaries and commission and their expenses, bad debts and sundry trade expenses are also shown under this heading.

(ii) Administrative expenses **:-** Administrative charges include overhead expenses such as –

a. Clerical and accountancy charges.

b. Printing and stationery.

c. Postage telegrams and telephone charges.

d. Office rent rates, insurance Office lighting and heating.

e. Office lighting and heating

f. Director's sitting fees and expenses.

g. Managing Director, Manager's salary and cost of requisites and allowances.

h. Audit fees and legal charges and other general expenses.

(iii) Financial charges include **:-**

(a) Cash discount.

(b) Interest on deposits, loans, bank overdraft and other borrowing.

(c) Bank charges including discount charged on bills collected or discounted.

(d) Provision made for payment of income – tax is also sometimes included in the profit and a loss account. However, this has been dealt with in a subsequent paragraph.

(e) Depreciation on office furniture and equipment. Also depreciation on building, godowns, etc. where these are owned by the society.

25.5. ***Revenue Account of Income and expenditure Account*** **:-** In case of non-trading societies, such as Co-operative societies, clubs and also federations, housing societies and similar other 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 the Revenue Account or the Income and Expenditure Account are the same, the object being to disclose the excess of income over expenditure or the deficit incurred during the period.

25.6. ***Profit Appropriation Account*** **:-** Section 65 and Rule 49 A and 51 provides the charges made to profit and loss account, and after arriving at net profit how the appropriation of profit should be made is described in Rule 50. After arriving at the net profit, the profit should be appropriated as below.

Sr. No.	Section	Rule	Particulars
1	65,66	—	Reserve fund not less than 25 % of the net profits or as sanctioned by the Registrar, but not less than 10%
2	69	—	Fund created for charitable purposes including relief to the poor, education, medical relief, and advancement of any other general public utility, not exceeding 10 % of the net profits.
3	65	—	Dividend to its members
4	65	—	Bonus or honoraria to its members and honorary workers, other than employees.
5	—	50	Development fund, Dividend equalization fund and any other fund created under bye-laws

However, in Joint stock companies the profit appropriation account is created for the purpose of adjusting the Expenses and Incomes which are not related to the accounting period of the Company. Co-operative Societies do not prepare Profit Appropriation Accounts; the above appropriations are shown by the societies, in their annual report only. The auditors are required to guide the societies in preparing the profit appropriation accounts in relation to the Income and Expenses which are not related to the accounting period for which they are undertaking the audit so that, the correct and fair position of the profit and loss account would be arrived.

25.7. ***Auditor's responsibilities as regards Profit and Loss Account*** **:-** Scrutiny of Profit and Loss Account- Under sub-rule (3) of Rule 69, the auditor is required to state in his audit memorandum that the profit and loss account is ***in agreement with the books and gives a true and fair view of the profit or loss for the financial year***. Thus, he has not only to certify that the profit or loss is correct according to the books, but also that it has been calculated according to normally accepted accounting principles. The auditor's responsibility in certifying the correctness of the profit and loss account is big. ***It is a fundamental concept of accounting that no dividend can be paid except out of profit, and the profit must have been earned before paying a divided***. ***If, on the contrary, dividends are paid out of capital and if this is not reported by the auditor, the auditor would be held liable.*** It is possible that the profit of a business may not have been genuinely earned and the accounts might have been manipulated to show profit in order to declare divided and keep the shareholders satisfied.

25.8. ***Principles governing preparation of profit and loss account*** **:-** Following are the principles, which govern preparation of the profit and loss account: - Rule 49 A

(1) Adequate provision should have been made for depreciationas per Income Tax Act and provision for bad debts.
(2) Stocks should have been valued on a correct basis,
(3) Interest overdue should not have been taken into account,
(4) Provisions of the Byelaws relating to the creation of Capital Redemption Fund, Sinking Fund, Guarantee Fund and other funds should have been dully observed,
(5) Conditions laid down by the Government and the financing agencies regarding creation and maintenance of these funds should have been complied with,
(6) Interest payable on deposits, loans, debentures and other borrowings should have been calculated and brought into account.
(7) Capital profits and other extraordinary receipts should not have been taken to profits,
(8) All expenditure incurred, but not brought into account should have been provided for.

(9) Transfers to profit and loss account form funds created out of past profits should not have been made.

These matters require careful attention and the auditor should look into the above points before certifying the correctness of the profit and loss account.

25.9. ***Prior period items or changes in accounting policies in respect of profit and loss account*** **:-** The Institute of Chartered Accountants of India has issued an Accounting Standard AS 5 regarding this.

The profit and loss account is prepared for a period on the basis of certain fundamental accounting assumptions and reflects the accrual of revenues and related costs for that period. In this context, prior period or extraordinary items or those items, which arise due to changes in accounting policies and are generally non- recurring in nature, require special consideration as they could affect on the true and fair position of the profit and loss account.

The prior period items as specified by the Institute are, " material charges or credits which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more periods." For example, the provisions required for prudential norms (NPA) not adequately provided, which affect in the next period of the profit and loss account.

Extraordinary items are gains or losses, which arise from events or transactions that are distinct from the ordinary activities of the business and which are both material. For example the sugar factories or banking societies;when income tax becomes applicable to them, it will affect the profitability of the society.

Disclosure of accounting policies (AS 1) **:-** Generally, the accounting policies are not decided by the co-operative societies.However, the conventions of accounting regarding charging of depreciation, or providing expenses are followed by the societies till date; now the Act provides for adopting the accounting policies by the societies. Changes in these policies have material effect on the profit and loss account, such as,if the society charging 10% depreciation on the computers changes the rate of depreciation to 33%, it will materially banking societies, which are running their business on computers. This will affect their profit and loss account.

Auditors are required to study the accounting standard and offer their comments accordingly in the audit report.

25.10. ***Guidelines issued by the Institute of Chartered Accountants of India*** **:-** The following guidelines issued by the Institute of Chartered Accountants of India in connection with the preparation of the profit and loss account should be noted :-

(1) The profit and loss account should be made out as normally to disclose the result of the working of the society during the period covered by the accounts.

(2) It should clearly disclose every material feature including credits or receipts or debits or expenditure in respect of non recurring transactions of an exceptional nature, which should be separately

(3) Profit and loss account should clearly set out the various items relating to income and expenditure of the society arranged under most convenient heads.

25.11. ***Form of the profit and loss account*** **:-** The Form profit and loss account is to be drawn up in Form "N" accompanying the rules.In the case of marketing societies, consumers societies and other societies which have undertaken trading activities the profit and loss account is required to be divided into two parts showing separately the trading accounts and the profit and loss account proper. In case of producers' societies, processing societies, forest labourers' societies and other types of societies, which have undertaken manufacturing activities, a separate manufacturing account is required to be prepared. However, the form in which the manufacturing account and the trading account are to be

prepared, has not been prescribed. Hence, these accounts should be prepared in accordance with the generally accepted principals. As already stated, the profit and loss account should clearly disclose the results of the working of the society during the year. ***Every material natureand also transactions of an exceptional nature are expected to be dealt within the report of the committee. However, if this is not done, it is the responsibility of the auditor to point out this in his report.*** (Please refer to Para 25.8)

Figures for the previous year are required to be shown in the profit and loss account. These serve, as guide for the general scrutiny of the current year's transactions .An independent scrutiny of the comparative figures would indicate the changes in the Business of the society. Enquiries should be made into the reasons for any material change and commented upon.

25.12. ***Amounts to be charged to profit*** **:-** Sub-section (1) of section 65, and Rule 49 (A) which lays down the procedure for calculating net profit require to be noted. The section prohibits inclusion of overdue interests, i.e. interest accrued and accruing in accounts in which the principle is overdue, in the amount of net profits. This means that only such portion of unrealized interest, as are not overdue, should be taken to profit. The section further lays down that a number of deductions should be made before arriving at the figures of net profits. Besides, interests and establishment charges and other working expenses including depreciation, provisions for a number other outstanding are required to be made from out of gross profits. It should be seen that amount of net profit is calculated correctly strictly in accordance with the provisions contained in the sub-section.

It is the duty of the auditors to see that the net profits have been calculated strictly in accordance with the provision of section 65 and Rule 49 A. It will be seen that the section prescribes not only the mode of calculation of profits, but also appropriation of profits.

Under Rule 49 A, amounts that are to be charged to profit and loss account before arriving at net profit, are as under :-

i) All interest accrued and accruing on amounts of overdue loans (excepting over due amounts of loans against fixed deposit, gold , etc,)

ii) Interest payable on loans and deposit:

iii) Establishment charges;

iv) Audit fees, supervision fees, inspection fees;

v) Working expenses including repairs and maintenance, rent and taxes;

vi) Depreciation at rates as specified in Income Tax Act and Rules;

vii) Bonus payable to employee under the Payment of Bonus Act, 1965;

viii) Provision for payment of Income Tax;

ix) Amount to be paid for contribution to the cooperative education and training fund, at the State Federal Society/ State Apex training institutes which may be notified by the State Government in this behalf;

x) Provision for election fund for payment of election expenses;

xi) Provision for bad and doubtful debts;

xii) Provision for share capital redemption Fund;

xiii) Provision for Investment Fluctuations fund;

xiv) Provision for retirement benefits to the employees;

xv) Provisions for any other claims admissible under any; other law;

xvi) Provision for bad debts and revenue losses not adjusted against any fund created out of profits;

xvii) Expenses on advertisement, propaganda and publicity not exceeding than celling limit as specified by the Registrar or State Government from time to time.

25.13. ***Rule 51 : Further amounts to be charged to profit*** **:-** Rule 51 and sub rule (2) of the Rule 49 A specify further amounts to be deducted from profits before arriving at its net profits, in addition to the amounts already specified in Rule 49 A (2) . The following amounts are required to be deducted by a society from its profits.

i) Contributions to be made to sinking fund or guarantee fund constituted under the provisions of the Act, the rules or Byelaws of the society for ensuring due fulfillment of any guarantee given by Government in respect of loans raised by the society.

ii) Provision considered necessary for depreciation in the value of any security, bonds or shares, held by the society as part of its investments.

iii) Any provision required to be made for redemption of any share capital contributed by Government or federal society.

25.14. ***Form " N "*** **:-** From a perusal of Form " N ", it will be seen that in the form of profit and loss account prescribed under the Rules, all usual items have been included and the major items have been grouped together under appropriate heads so as to give a fair idea of the expenditure incurred over various items.

We shall now deal with the various items on the expenditure side of the profit and loss account and the manner in which they are to be set out.

(i) Interest payable **:-** *The amount to be debited to interest account will include interest actually paid as well interest payable on deposits, loans and other borrowings*. Interest payable has been specifically mentioned in order that the management may not fail to make adequate provision for interest payable on loans and deposits. The auditor will have to check all items of interest payable at the time of his audit.

(ii) Bank charges **:-** These are charges debited by the Bank on account of exchange, commission, etc., charged for collection of cheques, remittances of funds, etc., cost of cheque books and pass books, postage and other charges for services rendered.

(iii) Contribution to staff provident fund **:-** The auditor will have to verify with reference to the Staff Provident Fund Rules that employer's contribution has been correctly made.

(iv) Salaries and allowances of the Managing Director :– This point has been discussed elsewhere.

(v) Traveling expenses and sitting fees paid to Directors/Managing committeemembers **:-** This has to be separately shown. The expenditure incurred under this head should include expenditure and allowances for journeys undertaken even outside the jurisdiction by the Directors/ managing committee members for the purposes of the society. It should be seen that rates of traveling allowance, daily allowance, etc., paid to members of committees do not exceed the maximum rates notified under Rule 107- A, which are binding on the societies.

(vi) Traveling expenses of staff **:-** All amounts payable need to be brought into account.

(vii) Rents, Rates and Taxes **:-** These should not only include amount paid, but also the amount payable.

(viii) Postage telegrams and telephone charges **:-** No comments are called for.

(ix) Printing and stationery **:-** No comments are called for.

***(x) Audit feees* :-** Audit fees paid to Government for statutory audit as well as fees paid to local auditors should be included under this head. However, if internal auditors are appointed from the staff of society its own, the expenditure incurred on the internal audit Department should be included under the heading " salaries and staff " and should not be shown under the heading "audit fees"

***(xi) Bad debts written off or provisions made for bad debts* :-** Bad debts actually written off during the year and also provision required to be made for bad debts or the contributions to be made to the Bad Debts Fund should be shown under this heading. However, bad debts are actually written off should be shown as a deduction from the fund for the existing provisions, and additional contribution made to the fund or provision made should be shown under this heading. For banks, provisions are required to be made as per prudential norms issued by the Reserve Bank of India in this respect.

***(xii) Depreciation on fixed assets* :-** *It* is the duty of the auditor to see that adequate depreciation is charged on all wasting assets. If he considers that the depreciation charged is inadequate, he should state so in his report.

***(xiii)Land Income and expenditure* :-** If any agricultural lands are held by the society, assessment and other expenses connected with the land should be shown under this heading. Expenditure incurred over other property such as building plots, building, etc., should be shown under the heading "Property income and expenditure account " and not under this head.

***(xiv) Other items* :-** All other items, which are not covered by the various heads shown above, should be shown under this heading. All unusual items such as contribution to sinking fund, depreciation in the value of investments, provision made for redemption of Government share capital and such other items may be shown separately under the appropriate heading and not under this head. Since every society which employs 20 or more persons is required to pay bonus irrespective of whether it earns a profit or incurs loss, this item will also appear in the profit and loss account on the debit side with an appropriate sub-heading Rule 49 A (vii).

25.15. *Income side of the profit and loss account* :- The following comments are offered on the various items shown on the income side of the profit and loss account in N form:-

***(i) Interest received and receivable from loans and advances to members and interest received and receivable from investments* :-** These are required to be shown separately.

As regards interest receivable on loans, it should be noted that under provision of sub-Rule (i) of Rule 49 A, all interest accrued or accruing in amounts, which is overdue, is required to be *excluded* while calculating net profits for the year. As such, it is the responsibility of the auditor to see that where interest receivable is taken into account adequate provision is made for overdue interest. Overdue interest may be shown either as a deduction from interest receivable, or shown under the separate heading ***"provision for overdue interest"*** on the liability side. Either way, it has to be deducted from the total amount of interest received and receivable. If any portion of the overdue interest is realized during subsequent years, it may be included in the profits of that year.

***(ii) Overdue interest* :-** The following comments are offered in connection with the provision of overdue interest.

Interest account appearing in the profit and loss account includes both interest received and receivable. Interest received means interest actually realised during the year irrespective of whether it has accrued during the year or in previous years. Hence, interest overdue, which was excluded from the profits of previous years, if realized during the year, may be included in the profits for the year, in which it has been realized.

As regards interest receivable, it has to be noted that interest receivable would include both interest accrued due and also interest accruing. Generally, recovery of interest is made along with the principal, and as such, when the loan account is settled, full interest upto the date of repayment by the borrower is calculated and recovered along with the balance of principal outstanding. However, in the case of medium term and long term loans, interest on the full amount has to be paid and is recovered separately or along with the installment of principal. Thus, in loan account, interest would have accrued and would be accruing even when the principal has not become due for repayment. Hence, unrealized interest on loans outstanding would consist of (a) interest which has accrued and become due for payment and (b) interest which has been accruing but has not become due repayment. Where the date fixed for repayment of loan and interest extends beyond the date of balance sheet, the interest accrued during the period from the date on which interest has already been calculated to the date of the balance sheet is termed as " interest accruing " ***Both interest accrued and accruing may be taken to the profit and loss account, provided the accounts to which they relate are not overdue.An account is said to be overdue when the principal outstanding or the installment due has not been paid on due date***.

(iii) Interest on investment **:-** As regards interest earned on investments, ordinarily only interest actually received is taken to profit and loss account and further interest, receivable up to the date of the balance sheet is not calculated and brought into account. Where income – tax is deducted from interest, the gross interest could be shown as income and amount of tax deducted should be shown as tax paid on receivable as the case may be. Societies, which are not liable to pay tax on their income, should obtain exemption certificate from the income-tax authorities.

(iv) Dividend received on shares **:-** Only dividend actually received should be shown as Dividend declared, but not actually received may also be shown. However, since dividend does not become due until it is declared, no credit can be taken for anticipated income by way of dividend.

(v) Commission **:-** Commission received on purchases and sales made on behalf of members, commission earned on insurance business and other commission may be shown under this head.

(vi) Miscellaneous income **:-** Where the society has undertaken other activities, income received from these activities will be shown under appropriate heads. Thus, for example, if the society purchased and kept for hire costly agricultural machinery and equipment, such as oil engines, pumping sets, tractors, etc., hire charges received may be shown under this head. Similarly, rent received on property, refund of taxes and fees and other miscellaneous items may also be shown under this head. The various items of which are to be included under this heading have been enumerated in form **"N"**

(vii) Land Income and expenditure Account **:-** Where the society has come into possession of agricultural land belonging to defaulters during the process of recovery of its dues, a separate account styled " Land Income and expenditure Account " has to be opened and all income received should be credited, and all cultivation expenses including cost of seeds, fertilizers, etc., and also assessment, cess and other taxes and fees paid should be debited to this account. The net income received should be shown under this heading.

25.16. ***Income and expenditure not related to accounting year*** **:-** The society should prepare the accounts taking into accounts accounting standard no. 9 regarding income recognition and AS 5 regarding net profit or loss for the period, prior period items and changes in accounting policies. The auditor should see that the provisions made in both the standards are complied with and any material deviation from the standard should be qualified in his audit report.

CHAPTER No. 26

PREPARATION OF BALANCE SHEET-VERIFICATION OF ASSETS AND LIABILITIES

26.1. ***Balance sheet*** **:–** The balance sheet is not a statement of assets and liabilities as is believed by some of the auditors. It is merely a sheet showing the classified summery of all the balance appearing in the books after the nominal accounts have been closed by transfer to the profit and loss account and the balance of the profit and loss account. The profit and loss account, to which are transferred closing balances of all nominal accounts, is duly contained in the general ledger; but, there will be no such account styled as ***" Balance Sheet "*** in the general ledger. 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. Thus, for example, debit balance of the profit and loss account appears on the assets side, although it is not an asset. Similarly, expenses such as preliminary expense, deferred revenue expenditure, development expenditure, etc., are shown on the assets side until they are written off the profit and loss account over a period of years. These items also cannot be termed "assets" although they are shown on the assets side. Similarly, statutory reserve fund and other reserves, credit balance of the profit and loss account, or similar other items appearing on the liabilities side cannot be termed as "liabilities " The balance sheet is expected to show a true and fair view of the financial position of the society and, in particular, it should show clearly the nature of all the assets and liabilities. However, since the balance sheet includes other items as well, which are neither assets nor liabilities, it is necessary that these items be correctly described so that the whole position may be clear. It is the duty of the auditor to satisfy himself that the balance sheet is properly drawn up according to correct and consistent accounting principles. As we have seen, *the main object of preparing the balance sheet is to ascertain the financial position of the business as on the date on which it is prepared, and also to see whether the proprietor's capital is intact*. In case of a co-operative society, the balance sheet will show the share capital contributed by members and funds created out of past profits and how the entire capital, which belongs to the members, is invested. In case of a private business, the proprietor's capital represents the excess of assets over liabilities. Similarly, in case of a co-operative society, the excess of assets over liabilities would represent the share capital of members and the retained profit.

26.2. ***Valuation of assets for the purpose of Balance sheet*** **:–** 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 by the balance sheet and shows 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 as claims under dispute, etc., However, although the assets belonging to the business can be ascertained, 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. It was all along common for an auditor to mention in his report that the various assets have been stated in the balance sheet as per the valuation made by the directors. The term " valuation " however, has different meanings. To a layman, the term "value" would imply the amount, which the assets would realise, if sold or otherwise disposed of. It is, therefore, incorrect to say that the assets are stated in the balance sheet at a value in the above sense.

26.3. ***Meaning of Valuation*** **:–** 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 realise, if sold of disposed of, in other words, realizable value.

(ii) Value may mean the amount that is estimated the asset would cost to replace; in other words, the replacement values.

(iii) The amount that an asset 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".

26.4. ***Going concern principle*** **:–** 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. It has, however, to be remembered that there cannot be true profits unless the original capital together with the additions made thereto is intact. It is, therefore, imperative that 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 can be arrived at. For this purpose, it will be necessary to estimate the working life of fixed assets like buildings, plant and machinery etc., as already stated for purposes of preparing the balance sheet and the profit and loss account, certain accepted conventional rules are adopted. By making conservative provisions and by creating adequate reserves, well-conducted concerns leave sufficient margin to provide against errors in calculating the net profits or incorrect valuation of assets and also for unforeseen contingencies and undeterminedlosses.

26.5. ***Verification*** **:-** Section 81 (2) casts the responsibility of verification of cash balance and securities and a valuation of assets and liabilities of the society. Verification means the assets and liabilities are really in existence or not, and they are conformity with the book of accounts maintained by the society on the date of balance sheet. The term ***"Verification*** " includes not only physical verification of the assets, but, it also includes comparing the ledger account with balance sheet, they are owned by the business, assets are acquired for the business, and they are properly valued.

26.6. ***Form of Balance Sheets Form " N "*** **:-** Sub rule (2) of Rule 62 lays down that the audited balance sheet and the profit and loss account to be laid before the annual general meeting shall ordinarily be in form " N " accompanying the Rules. As we have seen, form " N " has been divided into two parts. The first part contains the form of the balance sheet and the second part contains the profit and loss account. The forms of the profit and loss account and the various items appearing therein have already been discussed in the previous chapter. In this chapter, we shall proceed to consider the form and contents of the balance sheet.

The sub-rule, however, states that the balance sheet and the profit and loss account should ordinarily be in form "N" which means that different types of societies may prepare their accounts in a slightly modified form to suit their special requirements. The Registrar has also been empowered to permit a society or class of societies to adopt other forms as he may deem fit. However, the form should broadly conform to form "N" and material changes will not be permitted. Co-operative banks coming within the purview of the Banking Regulation Act 1949 have been permitted by the Registrar to prepare their accounts in the form set out in the third schedule to that Act.

While preparing the accounts, specific instruction given as to how each item of asset or liability is to be made out, should be scrupulously followed. These instructions appear as **marginal notes** against the various items; these instructions are kind of disclosures. The various items of assets and liabilities have been classified and grouped under suitable heads. The assets appear in the order of their liquidity, viz., cash and bank balance, which are most liquid appearing first followed by investments and other current assets, with fixed assets and fictitious assets appearing last. The liabilities, however, appear in the reverse order, share capital and reserves appearing first, and liabilities and provisions for credit balance of profit and loss account appearing last.

26.7. ***Auditor's responsibility regarding form and contents of Balance Sheet*** **:-** Since the auditor is required to report on the balance sheet and the profit and loss account, verification and valuation of the various assets and ascertaining the nature and amount of the liabilities constitutes one of the most important duties of the auditor. The various tests to be applied and the procedure to be adopted for verifying and valuing the various assets and liabilities normally adopted by auditors are explained in the following paragraphs:-

The management of the society is, no doubt, responsible for the form in which the balance sheet and the profit and loss account are to be prepared and the amounts at which the various items are to be shown. *The auditor has no authority to alter the form of the balance sheet or the values at which they are shown.* However, if the form for the balance sheet ismaterially different or the values shown are incorrect, the auditor should make necessary comments in his report.

With the various items in the balance sheet grouped in the manner specified in form "N", the salient aspects of the financial position of the society would be clearly brought out. It can be seen at a glance, what the total capital of the society is and what portion of it is invested in fixed assets and current assets and what portion thereof consists of intangible items. A ratio of owned capital to the borrowed funds and also to the total working capital can be calculated which would indicate the financial stability of the society. Ratio of current assets to current liabilities and also total liabilities can be worked out to ascertain the ability of the society to meet its immediate and long-term commitments. Similarly, other ratios can also be worked out which make comparisons possible.

As already stated, certain generally accepted accounting policies are followed in arriving at the figures at which the various assets should be stated in the balance sheet. In case of some of the assets, technical knowledge and judgments are necessary to make the valuation. In most of the cases, an estimate plays an important part. No doubt, the responsibility for this lies on the management of the society and not upon the auditor. The auditor, no doubt, has to satisfy himself, so for as he reasonably can, that the various assets are fairly stated in the balance sheet. He must also make certain that the normally accepted *Standard accounting principles* have been adopted in preparing the balance sheet and these have been consistently applied from year to year.

26.8. ***Classification of Assets for purposes of valuation*** :- 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***. There are certain accounting policies which are required to be followed for valuing the different kinds of assets, and the auditor has to see that these accounting policies are consistently followed by management. We shall now deal with the different kinds of assets ordinarily held by co-operative societies and the methods adopted for their verification and valuation.

For purposes 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. It is not always easy to classify an asset as a fixed asset or current asset, since what may be considered as fixed asset by one society may be considered as current asset by another; for example, in a processing or industrial society, machinery would be a fixed asset while for a society which manufactures or deals in machinery, it would be a current asset. The classification would thus depend on the use to which the particular asset is put. However, we may ordinarily consider those assets as fixed assets, which have been acquired for use in the business for the purpose of earning income and not intended for resale at a profit and conversion into cash in the normal course of business. For example, the plant and machinery of a factory are held with a view to manufacturing for the whole period of the working life of such a plant. 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.

26.9. ***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 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.* 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.

26.10. ***Accounting standard for fixed assets (***AS 10) **:-** The Institute of Chartered Accountants of India has issued a Standard regarding ***fixed assets***, which states that;

The statement is applicable to the assets which are valued on the historical cost basis, and does not apply to forest , plantation and similar regenerative natural resources, wasting assets including mineral rights, expenditure for exploration or extraction of these assets, and other not regenerative resources like oil, Gas, expenditure on real estate development and livestock, which are considered separately. The fixed asset is defined as, ***"an asset held with the intention of being used for the purposed of production or providing goods or services and is not held for sale in the normal course of business."***

26.11. ***Cost and valuation of Fixed assets*** :- The cost of fixed assets is determined on the basis of purchase price and cost for acquiring the assets. The financial cost (deferred credit) or cost of borrowed fund attributed for acquiring or the completion of construction of the assets is also included in the total cost. The interest cost after use of assets should not be capitalized.

In case of self-constructed assets, the allocation to the cost should be the total cost that relates directly to the specific asset.

When the asset is replace by another asset, the fair value of old assets should be deducted from the new asset.

The additions to the asset, if the addition increases the benefit from the existing assets beyond its previously assessed standard of performance, should be added in the book value of the concern asset.

The material realised for the asset replaced or discarded should be shown at the net book value that is netting of depreciation and wear and tear, and net of realisable value ,which is less.

When the assets are discarded and are of no use, or beneficial for the business, the total value should be eliminated. Losses arising from the retirement or profit earned should be carried to the profit and loss account.

In case of hire-purchase assets, purchase value should be taken into account, and if it is not available it should be calculated on the basis of rate of interest charged for the assets while purchasing it.

In the case of the assets which are jointly purchased by two or more societies, the prorata value should be accounted for.

Where several assets are purchased for a consolidated price, the value of each asset should be separated from the competent valuer and shown accordingly.

Goodwill should be recorded only if there is any consideration paid for it.

In case the society purchases the entire business of another society, and the net worth of the business and the value paid for acquiring the business, is excessive of net worth, the excessive value should be treated as goodwill.

In the case of patents, direct cost incurred in developing the patents should be treated as the value of the asset.

The amount paid for the know-how for the plans, layout and designs of building and or design of the machinery should be directly added in the value of respective assets.

26.12. ***Revaluation of assets*** :- The Co-operative societies are not revaluing their assets, but some sugar factories have revaluated their assets with permission from the State Government. However, in revaluation the class of assets should be revaluated, or an asset should be selected on a systematic basis. The basis of selection should be stated in financial statement.

The revaluation value, while revaluating the asset should not be greater than its realisable value. While upgrading the revaluation, the accumulated depreciation should not be credited to the profit and loss account on the date of valuation.

The credit balance after revaluation *i. e.* the differential value between book value and revaluation value on the date of valuation should be straightaway credited to the "Revaluation Reserve account," and if there is decrease, it should be charged to the profit and loss account.

At the time of disposal of revaluated asset, the difference between net disposal value and the net book value should be charged or credited to the profit and loss account, except, that to the extent such a loss is related to an increase which was previously recorded as a credit to the revaluation reserve and which has not been subsequently reversed or utilized, it may be charged to the profit and loss account directly.

26.13. ***Disclosure*** **:-** The standard accounting policy requires to state the society gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements. Expenditure incurred on account of fixed assets during the course of construction or acquiring and revalued amount substituted for historical costs of fixed asset, method of revaluation, basis used for revaluation, in which year the revaluation is made, and the nature of valuer.

26.14. ***Disclosure as per Co-operative Societies Act*** **:-** As per Rule 62, the N form balance sheet' marginal notes states that there should be mention to every asset that, "Under each head of the original cost and the additions thereto, deductions there from made during the year and the total depreciation written off or provided upto the end of the year should be stated."

26.15. ***Current assets : Classification of current assets*** **:-** Current assets are ordinarily classified under the following main heads for purposes of balance sheet :-

(1) Interest accrued on investment and loans.

(2) Stock in trade in case of trading concerns.

  (i) Stores and spare parts.

  (ii) Loose tools.

  (iii) Semi-finished goods work in progress and finished goods in case of manufacturing concerns.

(3) Loans outstanding and sundry debtors.

(4) Cash and bank balances.

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 made for the same. Physical verification of all stocks on 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 balance certificates will have to be obtained for all bank balances.

26.16. ***Fixed assets*** :- It has first of all to be noted that the value of fixed assets shown in the balance sheet does not indicate its realizable or replacement value, but represents the original cost of the asset which has not been charged to revenue in the year in which it was acquired, less amount written off to revenue by way of depreciation year after year. In other words, fixed assets appear in the balance sheet ***at their historical cost less depreciation to date***. It is, therefore, the duty of the auditor to satisfy him that the amounts, which have been written off as depreciation, are adequate. There are various methods followed for providing depreciation, but the one most commonly followed by co-operative societies, is the straight line method under which the same amount is written off every year during the estimated life time of the asset (*i. e.* its usefulness to the business) at the end of which it is completely written off or appears at its scrap value in the books. Certain co-operatives follow the "reducing balance" method under which the agreed annual rate is applied in the first year and thereafter to the written down value after deducting the depreciation provided in previous years. There is also a third method under which the assets are revalued every year.

26.17. ***Depreciation :– Whether based on the historical cost or re-valuation, it should be so calculated as to write off the assets over its expected normal useful life,*** irrespective of any allowance, initially or annually, granted by the income-tax authorities. The rates of depreciation, which should be applied, would depend upon the situation of the asset, its nature its expected life of usefulness its residual or scrap value, the degree of use to which it is being put and risk of obsolescence. Where shift working is normal as in the case of sugar factories, spinning mills, etc., it would be necessary to increase the rates of depreciation. The main criteria for charging depreciation should however, be the expected life of the asset and its scrap value after the period of its useful life. Whatever method has been adopted for calculating depreciation it requires to be consistently followed and any departure therefrom will have to be pointed out by the auditor. Normal depreciation is a charge on profit and under Section 65 (1) and Rule 49 A (vi) of the Maharashtra Co-operative Societies Act, depreciation has to be debited before calculation of net profits. ***Even where no profits have been made or the profits made are inadequate, normal depreciation must be charged so as to show the correct amount of loss incurred.***

If no provision is made for depreciation in respect of any fixed asset, the fact that no provision has been made will have to be stated by way of a note. ***Since adequate provision of depreciation on a consistent basis vitally affects the profit and loss account and the balance sheet, it is necessary that any departure from the normal practice should be inquired into if necessary, clearly brought out by way of a note or in the auditor's report.***

It may also be noted that whatever method is adopted for calculating depreciation, the income – tax authorities take into consideration the standard rates prescribed by them. Hence the balance sheet provided to the authorities, and that submitted to Annual General body meeting may differ to that extent.

Byelaws of some of the societies contain specific provisions laying down rates at which depreciation should be charged on different assets. These rates may be applied where appropriate. However, where no provisions have been contained in the Byelaws, the rates admissible for income-tax purposes should be applied. Where rates have been specified in the Byelaws, but these are not considered adequate or otherwise unreasonable, the auditor should suggest suitable amendments to the Byelaws. It has, however, to be noted that the rates once applied have be continued. Where there is a change in the basis of providing depreciation or the rate applied, the auditor should mention it in his report.

26.18. ***Accounting standard - Depreciation accounting (AS 6)*** **:-** The Institute of Chartered Accountants of India has issued a Standard regarding depreciation, which states;

The statement is applicable to all the depreciable assets and does not apply to forest, plantation and similar regenerative natural resources, wasting assets including mineral rights, expenditure for exploration or extraction of these assets, and other not regenerative resources like oil, Gas, expenditure

on research and development, goodwill and livestock, which are considered separately. The standard is also not applicable to the lands except in case of lease hold lands. For this separate accounting standard has been issued by the Institute.

Various accounting policies are applied by the societies to charge the depreciation as already explained in the above paragraphs.

Definitions :

1) ***Depreciation* :-** Depreciation is defined by the Institute as, ***" Depreciation is a measure of the searing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes.***

2) ***Depreciable assets* :-** are (a) assets which are expected to be used during more than *one accounting period*; and (b) have *limited useful life*, and (c) are *held by the society for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.*

3) ***Useful life* :-** is either period over which a depreciable asset is expected to be used by the society; or the number of production or similar units expected to be obtained from the use of the asset.

4) ***Depreciable amount*** :- of a depreciable asset is its historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.

5) ***Accounting Standard*** :- Depreciation amount should be allocated to ***expected life on a systematic basis, by selected method and consistently for period to period***. Change in the method should be disclosed in the financial statement, with their effect on the financial statements, *i. e.*, balance sheet and profit and loss account.

If a new method of depreciation is selected and charged accordingly, for requirement of statutory provisions, or otherwise appropriate for the business, the result should be disclosed. Due to change in method, the unamortised depreciable amount of the asset should be charged to the profit and loss account for the remaining period of life of the asset, by applying new method.

The useful life of the asset should be considered on the basis of expected physical wear and tear, obsolescence, legal or other limits on the use of the asset. This should be reviewed periodically. After revision if it is found that, the estimated useful life of an asset the unamortised depreciable amount should be charged over the revised remaining useful life. This should be disclosed.

Extensions and additions are also charged depreciation for the remaining useful life of the asset, on the rate applied to that asset, to which the additions or extensions are made.

When the depreciable asset is revalued , the provision for depreciation should be based on the revalued amount and on the estimate of the remaining useful life of such asset.

6) ***Disclosure* :-** The financial statement should state (a) the historical cost or other amount added to that cost of the such asset; (b) total depreciation charged to the asset or each class of assets; (c) related accumulated depreciation of such assets; (d) depreciation method used, (e) depreciation rates or the useful lives of the assets, (f) basis of rates as per *statute or as per byelaws* of the society.

26.19. ***Valuation of different types of assets* :–** We shall now proceed to consider the methods adopted for valuation of various types of assets-

***(i) Goodwill* –** It is not common to find goodwill as an asset in any of the established co-operative societies. However, where a co-operative society is formed to take over an existing business owned by private parties, it may be necessary to pay some compensation by way of goodwill

to the existing proprietors of the business. ***Thus, where the market value of the assets acquired is less than the amount paid to the vendors the excess amount paid will have to be shown as goodwill in the balance sheet of the newly formed society.***

It may not be possible for the auditor to verify the correctness of goodwill, which is assumed to be capital value of extra profits, which an average business would earn on the capital employed. The goodwill is thus an intangible asset although it may not be a fictitious asset inasmuch as its existence can be verified. 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 annual general body or by the managing committee. Agreement with vendors of the business relating to purchase of the various assets consideration to be paid, and the form in which it is to be paid, etc., will have to be inspected. Where the consideration paid exceeds the market value of the assets acquired, the excess amount paid will have to be treated as goodwill. Accounting standard regarding goodwill has been explained above.

(ii) Patents :– Such types of assets are not ordinarily possessed by co-operative societies. However, where they have been acquired, it should be seen that they are written off during the course of their expected life. It is also necessary for the auditor to see that annual renewal fees are paid every year. The auditor should study the provisions of Indian Patents and trademark Act. regarding the estimated life of such asset.

(iii) Trademarks :– Verification of trademarks can be made by inspection of the certificates of registration and/or any assignment of the trademarks.

(iv) Copyrights :– These will be acquired only by co-operative publication, societies. The valuation should have regard to the prospect of the future sales, if the entire amount is not immediately written off. As far as possible, these assets should not appear in the balance sheet for a period longer than 2 or 3 years.

The above four assets are known as intangible assets as they are not to be seen or touched. While examining these assets, the auditors should take into consideration the basis on which such assets were originally valued, which procedure for writing off of these assets is applied by the society, and whether they are presented fairly and adequately in the balance sheet,there is proper control on income generated by these assets and it is accurate and completely taken in to accounts. The ownership of the assets should be verified. The assets are recorded consistent with accounting policies. These assets should be shown separately.

(v) Freehold lands and building :– Verification 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 (update 7/12 extract, *khateutara*, index II etc.) , such as village record of rights or the city survey or the Municipal records should also be seen and 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. The Contractor's account 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, play grounds, etc., should be debited to revenue. Only the cost incurred over the 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 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 and adequate amount is written off so as to bring the value to 'Nil' at the end of the life of the lease.

(vi) Plant and 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 manufactures and engineer's certificates will have to be seen. As regards physical verification, where there are only a few machines, they should be personally inspected and identified by the auditor. However, where the number of machines is large and also where it is not possible to identify individual items of machinery, the auditor should obtain a schedule of plants and machinery. A certificate of their existence and efficient working should also be obtained from the Works Manager or other responsible technical officer. ***The mode of valuation should be the original cost less depreciation.*** Where the machinery or other equipment is purchased under a hire-purchase agreement or an agreement to pay by installments (deferred payments system), the depreciation should be calculated on the full cost price of the machinery and not on the amount of installments paid to date. (AS 10)

(vii) Loose tools and 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.

(viii) Dead stock, furniture and fixtures, installations, and fitting **:-** 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 of the different items. Items, such as safes, cupboards, tables, etc., have long working life, but fixtures and fittings, such as electrical installation, partitions, etc., have a short working life. In the case of fittings 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 and the total agreed with the amount appearing against the item in the balance sheet.

(ix) 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 and outdated books, in particular, law books, is written off.

(x) 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 numbers 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 allowed to be carried over for one or two years so as to spread over the benefit of the expenditure over the periods for which it is availed of. As regard ***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.

(xi) Live stock* :–** A register of live stock, showing date of acquisition, identification marks or name, price paid depreciation charged etc., should be maintained. Every animal should be identified by registration number or by its name, where there are only a few animals. ***The basis of valuation should be revaluation at the end of each year. In the case of animal, 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.

———

CHAPTER No. 27

VERIFICATION AND VALUATION OF CURRENT ASSETS

27.1. ***Investment*** **:–** An investment ledger should be maintained recording all transactions in relation to individual investments. At the top of each ledger account, necessary particulars regarding date on which interest or dividend becomes payable, scripts, right and right issues attaching 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, inquiries should be made. *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 authorized to sanction purchases and sales of the securities, if they are not in demat format.* All securities should be preferably lodged with the bank in safe custody.

(i) Verification of securities **:-** Where securities lay in the custody of the society, the auditor should examine each 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. It is not sufficient merely to count the number of share, certificates or Scrips. The certificates, warrants or the securities themselves should be examined carefully to see that they are complete in all respects and *prima facie* in order and are duly registered in the name of the society. Where the document inspected is not a certificate or a warrant, *i. e.*, where it is a transfer receipt or a letter of allotment, it should be seen that the document has been correctly described and the description of the decumbent agrees with particulars mentioned in the ledger. Where securities are lodged with the Bank for safe custody, the auditor should directly call for a certificate from the Bank. ***The certificate received from the Bank should specifically state that the securities have been held for safe custody free from any lien.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 (or 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. Immediately after inspection of the security or certificate, the auditor should put his initials or tick against the particular items in the list so as to prevent its presentation once again. The list should be initiated or the tick made only if the document inspected is a complete of title. Otherwise, it should be ticked with a distinctive tick or mark indicative of the document inspected, so as to remind the auditor that further evidence of title is required to be examined.

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 comparedwith the certificate issued by the bank. ***Each item in the schedule should be initialed or ticked only after inspecting the document itself*** or correspondence on the subject or the specific item in the certificate issued by the bank, which has custody of the securities. Where securities are kept with Bank for safe custody, this schedule should be checked with the safe custody certificate issued by the Bank. Each item in the schedule should be initialed only after inspection of document itself or the relevant correspondence relating to the security or the specific items in the certificate issued by the Bank.

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

In case of securities purchased through Demat accounts from the depositary, and lodged in the same account, the auditor should verify the certificates issued by the depositary at the end of financial year, and statement of purchase and sales documents should be verified from the account abstracts

provided by the depository from time to time to the society. If the society has not obtained the account abstracts, the auditor should call it through the society and verify the sale and purchase documents with these statements.

(ii) Valuation of securities :- In the case of securities, which are quoted in the market, quotation on the date of the balance sheet, should be obtained and the mean between the higher and lower prices should be taken for purpose of valuation. For the securities valuation purpose, the Reserve Bank of India has issued guidelines for the co-operative Banks, it should be seen that the valuation is made according to these guidelines which are described elsewhere. In respect of Urban banks and DCCB and SCB, the rates are made available from agencies like FIMMDA and quoting them in their website. 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 statement. Investment should be stated in the balance sheet at cost or market value, whichever is lower. Market values may be compared with the cost either by comparing the cost of each investment separately with its market value and providing for all falls in 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 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.

(iii) Investment by Co-operative Banks :- The DCCB's and Urban Banks are required to invest their funds in the Government securities and other securities of trusts and public undertakings. The Reserve Bank Of India has issued various guidelines and directives regarding these investments, how they are invested, exposure norms for each type of investments, Brokers that are to be appointed, business limits operated by these brokers, opening of SGL/CSGL and demat accounts, investment policy, audit of these investments, reports of auditors, provisions regarding fluctuation of prices, trading of scripts, classification of investments, all these points are described in the Banking part of this manual. Auditors are required to study them and apply at the time of audit of cooperative banks. Various circulars, which are issued by the Reserve Bank, are detailed below. MASTER CIRCULARS

Sr. No.	Circular / Directives No.	Subject
1	UBD.BR Cir.19/ 16.26.00/2002-03 dated 29th October 2002	Dematerialization of PSU Bonds
2	UBD.CO.BSD.I.PCB 44/12.05.05/ 2000-2001 dated 23rd April 2001	
	UBD. CO. BSD.I.PCB. (Cir) 34/ 12.05.05/ 99.2000 Dated 24th May 2000	Guidelines for classification and
	UBD. CO. BPD.PCB. (Cir) 11/ 09.29.00/ 2003.04 Dated 2nd September 2003and even No. Circular 12 Dated 4th September 2003	valuation of Investments by banks
3	BP 23/ 16.26.00/ 2002-03 Dated 2nd November 2003.	Valuation of securities for purpose of SLR
4	BPD.PCB. CIR 56/ 09.29.00/ 2003-04 Dated 2nd July 2003	Investment Portfolio of Banks transaction in securities.
5	MASTER CIRCULAR DOBD No.BP.BC .21 /21.04.141/ 2003-04 Dated 2nd September 2003	Prudential norms for classification, valuation and operation of investment portfolio by banks. This circular is issued for ALL SCHEDULED COMMERCIAL BANKS

Though the Circular referred to at 7 is for the Scheduled Commercial Banks, the guidelines are also useful for the co-operative Banks, for their Investment portfolio management.

27.2. ***Accounting Standard – Accounting for Investments (AS 13)***

The Institute of Chartered Accountants of India has issued accounting standard No. AS 13 on the Investments which reads as follows:-

1) The society should disclose current Investments, and long-term investments.
2) There should be further classification of these investments in (a) Government or Trust Securities, (b) Shares, debentures or bonds; (c) Investment properties (d) Others specifying nature.
3) Cost of Investment: The Cost of investment should include acquisition charges such as brokerage, fees and duties.
4) An investment is acquired, or partly acquired by the issue of shares or other securities, the acquisition cost should be the fair value of the securities issued (which in appropriate cases may be indicated by issue price as determined by statutory authorities). The fair value may not necessarily be equal to the nominal or par value of the securities issued. If an investment is acquired in exchange for another asset, the acquisition cost of the investment should be determined by reference to the fair value of the asset given up. Alternatively, the acquisition cost of the investment may be determined with reference to the fair value of the investment acquired if it is more clearly evident.
5) Societies holding investment properties should account for them as long-term investments.
6) Investments classified as current investments should be carried in the financial statements at the lower of the cost and fair value determined either on an individual investment basis, or by category of investment, but not on an overall basis.
7) Investments classified as long-term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.
8) Any reduction in the carrying amount and any reversals of such reductions should be charged or credited to the profit and loss account.
9) On disposal of an investment, the difference between the carrying amount and net disposal proceeds should be charged or credited to the profit and loss account.

27.3. ***Disclosures*** :- 1) The following information should be disclosed in the financial statements.

a) the accounting policies for determination of carrying amount of investments;
b) classification of investments as specified in Para 1 and 2 above;
c) The amounts included in profit and loss account for, I) interest, dividends, (showing separately dividend from subsidiary companies/societies), and rental on investments showing separately such income form long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Tax paid. II) Profit and losses on disposal of current investments and changes in the carrying amount of such investments; III) Profits and losses on disposal of long term investments and changes in the carrying amount of such investments;
d) Significant restriction on the right of ownership , realisability of investment or the remittance of income and proceeds of disposal;
e) The aggregate amount of quoted and unquoted investment, giving the aggregate market value of quoted investments;
f) Other disclosures as specifically required by the relevant statue governing the society.

27.4. *Disclosures as per Co-operative Act* :- 1) The "N" form Balance sheet requires the investments to be stated as (a) Government securities, (b) Other Trust Securities, (c) Non-Trust securities, (d) Shares of other co-operative societies, (e) Shares, debentures or bonds of companies registered under the companies Act., and (f) Fixed deposits.

The Note in margin of this form requires stating the nature of investment, the mode of valuation (Cost or market value) should be mentioned, and if the value of any security is less than the market value, a remark to that effect should be made against each item in the balance sheet. Quoted and un-quoted securities should be shown separately as per the marginal note.

For the depreciation of the investments there is provision in Rule 49 A (xiii) and section 65 provides for the investment fluctuation fund for depreciation in the assets.

The note in margin requires to state the nature of investment, which denotes to the classification of the investments, whether the investment is of current or long-term nature.

27.5. *Stocks and works in progress* :– The need for valuation of stock in trade or closing stock of goods arises because on the date of preparing the balance sheet, there would always be in stock goods purchased or manufactured during the year or in process at the close of the year, which will have to be sold during the following year and to arrive at the correct figure of profits, it would be necessary to deduct in the accounts, the cost incurred on their purchase or manufacture and to charge the same to the profit of the year during which these goods would be sold. In case of consumer stores, marketing and processing societies and manufacturing societies, ***the verification of the physical existence and valuation of trading stocks, stocks, stock on hand of raw materials, stores, partly finished goods or goods under process, works in progress and finished goods are of considerable importance, inasmuch 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.*** It is also possible that profits might have been **deliberately manipulated** in order to warrant declaration of dividend at higher rates of payment of increased remuneration to the Managing Director.

27.6. *Verification of physical stocks* :– The process of verifying physical existence of each item of stock at the close of the year or at the end of any specific period is known as annual or periodical stock-taking. Complete physical counting of all the stocks on hand should be made at the end of the year in case of all societies, which have taken up trading or manufacturing activities. A number of progressive concern have adopted a system known as perpetual inventory or continuous stock taking system under which stocks are verified throughout the year, so that all the items in stock are verified at least once during the course of the year. This system provides a better control over the stocks, but can be adopted only where proper quantity accounts are maintained.

As regards physical verification of stock, although textbooks on auditing state that, stock taking is not the duty of the auditor and this position has been accepted in more than one legal decision, auditors of co-operative societies should note that they are required to carry out their audit in accordance with the procedure laid down by the Registrar. It is true that the auditor is not qualified or is it possible for him ever if he possessed the necessary qualification to take Actual measurements, weights or count stocks. However, he should attend at the time of stocktaking and observe the operation, viz., taking Actual measurements, weighing or counting the various items in stock. In case of small societies, the entire stock will have to be verified, while in the case of large societies, like sugar factories, spinning mills and other processing and industrial society, departmental stores, wholesale and retail consumers stores, etc., since the number of items to be checked is large, cent percent verification of the stocks may not be possible. In such cases, the auditor should associate himself with the staff, which, as may be necessary having regard to the size and importance of the society should be deputed to observe actual stocktaking in all the societies in charge of the auditor.

27.7. ***Method of stock-taking, Annual stock-taking*** :- In most concerns, stock is taken on last day of the year and for this purpose, the business is closed on the last day or the last few days immediately preceding or for following the close of the year. The store or godown where the goods are lying is divided into number of sections and each section is placed in charge of one or more batches of stock takers whose work in supervised by a responsible officer possessing necessary technical qualifications. Generally, each batch of stock takers consists of two persons, one person calling out the description and quantity of the goods and the other person entering them on the stock sheets. The process is repeated again with the position reversed, the person who called out the description and quantity verifying the correctness of the entries made in the stock sheets, and the other member of the team, who had entered the figures now measuring , weighing or counting the goods and calling out. The auditor should make careful enquiries into the entire system of stock taking, entering and pricing. He should satisfy himself that and adequate number of persons were engaged in stocktaking and that each step has been independently checked and further supervised by responsible officers.

27.8. ***Observance of stock taking*** :- During his observance of stock taking, the auditor should attend to the following points:-

(i) He should satisfy himself that the organization for stocktaking has been properly planned and written instructions are issued to all the persons concerned.

(ii) He should also satisfy himself that the stock takers are doing their work properly and that each step has been independently checked and further supervised by responsible officers, In particular, he should satisfy himself that slow moving and absolute substandard stocks are properly segregated and recorded in separate stock sheets. For this purpose, it would be necessary to ascertain form the records, the periods for which the goods are lying in stock.

27.9. ***Checking of store sheets*** **:-** Final stock sheets presented to the auditor should be compared with the rough stock sheets filled in by the stock takers at the time of stocktaking. Quantities shown in the stock sheets are compared with the balances in the stock accounts and the bin cards and discrepancies noted should be got clarified.

Having carefully examined the whole system of stock taking, the auditors should check the stock sheets and carry out his inquiry as under:-

(i) Check totals of stock sheet bearing in mind that there is no double entry check upon these totals.

(ii) Check calculations, bearing in mind that items calculated as singles, may, in fact be doubles, dozens or ever grosses.

(iii) Compare stock sheets with those of the previous years, particularly as regards prices and quantities, making careful enquiries about the fluctuations and also ascertaining whether any part of stock has been held for a long time and become absolute.

(iv) In case of raw materials, stores and trading stock (i.e., goods purchased for resale ***compare prices with latest invoices and market prices ruling at and after the date of the balance sheet***. (AS 4) In the case of finished and semi-finished goods, their net realizable value in the format finished products should be taken into consideration.

(v) Examine the Goods Inward Books for the last few weeks of the period and trace any large item into the stock and into the Purchase Register .

(vi) Trace any large sales towards the end of the period into the goods Dispatched Register and see that these goods, if not delivered, have not been included in the stock .

(vii) In case of finished goods, ascertain the basis upon which overheads have been charged.

(viii) Where quantities can be checked easily this should be done by deducting the total sales from the total purchases plus opening stocks allowing for small differences on account of wastage

(ix) Inquire whether any goods belonging to the society are in the hands of the consignees, selling agents or distributors or lying in depots or warehouses. It is likely that some of these might have been omitted.

(x) While examining stock sheets, see that no plant machinery,tools, furniture and similar other capital goods are not included.

(xi) After the Trading Account is drawn up, the amount of gross profit has been arrived at by comparing percentage of gross profit to sales with that of previous years. If there is any marked difference enquire in to the reasons.

Specifically, observe if the sales effected during the period are very small or considerably small, however there is gross profit or there is no sell at all, then also there is gross profit, then the possibility of overvaluing the stock increases. This results in showing profit, which can be distributed from the capital funds.

(xii) Periodical manufacturing or production reports, statement of expenses incurred under different heads etc. submitted time to time to the Board of Directors, provide an important means of verifying the accuracy of the value of closing stock. Although these will not form part of the regular financial audit, these statements should be checked and their accuracy and reliability ascertained.

27.10. ***Valuation of stock in trade*** :– After the stockstaking is done and the quantities entered in the stock sheets, the price at which each item in stock should be taken should be entered by a responsible officer. Calculations, extensions and totals should be made by one clerk and checked by another. All persons taking part in stocktaking should have initialed the stock sheets, and the whole should be certified by the Chief Engineer and the Managing Director. ***Normally, stocks should be valued at lower of cost or market price which for this purpose would mean net realisable value or replacement cost in case of materials*** and stores. *The overriding consideration in choosing the basis for stock valuation is that the basis chosen should give a true and fair view of the position and the results of that business and this basis should be applied consistently every year*. Reference should be made where appropriate to purchase invoices and cost records. Cost may be determined by specific identification or on the basis of average or standard cost. *In case of consumers' societies, including departmental stores and also in the case of farming societies, for valuation of crops harvested, the adjusted selling price method of determining cost would be more appropriate.* These have been discussed in more detail in subsequent paragraphs. However, ***it should be noted that under no circumstances, should stocks be valued above market price***. In addition, cost. *i. e.*, purchase price, incidental charges like transport charges, clearing and forwarding charges, municipal octroi, insurance etc. may also be included.

Prices of some of the important items should be verified by obtaining quotations from the market or by examining the latest invoices in the files of the society. *All calculations, extensions and additions should be checked* and it should be seen that all stock sheets are duly initialed by all the persons taking part in the stocktaking and valuation of the stocks. It should also be seen that the final summary showing the aggregate value of the stocks is signed by the Managing Director and other senior officers. Stock sheets should be examined to ensure the absolute and a slow –moving stocks are segregated and a lower value shown against them.

27.11. ***Accounting Standard: Valuation of Inventory :- (AS 2)*** : The Institute of Chartered Accountants of India have issued accounting standard regarding valuation of inventories. This accounting standard does not apply to the plantations, forestry, agricultural commodities and livestock; extractive industries such as mining, quarrying etc.; work under progress under long term contracts, such as engineering , real estate development, and construction projects, Shares, debentures and other securities held as stock in trade, immovable properties and loose tools.

***Definitions** :*

***a) Inventories*:** This includes tangible property held for sale in the ordinary course of business, or in the process of production for such sale, or for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares.

b) Historical cost: Means the appropriate combination of cost of purchase, cost of conversion and other costs incurred in the normal course of business in bringing the inventories upto their present location and condition.

c) Cost of Purchase: Purchase price includes cost of purchase, including duties and taxes, freight inwards and other expenditure directly attributable to acquisition, less trade discounts, rebates, duty drawbacks and subsidies, in the year in which they are accounted, whether immediate or deferred , in respect of such purchase.

***d) Cost of conversion**:* It includes (a) costs which are specifically attributable to units of production i.e. direct labour, direct expenses and sub-contracted work; and (b) production overheads, ascertained in accordance with either the direct costing or absorption costing method.

e) Historical cost: Inventories include Raw materials and components, work in progress, finished goods, and stores and spares, normally stated at the lower of historical cost and net realisable value. The reason behind this is that the cost of previous years is carried to next year until they are sold or consumed. However, if there is no reasonable expectations that net realisable value would cover the cost incurred (as a result , for example, of deterioration, obsolescence or change in demand. It is necessary that cost, which cannot be recovered, should be charged against the revenue of the current period. The meaning is very simple that the charge of any deterioration, obsolescence or change in demand should effect in which the goods are sold only.

***f) Net Realisable value*:**Is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

g) Accounting standard: The Institute of Chartered Accountant of India has issued the following accounting standard regarding valuation of the inventories;

i) Normally the inventories should be valued at lower of historical cost and net realisable value *i. e.* market value otherwise stated.

ii) This valuation is made on the basis of single unit or group of units.

iii) The methods of valuation are done by using the methods- FIFO, LIFO or Average Cost methods.

iv) The historical cost of manufactured inventories may be arrive at on the basis of either direct costing or absorption costing. Where absorption costing has been used, the allocation of fixed cost to inventories should be based on the normal level of production.

v) Overheads, other than production overheads, should be included as part of the inventory cost only to the extent that they clearly relate to putting the inventories in their present location and condition.

vi) Inventories of consumable stores and maintenance supplies should ordinarily be valued at cost. In appropriate circumstances, however, this may be valued at below cost.

vii) Inventories of by-products should be valued at lower of cost and net realisable value. Where cost of the by-product cannot be separately determined, it should be valued at net realisable value.

viii) Inventories of non-reusable waste or inventory of reusable waste for which facilities for reprocessing do not exist should be valued at net realisable value.

***h) Disclosures* :-** The accounting policy adopted for valuation of inventories, including the cost formulas use should be disclosed in the financial statement. Where the base stock method is used, the difference between the value at which it is carried, and the value arrived at by applying the method at which stocks in excess of the base stock are valued should be disclosed. There should be consistency in the method applied for valuation of method.

***i) Disclosure in Co-operative Act* :-** As per the note in margin of 'N' form balance sheet it is required to disclose " the mode of valuation and stock shall be stated and the amount in respect of raw material partly finished goods and stores required or consumption should be stated separately. Mode of valuation of works in progress shall be stated,"

27.12. ***Auditor's duty as regards valuation*** :–The duties of the auditor regarding stock are (a) to verify the existence of the stock (b) to check the ownership of the stock and (c) to see that the stock is properly valued. Falsification of accounts, is frequently affected by means of stock manipulations. Unless, satisfactory records of quantities, accounts are maintained, or the system of standard costing is in operation, the books of accounts will not disclose what stocks should be there on the date of the balance sheet.

The types of ***manipulations****, which are to be guarded against are as under :-*

(i) Incorrect calculations, extensions and additions.

(ii) Incorrect pricing.

(iii) Inclusion of goods in stock, the invoices for which have not been included in purchases.

(iv) Inclusion of goods in stock, which have already been sold and entered as sales prior to the date of the balance sheet.

(v) Non-inclusion of stocks in the hands of agents, in warehouses, in sale depots, etc.

(vi) Omission to provide for diminution in value in case of damaged, and out of fashion goods, and over-valuation thereof.

(vii) Value of stocks on an incorrect basis.

(viii) Inclusion of stocks, which, in fact, do not exist.

(ix) Inclusion of such goods in stock, which are not part of stock. such as furniture, loose tools etc.

If proper stock accounts have been maintained, any material difference shown by the stock books and the stock sheets should be carefully investigated. The auditor should ***enquire into the whole system of stocktaking, entering, pricing and checking stock statements and find out the exact basis upon which valuation has been made.*** It should be seen that the basis of valuation adopted at the beginning of the year is ***consistently*** followed-

The basis of stock valuation is required to be stated in the accounts. The basis of valuation may be described in one of the following ways :-

(1) At cost.

(2) At lower cost and net realisable value.

(3) At the lowest of the cost, net realisable value and replacement price.

(4) At cost less provision to reduce the net realisable value.

The expression **" market value** " does not indicate whether the net realisable value or the replacement value is intended. It is, therefore, not appropriate to describe the basis an " at market rates" or "at cost ", or as " valued by the officers of the society ", etc. It may be noted that the word "cost" would be inadequate unless it is accompanied by the explanation of the extent to which overhead expenses have been included. In case of manufacturing societies, the appropriate description would be ***"cost includes materials, factory wages, factory expenses and an appropriate proportion of production and administrative overhead charges, but excludes fixed overheads ".***

27.13. ***Valuation of By-products*** :– In manufacturing processes, which yield byproducts, as for example, molasses in sugar factories, cotton waste in spinning mills, oil cakes in oil mills, broken rice and bran in rice mills, etc., ***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 most be calculated after crediting the anticipated sale proceeds of the by –products. The selling price basis of valuation may also 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 transport to market centers, selling agent's commission (Dalali) market cess and other expenses connected with marketing***. It is considered that this would result in a more understandable presentation of the society's affairs as in this way, the year's account would reflect the results of the entire crop cycle. In these circumstances, the basis of valuation should be indicated in the accounts.

27.14. ***Points to be noted while valuing stocks*** **:-** The auditor should satisfy himself that the system of stocktaking is appropriate and all stocks have been properly valued. If satisfactory stock records are not maintained, the auditor should mention in his report. *While valuing stocks on hand the following points should receive specific attention :-*

(i) Value of goods held on consignment should be excluded.

(ii) All goods sold, but not dispatched should be excluded.

(iii) Stocks sent on consignment should be included.

(iv) Unsold goods on consignment should be valued at cost and not at selling price.

(v) Where purchases have been made, but invoices have not been received, necessary adjustments should be made crediting the accounts of the suppliers.

(vi) Absolute and unserviceable goods and also slow –moving goods should be shownseparately

(vii) Where goods have been received, but purchase invoices have not been received, necessary adjustments should be made regarding the account of the suppliers.

(viii) As regards stock in the hand of third parties such as agents, consignees, etc., a certificate showing the details of quantities and their values should be obtained from the agents or consignees.

(ix) As regards stocks in transit, it should be seen that these are duly received subsequently and have been entered into the "Goods Received Book ".

The auditor should compare the total value of the stocks on hand with that of the previous year. In case values differ materially, reasons for the same should be ascertained. Where stocks held are larger than those held in the previous year, it might be due to large holding of slow- moving stocks, absolute or stocking for future in anticipation of rise in prices. As already suggested, ***the auditor should also compare the percentage of gross profits to turnover with that of the previous year and obtain reasons for fluctuations, if material.***

27.15. ***Verification of works in progress*** **:-** In industrial concerns, at any time in addition to raw materials and finished goods, there would also be unfinished goods or goods in the process of manufacture. At the time of periodical stocktaking, it is necessary that the quantity of unfinished goods and works in progress should also be verified and their value included in the total of stocks on hand. The verification of the physical existence and value of unfinished goods and works in progress, presents a number of difficulties and special methods are required to be adopted for their verification and correct valuation. the method adopted for verification and correct valuation depends upon the type of the goods produced and the manufacturing process, and no uniform method can be recommended for their verification. The stage upto which the goods are manufactured, or works are in progress, should give an indication of their valuation. In case of manufactured goods, the additional cost required for completion of the manufacturing process can be ascertained and the value of the unfinished goods

or goods under process can be calculated by deducting these accounts from the cost of production. Where the principle of standard cost or may other method is adopted for calculating the cost of production, it should be seen that the totals of the stock sheets agree with the balances in the standard cost accounts. Where the item of works in progress appear in the balance sheet, it should be ensured that the amounts shown represent only cost of material and labour. Only a reasonable proportion of the factory on cost may be allowed to be debited. The administrative on cost should not be allowed to be added.

27.16. ***Stock valuation certificate to be obtained from management*** **:-** A certificate in the form given below should invariably be obtained from the management of the society, with such modifications as necessary considering the nature of business of society.

.....society, Ltd. …….

Date.....

To,

The Auditor ,

Dear Sir,

We hereby certify that, the inventory as at the close of March 31, 20, summarized as follows :

	Value Rs.	Mode of valuation
(a) Stock in Trade , i.e., goods purchases for resale.		
(b) Raw materials		
(c) Work–in-progress including semi-finished goods, goods in process, etc		
(d) Finished goods		
(e) Stores and spare parts		
(f) Loose tools		
(g) Others		
Total		

The stocktaking, was taken under the supervision of responsible persons and it is certified that :-

(i) The inventory is the property of the society and that there is no mortgage, assignment or other lien upon any of the goods listed. (If there is any charge, the same may be stated).

(ii) No goods received on consignment have been included.

(iii) The quantities listed were on hand and were determined by Actual count, weight or measurement.

(iv) Excesses /shortages between the physical inventories and book balances amount to Rs. have been adjusted in the books of accounts.

(v) The liability for all goods included in the inventory has been taken up in the book, and

(vi) Obsoleteor unusable goods have been reduced to their net realisable value.

(vii) We further certify that the stock is at its fair and true value as per our accepted accounting policies, and there is no change in accosting policy, during this financial year. (If there is change, it shall be indicated with the effect on profit and loss account)

Yours faithfully,
(Sd)

The above certificate should be signed by the Chief Engineer, Works Manager, Factory Manager or other Technical Officer–in-charge of the Manufacturing operations and also by the Managing Director, Secretary or other Principal Executive Officer of the society.

27.17. ***Sundry debtors*** :– A very important item appearing on the assets side of the balance sheet of almost all types of societies is " loans outstanding " or " Sundry Debtors ". In case of co-operative banks and credit societies, the item of " loans and advances " or " loans due members" is perhaps the most important item on the assets side. In case of consumer societies, marketing societies and other societies conducting trading activities there would be sundry debtors for credit sales. Advance payments might have been made or deposits kept with suppliers against purchases or orders for supply of materials or services to be rendered. There would also be advances made to directors and employees to meet expenses for buying materials or against. The amounts shown under " Sundry Debtors " should include all amounts due in respect of goods sold on credit, services rendered 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". The auditor should obtain confirmations for the balances with the debtors. Sundry debtors includes following items, auditor should take care while auditing these items as described in following paragraphs.

***RBI DIRECTIVES BDD* :-** *The reserve bank of India and NABARD have issued various guidelines in regards bad and doubtful amounts to be calculated, for the purpose of providing them, are explained elsewhere.*

27.18. ***Outstanding advances*** :– This item is ordinarily included in " Sundry Debtors " but many times, it is shown under a separate heading and in mostly composed of advance made to directors and employees, which are yet to be accounted for. Advances should have been made only ***for specific purpose*** 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.*** Thus, if advances are made for making purchases or for meeting traveling expenses and other expenses, the advances should be cleared immediately the purchases are made or the officer or employee returns to headquarter. 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. If these procedures are followed, then, as at the end of the year, only temporary advances granted recently for specific purposes, should be outstanding and the amounts adjusted early during the following period. ***However, in many of the societies, some of the directors, employees and officers, taking advantage of their position, obtain large amounts as advances under some pretext or other, keep the amounts with themselves for long periods and subsequently refund the advances in cash either in one lump sum or in installments as it suits them. The auditor should make a note of all such cases and obtain explanation of the management and also of the director or officer concerned and if the explanation given or the clarification furnished is not considered satisfactory, 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 ascertained and if it appears that the sole purpose of granting the advances was merely to accommodate the director or officer, proceedings under section 88 of the Maharashtra Co-operative Societies Act should be instituted.*

(a) Checking of outstanding advances- all items outstanding at the close of the year should be carefully examined and it should be seen that the advances have not been outstanding for long periods and have been granted for specific purposes. As regards advances made to contractors against construction work and supplies of materials, these have been dealt with already. These advances are generally shown under the heading "Building account"or "Construction account".

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. Trade debtors *i. e.* Sundry Debtors for credit sales should be distinguished from other debtors such as debtors for advances, deposits against orders or advance against purchases advances

to directors and officers. Schedules of different types of advances of 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 the control accounts are maintained up-to-date and reconciled with the totals of the personal ledger balance at regular intervals. Where there are a large number of ledgers, there should be suitable sectional control accounts in the general ledger. Statements of accounts should be sent regularly to all debtors and other customers who have regular dealing with the 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 balance on the schedule, notes should be made showing the period during which the debt or other debit 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 the 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.

***(b) Deposits 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 Municipality, Electricity Board or other local authorities or corporate bodies and recognized wholesalers and distributors. Receipts issued by them should be seen and periodical confirmations should also be obtained as evidence of the deposit still continuing with them. It should be seen that such deposits when they are made are carried as assets in the balance sheet and not written off as " telephone charges", " Municipal taxes " or "Electricity charges ", etc. Where deposits of a special character or of a substantial amount are made, such an advance payment of taxes, advance payment of deposit for water connection, electric installation, income tax and other taxes, etc. these should be verified according to the circumstances of the particular case and their adjustment watched.

(c) For obtaining confirmations from the sundry debtors, the auditor should call the details of outstanding balance from the society and communicate it to the concerned debtor, asking him to confirm the balance shown in the letter, and if he disagrees with the balance shownin letter to send account abstract for reconciling the balance at the society level. The format of letter is as-

(Letter calling confirmations from sundry debtors./ creditor, suppliers, advances etc.)

From : Name of the auditor and address, date

To, the concern debtor, address

sir,

We are auditing the accounts of the ———————————————— society, ltd. ———————— Taluka- ———— District, for the period from dated-———————— to dated———— ———— as a statutory auditor. The society has shown following balances with you, in its account books.You are requested to please confirm that the balances shown below are agree with your books of account on the date 31/3/ . If your books do not agree with these balances, please send us account abstract as per your books, so that the balance can be reconciled with the books of society.

Sr. No.	name of the account	narration of amount	balance Dr. or Cr.	Amount shown by the society	Remarks if any
1	2	3	4	5	6

You are also requested to send this confirmation or account abstract as the case may within a period of 10 days, from the receipt of this letter, so that we can take note of it in our audit report.If we do not receive it within this period, we will presume that, the balances are agreed with the books maintained by you in your account books.

Sincerely Yours

signature and name of the auditor

27.19. ***Loans outstanding*** :– Loans outstanding in co-operative 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 . Loans advanced to members would be different according to the nature of the business operations conducted by the society and the nature of security, which the borrower can offer. 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 ledgers and the total of the list of balance should be agreed with the balance appearing in the control account in the General Ledger. While checking loan balances , the following points should be examined.

(i) Amount outstanding :- The outstanding balance 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 in excess of the prescribed limits have been sanctioned to any individual or institution, authority for the same should be seen.

For the cooperative banks, the Reserve Bank of India and NABARD (national Bank) have prescribed certain limits to be advanced to the individual, group of individuals, and industries; it should be seen that these exposure norms are followed by them.

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 has the loan been overdue and what steps have been taken for its recovery. Whether notices have been promptly issued and legal proceedings instituted.

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, courtfees, lawyer's fees, arbitration fees and expenses etc., will have also to be debited and included in the balances except the co-operative banks as they have to show these expenses separately under the heading "sundries" as per guidelines of the Reserve Bank.

Security for the loan :– The nature of the security and whether it is adequate and easily realisable. If the loan has been sanctioned against personal security; whether the sureties are alive and good for the amount; if secured by other security, whether the value of the security adequately covers the outstanding balance and also interest accrued and accruing; whether it can be easily realised should occasion arise; it should also be seen that a 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.

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 a civil court.

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

27.20. ***Loans to committee members*** :– Sub-section (2) of section 75, lays down that at every annual general meeting of the 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 or any member of the family of any committee member, including a society or firm or company of which such member or members of his family is a member, partner, or director (as defined in the explanation 1 to clause 2 of section 75 of the Act, family in this explanation includes wife, husband, father, mother, brother, sister, son, daughter, son-in-law, daughter-in-law) during the last preceding year. Thus, along with the balance sheet and the profit and loss account, a list of loans given to members of the committee and their

family members with their involvement as directoror member concern, has to be laid before the annual general meeting. This would ensure that the members of the committee taking advantage of their position do not appropriate large funds of the society by sanctioning to themselves disproportionate loans.

27.21. ***Confirmation of Debit balance*** (SA 505 – External confirmation) :– The outstanding balance in Sundry Debtors' Account should be checked with whatever evidence is available, viz. statement of accounts, record of payments, 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 will have to be made. Such confirmation of ledger balances may be positive under which method, the debtors is communicated the exact balance in his account and asked to confirm the same or point out discrepancies, if any. The confirmation may also take the negative form when the debtors in further informed that if no reply is received from him within the period specified in the letter, the balance would be taken as being correct. Where the number of accounts is very large and the balance involved is small, the negative method of securing confirmation of ledger balances may be adopted . However, where the outstanding balances or where the auditor suspects the correctness of the accounts, it would be advisable for the auditor to send the debtor a statement of his account with the society and request him to communicate the discrepancies, if any. Where passbooks are issued to members, and other constituents, who have dealings with the society, these should be called for and returned to the constituents duly filled in with a request to check their accounts and confirm the outstanding balances.

(a) Issue of statement of accounts :– In central co-operative banks and urban banks, urban credit societies, rural credit societies, and salary earners societies the borrowers, are issued passbooks or periodical statements of accounts are issued to them, monthly , fortnightly, weekly and in some cases, even 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. The negative form of getting balance confirmation is generally adopted and the borrowers are informed that if they do not reply or make further enquiries before a specified date or within a specified period from the receipt of the communication, it would be presumed that they have accepted the correctness of the balance as communicated to them.

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.

(b) Verification of Members Pass Books :– In agricultural credit societies and other rural societies and also the smaller urban credit societies, outstanding balance should be verified with the members' pass–books. This is necessary since members of these societies are generally illiterate and trusting people and have full faith in the honesty and integrity of the secretary and other office bearers. 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 contact as many members as possible and check their passbooks. Also, by putting intelligent questions, he should try to satisfy himself that their transactions with the society have been correctly recorded. A list of members whose accounts have been verified, should be prepared and their signatures should be obtained against their names for having accepted the correctness of the balances shown against them. A Members' Verification Register should be maintained in the form prescribed by the Registrar. This Register should be seen by the auditor during the course of his audit and a note made of members whose accounts have not been verified during the course of the last three years. Instruction contained in Registrar's Circular No. ADT/243, dated 9-5-1972 should be noted. For this purpose, the auditor should obtain the confirmation from the members as well as depositor in the following form;

Sr. No.	Name of the lonee/ depositor	Amount outstanding as on 31/3/ type of deposits		type of loans		Signature of member/depositor
1	2	3	4	5	6	7

Before me
auditors signature and date

(c) Issue of account slips in salary earners societies :– In salary earners societies, in addition to pass books, slips containing particulars of amounts to be recovered from the members on account of dues of the society under various heads, are also issued so as to enable members to know beforehand what amounts would be deducted from their salaries on account of the dues of their society. These account slips or extracts from deduction sheets are generally distributed through the departments or sections in which the members are working. A certificate from the head of the department or section to the effect that the account slips have been duly distributed should be obtained and filed along with copies of the monthly recovery sheets.

(d) Confirmation of accounts in Banks :– In central 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, checks exhaustively confirmation slips received back from the borrowers. The system followed for issue of confirmation letters and securing confirmation of balance by the bank should be ascertained and it should be seen that confirmation letters have been sent to all borrowers.In respect of 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 balance or about any of the items debited to their accounts.

(e) The auditor may call for confirmation from the banks for their balances shown in societies' account books by sending letters.However the banks sometimes do not respond to the letter of the auditor. In such cases, the auditor shall request the society to call for such confirmations and account abstracts. The format of letter shall be as-

(Letter calling for confirmations from the banks.)
From : Name of the auditor and address, date
To, the concerned bank, address
Sir,

We are auditing the accounts of the ———————————-——————— society, ltd. ——————— Taluka- ———— District, for the period dated———————— to dated———————— as their statutory auditor. The society has shown following balances with you in its account books. We request you to confirm if the balances shown below agreed with your books of account on the date 31/ 3/ . If your books do not agree with these balances, please send us account abstract as per your books, so that the balance can be reconciled with the books of society.

Sr. No.	name of the account	narration of amount	balance Dr. or Cr.	Amount shown by the society	Remarks if any
1 2	3	4	5	6	

You are also requested to send this confirmation or account abstract as the case may be within 10 days from the receipt of this letter so that we can give necessary comments in our audit report.If we do not receive your confirmation within this period we will presume that the balances agree with the balances in your account books.

Sincerely Yours

Signature and name of the auditor signing

27.22. *Examination loans outstanding* :–

(a) Assessment and treatment of doubtful and bad debts :– It is necessary that the balance sheet and the profit and loss account of the society checked and certified by the auditor should disclose fairly and accurately the financial position of the society during the period covered by the audit. It is, therefore, an important duty of the auditor to examine the balance sheet very carefully and see that all the assets, which are shown in the books, appear at their proper value that they exist, in fact, and that no asset has been disposed of or charged in any way without the transaction being recorded in the books of the societies. Sub-clause (iv) of clause (6) of Rule 69 of the Maharashtra Co-operative Societies Rules, provides that the audit memo shall contain a schedule with full particulars of any money or property belonging to the society which appears to the auditor to be bad or doubtful debt.

In agricultural credit societies, central banks, urban banks, salary earners' societies and other institutions whose main activity is dispensing credit loans outstanding form a major portion of the assets. As already stated, examination of debts is one of the most important duties of the auditor. Outstanding loans and advances in banks and credit societies consist of current dues and overdues. ***An overdue account is an account in which the principal outstanding or any portion thereof or any installment, which has become due has been defaulted***. Overdues are further required to be classified by the auditor in good, doubtful and bad. Examination of overdue debts is a special responsibility of the auditor under sub-section (2) (i) of section 81, which defines the duties of the auditor.

A bad debt is a debt which is considered to be irrecoverable. Such a debt will have to be written off against the Bad Debts Fund or any other reserve or even share capital since it has been ascertained and ***reckoned as bad debt after all possible methods of recovery have been tried and proved futile***. A doubtful debt is one, the recovery of which in whole or in part, is uncertain. All such debts should be carefully examined and financial prudence requires that adequate provisions should be made against such debts.

(b) C***lassification of debts into bad and doubtful*** **:-** To classify a debt as bad or doubtful, ***the two main considerations are security for the debt and the period for which the debt has been defaulted***. If the security for the loan is reduced to nil and the loan has been outstanding for a fairly long period, there is every chance of the debt turning out to be bad, However, 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. It, therefore, becomes necessary to examine the security behind the loan and the period for which the loan has been overdue in order to determine whether a particular debt should be classed as doubtful or as bad.

(b) Security for loans **:-** The security for loans in **agricultural credit societies** falls under one or more of the following categories:-

(i) Personal security of the borrower and sureties. Generally, two sureties are taken.

(ii) Charge against crops, vide section 47 of the Maharashtra Co-operative Societies Act. However, this charge is difficult to enforce since once the crops are harvested and come out of the field, it is difficult to establish that they were raised out of the loan made by the society.

(iii) Charges against lands by way of declarations made under section 48 of the Maharashtra Co-operative Societies Act. This is the most common form of security for crop loans and if the value of the lands declared is sufficient, no other security is insisted upon. Sureties are taken only when the value of the lands declared is considered insufficient or the lands held are not owned by the borrowing member but are held by him at tenant.

In **urban banks and societies**, the security takes the form of tangible, immoveable or moveable property held by the borrowing member although in a very large number of cases of small loans, the security obtained is personal security of the borrower and one or more sureties, generally two are sufficient. Immoveable property is got ***mortgaged*** to the society while loans against goods may be either against pledge of the goods or mere hypothecation in which case possession of the goods remains

with the borrower. **In salary earners' societies**, the security behind the loan is the undertaking given by the employer to deduct and pay over to the society dues of the salary of the member against authority given by him. ***It is however, to be noted that section 49 (2) specifically states that the undertaking from the employer is not necessary when the agreement is executed by the member and society, providing to deduct from his salary his loan from the society.*** The employer is bound to deduct the loan amount when he receives a copy of agreement and demand from the society requesting deduction of loan amount of the borrower, who happens to be his employee.

The nature and extent of the security available will have to be carefully examined before classifying a debt as doubtful or bad.

The period for which the loan has been defaulted, is another important factor for determining whether the debt should be classified as doubtful or bad. For this purpose, ***the correct age of an overdue loan will have to be ascertained by ignoring book adjustments and unauthorized extensions***.

CHARGE FOR COMPANIES- In case thesociety finances loans to the companies registered under Companies Act, 2013, the provision under section 77 of that Act specifies that the financing society shall register the charge of the loans advanced to the company and the assets mortgaged for the same within stipulated time limit. Generally, where companies are financed by the co-operative banks, the auditor shall see that in such cases the society has registered the charge with the Company Registrar in time. The auditor should study the provisions of the Companies Act in this regards.

(c) Criteria for Classification of Debts into Good, Doubtful and Bad –

(i) Agricultural credit, multi-purpose and seva societies :- The criteria has been laid down in Nabard's circular dated 23/07/2009 for classification of debt into Standard, Sub-standard, Doubtful and Loss which should be followed by auditors.

(ii) District C**entral / State Cooperative banks :-** The Registrar has laid down these norms previously and revised as per circular No.ADT /298/ AC dated 24th March 1977, Prudential Norms were introduced by the Reserve Bank for the banks as per power delegated to the Bank under the Banking regulation Act's Section 35 to give directives. The contents of these circulars should be gone through carefully and the instructions contained therein should be followed for classification of loans of these institutions; these instructions are described elsewhere. The NABARD has issued several circulars guiding the Banks for classification and recognition of the bad and doubtful debts and also issued master circular for the same;these are explained elsewhere in this manual.

(iii) Urban banks :- The Reserve bank has also laid down prudential norms in its circular No. UBD No. I and L 38/ J.1-92/93 dated 9th February 1993 and revisions in the guidelines by issuing various circulars for classification of assets, which the auditors have to follow scrupulously. These guidelines were made applicable by the Registrar vide his Circular Nos. SAA/ LEP/Reserve Bank/ Suchna/ dated 17th September 1993; and 22nd September 1993; and No.CR/ URB/BK / ADT/93 dated 25th October 1993; these instructions are described elsewhere. Apart from the responsibility assigned by the Co-operative Act to the auditors to certify the Bad and Doubtful debt, the Reserve bank of India has also rested the responsibility to certify them and issue certificated this regards to her, by the auditor. The Reserve Bank of India has issued several circulars guiding the Banks in respect of classification and recognition of the bad and doubtful debts and also issued master circular for the same, as explained elsewhere in this manual.

(iv) Salary earners' societies and other non-agricultural credit societies :- The Registrarin its circular No. ADT/298/AC dated 17th August 1977 has laid down criteria for the agriculture non-credit societies, non-agriculture credit societies and non-agriculture non-credit societies. The auditors are required to study the guidelines given in the circular while auditing these types of societies, and follow them. The broad principles enunciated in these circulars hold good for classification of loans and other assets of these societies also. These have been explained in the forgoing paragraphs.

27.23. *Procedure for classification of debts :-* Examination of overdue debts is a special responsibility of the auditor under sub-section (2) (i) of section 81, which defines the duties of the auditor. *A list of overdues with full particulars regarding age, security, Action taken for recovery etc., should be obtained by the auditor before he proceeds to examine and classify them into good, doubtful and bad*. This list should be carefully examined by the auditor with special reference to security available and of the overdues. Any delay in referring to arbitration under Section 91 of the Act, cases of defaulters and in sending awards obtained, for execution should be enquired into. After a careful scrutiny of all overdue accounts in the above manner, the auditor should proceed to classify the overdues into good, doubtful and bad, in accordance with the instruction contained in the Registrar's circular referred to above. The information should be obtained in the following proforma for the purpose of certification of bad debts, for agriculture credit societies.

Column No.	Particulars of the column	Details
1	Loan account number	
2	Name of the member	
3	Amount of loan advanced	
4	Amount outstanding	
5	Of which overdue	
6	Period for which it is overdue	
7	Nature of security	
8	Amount considered Doubtful	
9	Amount considered as bad	
10	Reason for doing so.	

To facilitate the assessment of doubtful and bad debts by the auditors, it is necessary that all the account books and registers be written up-to-date. In agricultural credit societies, it is necessary that the assets or " Haisiyat Register (or Jindagi Register) " should be maintained up-to-date and verified by the Bank Inspector or other responsible officer of the Bank or the Department at regular intervals. In urban banks and societies, it is necessary that the Members' credit worthiness and surety liability register should be maintained up-to-date. All societies are required to maintain "Arbitration Register".

NABARD (National bank) has issued master circular and various circulars in respect of primary agricultural societies for assessing , classification and provisioning of the bad and doubtful debts (IRC or prudential norms) , which are explained elsewhere. The auditor should obtain soft copies of these circulars from the website of NABARD. (www.NABARD.org)

In central banks, periodical financial statements and stock statements obtained from the borrowing societies should have been filed properly, and the Advances Register and Ledgers should be posted up-to-date. Agricultural credit societies are required to furnish fortnightly recovery statements during the recovery season and it is the duty of the officers of the bank to scrutinize them and take prompt action to pull up the societies, which show slackness in effective recoveries.

27.24. Worksheet for estimating the bad and doubtful debts at Central Banks for the purpose of writing off:-

Column No.	Particulars of the column	Details
1	Sr. No.	
2	Name of the society	
3	Date of financial particulars	
4	Total loans outstanding against the members	
5	Total loans of which overdue for more than 1 years (against column 4)	

Column No.	Particulars of the column	Details
6	Book value of assets	
7	Erosion the value of assets (bad debts / assets 100%)	
8	Erosion the value of assets (doubtful debts / assets 10%)	
9	Total (column 7+8)	
10	Realisable value of the Assets (column 6 - 9)	
11	Outstanding liabilities a) Borrowing outstanding from the bank	
12	b) of which overdue for more than one year	
13	c) Interest payable to the bank	
14	d) of which overdue	
15	e) Borrowing from the Government	
16	f) Other borrowing if any	
17	g) Other outside liabilities	
18	Total (column 11+13+15+16+17)	
19	Amount considered as Bad	

Notes :-

(1) Particulars in this statement may be filled in the form of the audit reports of the societies.

(2) The financial particulars may relate to the last day of the cooperative year for which the latest audit report is available.

(3) The banks' dues from the society may be considered irrecoverable if the same are not covered by good loans outstanding from members of the society or the realisable value of assets of the society is not sufficient to meet its outside liabilities. The extent of erosion of the dues to the central bank will be determined after taking into account the dues to the government, and specific charge created on any of the stock or other assets by way of hypothecation, mortgage or otherwise and appropriating the balance of the realisable assets on prorata basis among all the creditors having a like claim.}

NABARD (National bank) has issued master circular and various circulars in respect of District Central Co-operative Banks for assessing, classification and provisioning of the bad and doubtful debts (IRC or prudential norms), which are explained elsewhere.

27.25. ***Procedure for writing off of bad debts*** :– ***Under provisions of Rule 49 of the Maharashtra Co-operative Societies Rules, no loss or other outstanding dues found to be irrecoverable can be written off unless it has been certified as irrecoverable by the auditor***.

(a) The Rule lays down that all loans including interest thereon and recovery charges in respect thereof, which are found to be irrecoverable and certified as bad debts by the auditor appointed under Section 81 of the Act, shall *first be written off against the Bad Debt Fund and the balance, if any may be written off against the Reserve Fund and the share capital of the society*. The rule further lays down that all other dues and accumulated losses or any other loss sustained by the society, which cannot be recovered and have been certified as irrecoverable by the auditor, may be written off against the reserve fund or share capital of the society.

(b) Auditor's responsibility for certifying bad debts **:-** It will thus be seen that before any loss incurred by the society can be written off, it has to be certified as bad or irrevocable by the auditor. The auditor thus assumes a ***great responsibility*** as all amounts certified by him as bad will be written off and no indication of the existence of the debt or other outstanding would be available once the debt is written off. ***The auditor has, therefore, to be very careful before he certifies a debt or loss as bad and irrecoverable*** .

The Co-operative Tribunal has held that for instituting proceedings under Section 88 of the Maharashtra Cooperative Societies Act, it is, not necessary that the debt outstanding should be written off. It is sufficient to show that due steps were taken to recover the dues, but they could not be recovered. It is, therefore, desirable to classify a debt as doubtful and continue to show it in the accounts rather than writing it off, unless the auditor has satisfied himself that all remedies for recovery of the debt or loss have been taken including proceedings under section 88 for reimbursement of losses were taken. In case of irrecoverable loans, it has to be seen that cases of the defaulters were referred to arbitration or negligence on the part of the committee, proceedings should have been instituted against persons found to be negligent. Byelaws of co-operative societies specifically lay down that it is the duty of the Committee to consider the overdues and take prompt steps to recover dues and overdues.

As regards losses which are to be written off, it should be seen that these are genuine trade losses incurred during the normal course of the business of the society and that they are not the result of any activity taken up by the committee which is not permitted under the byelaws.

(c) Additional conditions to be fulfilled for writing off bad debts :- Under provision below Rule 49, the following additional conditions are required to be fulfilled, before any bad debts or losses can be written off:-

(1) Prior approval of the general body should have been obtained.
(2) Prior approval in writing of the Registrar and the Central Bank to which the society is indebted should have been obtained. If the society is not affiliated to the central bank or is affiliated but is not indebted to the central bank, prior approval of the Registrar should be obtained.
(3) In case of central banks, prior approval of the state co-operative bank and the registrar has to be obtained.

While giving approval, the registrar may impose such regarding writing off of and the recoupment of the Bad Debt Fund " and restoration for partly or whole of the amount written off against the Reserve Fund from out of future profits as he may deem fit.

Societies classified as " A " or " B " at the time of their last audit, however, enjoy a special privilege. The Rule permits them to write off bad debts and losses from out of the Bad Debt Fund specially created for the purpose without seeking permission of the Registrar or the central bank. However, the other requirements, viz., sanction of the general body and certification of the auditor must be complied with. Thus in all cases, the auditor is the authority to decide whether the debt or loss is irrecoverable.

a) Provision to be made for doubtful and bad debts **:-** Under section 65(1) and rule 49 (A) of the Act, before arriving at the figure of net profit, adequate provision is require 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. Thus, 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 and before writing off any debt as bad, the procedure laid down in Rule 49 has to be followed***. Where bad debts or losses cannot be ascertained exactly, necessary contribution based on estimates should be made in the Bad Debt Fund, which should be charged to the profits. If there are excess profits after payment of dividend at a fair rate and making other appropriations, the remaining profits may be carried to the Bad Debts Fund.

b) Certificate for writing of bad debts :- The auditor is required to give certificate for writing of the bad debts. The certificate should be in the following format;

" This is to certify that, I have examined the enclosed list of overdues and losses provided by the Society for the purpose of writing them off. And I certify that,

1) I have examined the enclosed list provided by the Society and I am satisfied that the necessary steps for recovery have been taken by the Society, that are to my satisfaction to prove that the loans / losses are irrecoverable.

2) The losses are business losses of the society, and are not due to negligence of the management of the Society.
3) That the Society has obtained necessary prior approval from the General body of the Society, vide resolution No. dated
4) That the Society has made necessary provision for Bad and Doubtful fund to write off these losses.
5) The Society is in " A /B/ C/ D " audit class as per the last audit.
6) The amount certified as Bad is Rs……..(Inwards Rs……..) against the Bad debts fund of Rs…….

Date Sd/-
Place : Auditor

27.26. ***Prepaid expenses*** **:-** These should be verified from the bills received and payments made subsequently. Where the expenses, such as rent, rates, taxes etc. are payable on time basis; proportion of the payment which relate to the period subsequent to the date of the accounts, should be calculated and shown under the heading " prepaid expenses ". The usual payments of such type are for insurance premia paid in advance, municipal taxes, motor vehicle taxes, membership fees, subscriptions etc.

27.27. ***Deferred Revenue Expenditure*** :– As we have seen, there are certain items of expenditure, which are primarily of a revenue nature, but the benefit of the same is not exhausted during the period covered by the profit and loss account and is not required to be capitalised. Such expenditure termed "deferred revenue expenditure "may be carried forward and written off within the period during which the benefit arising from it is likely to be felt, so as to avoid an unduly heavy charge being made against the profits in year. Examples of such expenditure are alteration to plant, heavy repairs to buildings, plant and machinery, painting of buildings, abnormally heavy expenditure over advertisement etc. Preliminary expenses incurred by the society prior to commencement of its activities have been dealt in the following paragraph. Even after the society has commenced its activities, there will be expenses of the nature explained above which will have to be treated as deferred expenses and written off, during the cause of the following years. Thus, where a new wing is added to the factory building, the cost of the expansion of the building should be capitalized, but where only repairs and alteration have been carried out, the expenditure should be treated as deferred revenue expenditure. Other expenses, which are generally allowed to be treated as revenue have been given above. Where deferred revenue expenditure appears to have been shown in the balance sheet, it should be seen that amount carried forward is reasonable. Reasons for not charging the entire amount to the profit and loss account of the year should be ascertained and only such proportion of the expenditure incurred, which reasonably pertains to a subsequent period, or where the benefits accrued from the expenditure would be felt during the coming years, should be allowed to be shown as deferred revenue expenditure.

27.28. ***Investment amortization*** :- The urban banks and District Central banks are permitted to trade in Government securities transactions.The securities purchased by these banks are many times to be purchased at the market rate, which is much above the face value of the security. The excess value paid for the securities if they are not sold the excess amount of face value is treated as deferred revenue as it is not realisable. The banks should be required to debit this amount to the investment amortization account, and should write off the remaining life of the security till maturity.

27.29. ***Accounting Standard AS 8*** **:-** ***Research and development:*** **a)** Generally the research and development activity is not undertaken by the Cooperatives except sometimes such as by Iffco, Kribhaco, etc., However, some sugar factories or spinning mills spend very little amount on research and development. Separate accounts are not maintained for the same. The cost of research and development includes, a) salaries, wages, other related costs of personnel engaged in research and development, costs of material and services consumed for it, depreciation of building, equipment and facilities which are used for this purpose, amortization of the cost of building, equipment and facilities used for this purpose, overhead costs related to R and D payments to outside bodies for R and D, and other related costs.

***b) Criteria of R and D to be deferred expenses* :-** The above cost of Research and development should be deferred if, the product or process is clearly defined and it is attributable to the product or process, whose technical feasibility has been demonstrated. If the product is accepted for use by the management, the selling and administrative, and research and development cost will be covered from the future revenues. It should be deferred on scientific basis.

27.30. ***Fictitious assets*** :– Besides the above assets, there are also certain assets which sometimes appear in the balance sheet. These may be fictitious assets, which in fact, are capital expenditure which may not have resulted in identifiable profit earning assets and which still remain to be written off. The usual example of fictitious assets are preliminary expenditure or formation expenditure, development expenses, expenditure incurred other than on experiment and research etc. Where debentures are issued, commission and discount on issue of debentures will also be fictitious assets. The auditor should check the balance carried forward from year to year and ascertain the reasons for their continuance.

***a) Preliminary expenses* :-** The amount debited to preliminary expenditure account should be carefully scrutinized. Generally, every society has to incur some expenditure prior to its registration. The following expenses can be shown under the heading " preliminary expenditure".

(1) Printing of byelaws, (2) Printing of accounts forms and registers, (3) Stationary, (4) Postage, (5) Reasonable expenditure of promoters over convinces and miscellanies expenditure.

Along with the application for registration of a society, the promoters are required to submit a statement of preliminary expenses incurred by them. At the time of first audit, the auditor should check the statement and see that the expenditure incurred is reasonable.

In the first general meeting of the society held after its registration, the promoters are required to present a statement of expenditure incurred by them up to a date not more than 14 days prior to the date of holding the first general meeting. In this statement, all money received from the promoters and other applicants for membership of the society are to be shown. The entire amount collected from the promoters by way of share capital and entrance fees (also contributions towards formation expenses recovered from prospective members, if any) are required to be credited into the Bank. The bank account is generally opened in the name of these promoters, one of whom is styled as the "chief promoter ". No withdrawals are permitted from this account except with permission of the registering authority. In some of the societies, promoters collect contributions towards formation expense from prospective members. Promoters are required to furnish a statement of expenditure incurred by them along with the application for registration of the society. Promoters are also required to prepare statement of receipts and payments, which is required to be adopted by the members at their first general meeting. From the receipts and payments statement, the auditor is required to prepare a statement showing the amounts collected from members and also liabilities incurred by the promoters in the name of the society. This statement will be the basis for preparation of final accounts. As explained above, all expenditure incurred up to date of commencement of production activities, may be permitted to be capitalised in the case of societies which have undertaken manufacturing activities.

As regards other types of societies, certain expenditure incurred on organisation activities may have to be allowed to be capitalised. Thus, for example, in case of consumers' societies, all expenditure incurred on interior decoration and also over publicity and advertisement may be allowed to be capitalized.

Where considerable amounts have been borrowed and the interest is required to be paid, the interest paid on borrowed funds up to the date of commencement of the activities should also be capitalised.

Although in the above types of activities, preliminary expenses and other miscellaneous expenses incurred prior to commencement of activities, or even prior to registration of the society, may be allowed to be capitalized by correspondingly increasing the value of assets, it is not prudent to capitalise

any expenditure which does not add to the value of the asset. Thus, expenditure incurred over outside painting and interior decoration, advertisement, publicity, etc., should be treated as deferred revenue expenditure and written off during the course of the next three to four years.

b) Debit balance of Profit and loss Account :– If the results of the working of the society reveal losses, the losses incurred, *i. e.* the debit balance in the profit and loss account, will have to be carried forward, unless it can be written off against accumulated profits or reserve fund or share capital, with the prior approval of the general body. Registrar and central financing agency, if indebted and affiliated, as per rule 49 of the Maharashtra Co-operative Societies Rules, 1961. All future profits will have to be utilised first for utilising previous accumulated losses.

The debit balances of profit and loss account carried over from year to year will have to be shown on the assets side of the balance sheet until they are written off.

27.31. ***Verification of cash on hand and in Bank :– (a) Counting of cash on hand***: ***Cash on hand should be counted on the date of the balance sheet in case of all important societies***. Since the audit is to be carried out up-to-date or till the end of the previous year*, cash on hand should be counted during the course of audit*. However, the cashbook from the date upto, which the accounts are audited, till the date of counting of the cash, should be examined carefully to ensure that the cash on hand is correctly arrived at. While physically verifying cash on hand, the entire cash balance including petty cash, cash in sales depots, cash in branches and other offices should be brought in one place and verified simultaneously. Regarding urban banks and DCC banks having more than one branches in one city, cash should be counted simultaneously. The Institute of Chartered Accountants of India has suggested that cash should be verified by surprise checks and particularly opening cash should be checked. This is necessary to prevent substitution of cash balances.

The officer counting the cash on hand should obtain a summary of the cash counted by him (viz., denomination and number of currency notes and coins) and also offer remarks in cashbook about counting of cash such as;

"I have counted/verified the cash balance as per cashbook on / / amounting to Rs…….. (Inwards Rs……..), produced by Shri……Cashier/Secretary/ Treasurer (or the designation of the officer handling cash as he has been authorized by the Board). The same has been found correct as per cashbook.It is in the custody of Shri.....After verification, the denomination of the cash is detailed below."

Denomination in Rs.	No.s	Amount Rs.
1000		
500		
100		
50		
20		
10		
5		
2		
1		
coins		

cash is in my custody after verification verified by me

Cashier/Secretary/ Treasurer Statutory auditor

Place:

Date: / /

Time of counting:

The verifying officer should write denomination of the cash, date of verification, where the cash is on the opening of the day or closing of business, place of counting and sign the cashbook.

The statement of cash counting obtained by verifying officer should be signed by him and also the Manager or Managing Directors of the society and also by the auditor counting the cash. The cashbook should also be signed by the auditor mentioning the amount counted and the name of the officer of the society who presented the same and the date on which the cash was counted. (Registrar's Circular No. ADM.243. Dated 16 September 1957 and 8th August 1959).

(b) Cash in Bank :– Every society has a bank account. All co-operative societies are required to open their banking accounts with District Central Bank of the district. Societies in Greater Mumbai are required to have their accounts with the Maharashtra State Co-operative Bank or Mumbai District Central Bank. All cash in excess of the limit prescribed Rule 107-Cor in the byelaws, has to be deposited in the Bank. Societies in the mofussil may also open an account with the Maharashtra State Co-operative Bank in addition to the District Central Co-operative Bank. However, the society is required to maintain its cash balance with DCCB or MSC having at least "A" class for the last three consecutive years. Cash in Bank should be verified from the passbook, Bank statements and Bank balance certificates. If the balance does not agree, it will be necessary to prepare a reconciliation statement. The bank reconciliation statements should be prepared at regular intervals by the cashier or other officers receiving the bank statements. These reconciliation statements should be checked and it should be seen that the bank balance agrees as per the Bank statement. *It is also necessary to obtain balance certificates from the bank in order to ensure correctness of the bank balance.* The auditor should himself write to the bank to furnish to him the balance certificate of all the accounts of the society with the Bank. *The format of letter calling balance certificate is given in elsewhere.*

Items in the reconciliation statements on the date of the balance sheet should be traced during the following period. If there are any outstanding items, enquiries should be made.

(c) Opening of account and deposit of funds with other banks :- Under clause (a) of Section 70, a co-operative society is required the deposit its funds with the District Central Co-operative Bank or the State Co-operative Bank having at least "A" class for the last three consecutive years. Under clause (d) (Newly inserted) of the Section, deposit of funds in any co-operative bank or banking company, may be permitted by rules, or by general or special order in that behalf by the State Government, for this purpose. Rule 54 provides in this regards that in case eligible bank is not available as provided in clause (a) of section 70 for investment of funds in area of operation of the society, the society may invest its funds in a mode permitted by the rules, or by general or special order in that behalf by the state Government or in a mode permitted by the authority authorised by the State Government in this behalf. Hence, prior permission of the authority has to be obtained for opening an account with an urban bank or a commercial bank if they are not on the approved list. While granting permission to open an account with anyof the co-operative banks or a commercial banks, the authority may also impose such conditions as it may deem proper, such as maximum amount, period for which deposit can be made etc. Auditors should see that prior permission of the authority to open an account and deposit funds with any bank other than the District Central Co-operative Bank and the State Co-operative Bank has been obtained and that the conditions laid down by the authority while granting the permission are duly observed. Under clause (e) of the section 70, the societies are permitted to invest their funds in any other mode permitted by the rules, or by general or special order of the State Government. The RBI/ Registrar has restricted urban banks and urban credit societies, non-agricultural credit societies from depositing their funds in another urban bank vide his Circular No.Nagri Banka/D-4/patsanstha/nidhi/gunt/2029/08 Dated 12/11/2008. The Reserve Bank has also prohibited urban co-operative banks from investing their funds in another co-operative urban bank vide its Circular No. UBD.BR. 43/ 16.20.00/ 2000-01 date 19th April,2001. They are allowed to invest only with strong scheduled Urban Co-operative Banks who complied with the following norms :

a) The bank is complying with the prescribed level of CRAR

b) Net NPA's of the bank are less than 7%

c) The bank has not defaulted in the maintenance of CRR/SLR requirements for the last two years.

d) The bank has declared net profits for the last three consecutive years.

e) The bank has 'A' rating from Co-operative Auditors for the last three consecutive years

f) The bank is complying with the prudential norms.

g) The strong scheduled banks are also prescribed certain limit to accept the deposits from non-scheduled banks that are: (i) the deposits accepted should be within the limit of 10% of its total deposits, (ii) the rate of interest should be market related. (iii) total deposit on any one non-scheduled bank should be to the limit of 20% of its capital funds.

Scheduled Urban co-operative banks should not place their deposits with other scheduled co-operative banks or non-scheduled co-operative banks.

Where the society has more than one account, the above procedure for checking the bank account should be followed and balance certificates should be obtained in respect of all bank accounts.

(d) Importance of verification of cash on hand :- *In order to prevent misappropriations of cash balance, it is not only necessary to insist the cashbook is always written up-to-date, but also it is also necessary that satisfactory arrangements exist for independent verification of the cash balance.* At the close of business, a responsible officer should verify actual cash on hand and compare it with the balance shown in the cashbook. The Chairman in the case of primary agricultural societies, and the Manager or the Managing Director in the case of the bigger societies should verify the cash on hand at the close of the day and sign the cash book. *The closing cash balance should be mentioned in figures as well as in words along with the name and designation of the person having custody thereof.* In case of the larger societies, the cash book should be signed by the Cashier or Treasurer who has custody of the cash balance as well as the Managing Director, Manager, Secretary or other officer who has been specially ***authorized*** for the purpose.

It may also be mentioned that unless adequate and satisfactory arrangements have been made for the surprise checking of the cash on hand at frequent but irregular intervals, the cashier is apt to be tempted to misappropriate a portion of the cash balance, which he knows will not be normally required for the day-to-day business of the society. *The knowledge that somebody in authority might at any time demand production of the entire cash balance, generally keeps away the potential offender from committing misappropriation*.

(e) Precautions to be taken while counting cash :- A number of precautions are required to be taken by verifying officers and auditors while verifying cash balance. If different cash balances are maintained, such as imprest cash with local branches and depots, cash of different sections of departments, etc., *all the cash balances need to be called for simultaneously and verified,* as there is always the danger of substitution.

In case of primary agricultural societies, which have group secretaries, there is also the likelihood of the cash balance of one society being utilised for making good the deficit of another society in the charge of the same Secretary. Similarly, when the same person happens to be the Chairman or Treasurer of a number of institutions and has with him the cash belonging to more than one institution, unless the cash balances of all the societies are simultaneously demanded for verification, there is always the likelihood of the deficit of the cash balance of one society being made good by drawing from the cash balance of another society.

In a number of societies, particularly, those which have been running fair price shops, it is usual to find a large portion of the cash balance held in the form of coins which is difficult to count. When a large amount is held in the form of loose coins of different denominations, a portion of it can always be misappropriated, since inspecting/ verifying officers and even office bearers of societies do not always have sufficient time and patience to carry out complete verification. However, if coins of different denominations are sorted out and kept in separate bags duly sealed and the bags are not to be opened except in the presence of responsible officers, this form of misappropriation can be prevented.

(f) Measures to be taken for preventing temporary misappropriation of cash :– Temporary misappropriation can also be committed by deliberately delaying payment into bank, on the plea that remittance could not be sent before the close of the banking hours. One or two days' takings can easily by misappropriated. Cash balance may also be misappropriated temporarily by taking wrong totals and / or by wrong extraction and carrying forward of cash balance. Where audit is not carried out up-to-date, the transactions for the intervening period (*i. e.* from date up to which audit has been carried out and the date on which cash has been actually counted) will have to be checked quite often in order to reduce the cash balance advances, shown to have been made to directors or staff. The reasons for payment of advances should be noted. It should be seen that advances made are genuine and for proper reasons.

It has also to be remembered that even though adequate and satisfactory arrangements are made for frequent verification of the cash on hand, the cashier and secretaries of some of the co-operative banks and societies are shrewd and influential persons. They can always find obliging friends who are willing to give I. O. Us. or even undated cheques which come handy whenever cash balance is to be produced for verification *To be effective, therefore, cash verification should be a surprise to the cashier and it should catch him unawares.*

As already stated the easiest method for concealing shortage of cash and the one which is being commonly adopted is for the cashier to find excuses for not writing the cashbook up-to-date. Unless the cashbook is written up-to-date and the exact cash balance ascertained, counting of cash will have no meaning. It is therefore, necessary for verifying officers to see that the cashbook is always written up-to-date.

(g) 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 calls for the production of cash balance for his verification. ***Section 81 of the Maharashtra Co-operative Society Act specifically lays down that audit under the section includes the verification of the cash and securities of the society***. In addition to the auditor, other inspection officers including co-operative officers and Assistant Registrars, besides the Bank Inspectors, can demand production of the cash on hand for verification. However, the general impression appears to be that it is only the duty of the auditor to count the cash during the course of his audit. The Registrar has issued very clear instructions in this respect in his circular. No. RSR-61 dated 30-10-1954. 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 considerable 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 on the balance sheet at 31st March 20.... represents cash on hand in the Head Office and all the branches, pay offices, depots and other offices of the society/bank, situated at different centers in the area of operation of the society /bank and custody certificates in respect of all these cash balances have been obtained from the Manager /Accountant / Cashier /Agent, etc., of the branch, depot or other offices concerned."

This certificate should be signed by the Chairman and the Managing Director or other principal executive officers of the society. The auditor should give his observations regarding cash verification by him or by other authorities, in his audit report.

27.32. ***Arrangement and grouping of Assets in form " N "and disclosures*** – As regards display of the various items of assets in the balance sheet, instructions contained in the marginal note in from " N " have been summarized below for the items wherever related. Corresponding figures at the end of the previous year are also required to be given. ***Discloser required to be given as per this form*** are ***italicized*** in forgoing paragraphs.

1. Cash and Bank balance :- Fixed deposits and call deposits with central bank and other approved banks should be shown under the heading " Investment " and not under the heading "Cash and bank balances".

2. Investment :-

Investment should be shown under separate heads :- The nature of each investment and the mode of valuation (cost or market value) should be mentioned. If the book value of any security is less than its market value, a remark to that effect should be made, against each item.

Quoted and un-quoted securities should be shown separately.

III. :- (1) Investment of staff provident Fund, (2) Advances against staff provident Fund.

3. Loans and advances :- In case of Central Banks and other Federal societies, loans due from societies and individual members should be shown separately.

Loans and advances should be shown under heads mentioned in "**N"** form: -

For loans and advances outstanding, following disclosure is required to be made

Of which overdues, Rs.....

(Amount overdue is required to be shown in the column for particulars by way of specific note).

The following amounts are also specifically shown in the column for particulars: -

Loans due by managing committee members Rs.....

Loans due by Secretary and other employees Rs.....

Note. - Sub-section (2) of section 75 provides as under: -

At every annual general meeting of a 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 or any member of family (as defined in the Explanation 1 to sub-section (2) of section 75) of any committee member (including a society or firm or company of which such member or members of his family is a member, partner or director, as the case may be) and the details of repayment of loan made , during the last preceding year and the amount outstanding at the end of the year. The family as per this clause includes, wife, husband, father, mother, brother, sister, son, daughter, son-in-law and daughter in law.

It should be seen that this requirement is complied with.

4. Current assets are to be shown under different heads: -

Mode of valuation of stock should be stated.

Amount in respect of raw materials, partly finished goods and stores required for consumption are required to be stated separately. Mode of valuation of work in progress has to be stated.

5.- Fixed Assets – Fixed assets should be shown under different heads: -

Under each head, the original cost and the additions thereto and deductions there from made during the year and the total depreciation written off or provided upto the end of the year should be stated.

CHAPTER No. 28

VERIFICATION AND VALUATION OF LIABILITIES

28.1. ***Classification of liabilities*** :– ***Owned capital and borrowed capital*** :– The liabilities of co-operative societies will be different according to the types of societies and the nature of activities undertaken by them. However, they are generally shown under the following heads in their balance sheets.

(1) Share capital (2) Statutory reserve (3) Other funds (4) Deposits from members and non-members (5) Borrowings secured and unsecured (6) Trade creditors, (7) Outstanding creditors and provisions.

All liabilities, except capital and the statutory reserve fund and other funds built out of profits which constitute the owned funds of the society, are to be grouped under two heads –long term and current liabilities***. Long-term liabilities are those which are not payable within a year. Current liabilities are those payable within a year***. Deduction of total current liabilities from the total of current assets would show the adequacy or otherwise of the resources available for meeting its day-to-day needs. The excess of current assets over current liabilities is an extremely important figure, which would reveal the financial stability of the society and its inability to meet its day-to-day commitments arising during the course of its business.

(a) Share capital :– ***State participation in the share capital of co-operative society*** :– The authorised share capital of the society should be ascertained from the byelaws. It should be seen that this is not exceeded. The authorised share capital can be increased by an amendment to byelaws. The auditor should advise the society to increase the authorised share capital whenever he finds that as a result of issue of new shares to new members and applicants for membership, it has become necessary. The state has been participating in the share capital of a number of important cooperative institutions. Accordingly, issue of a special class of shares redeemable preference share has been provided for in the byelaws of most of societies. Government contributes towards these preferential shares, which are issued to Government only. However, these shares carry no special right to any fixed dividend and dividend at the rate declared by the society and payable to ordinary shareholder only is paid to Government on the shares held by it. Conditions regarding payment of dividend, redemption of the shares, creation of the Share Capital Redemption Fund, etc., are contained in the Government orders sanctioning the share capital contribution, and it will be the duty of the society to see that these conditions have been accepted by the society.

Where there is no provision for preferential shares in the byelaws of the society, i.e. byelaws do not provide for authorised or paid up capital for state Government. the auditor should suggest to the society to modify its byelaws suitably and also bring this fact to the notice of the registering authority. Redeemable preference shares issued to Government are always fully paid up, while ordinary shares of the society may be partly paid up.

Under section 55 of the Act, in the event of the society of which shares are purchased by Government, is wound up, the liability of Government in respect of the share contributed by it is limited to the amount paid in respect of such shares. Shares issued to Government are "fully paid "and hence the question of any further liability does not arise.

(b) Principal State Partnership Fund and subsidiary State Partnership Fund :–These funds are required to be created and maintained by the Apex society (State Level Institutions) and the central society (Central Co-operative Banks and other central societies), respectively. Contributions to the Principal State Partnership Fund, received by the Apex society are to be utilised only for purchasing directly shares of other societies or for contribution to the Subsidiary State Partnership Funds established by the Central societies from out of which the central society has to purchase shares of primary societies affiliated to it. Section 50 provides maximum limit of 25% for holding the share capital in co-operative

credit structure societies (includes primary agricultural societies, district central banks and state cooperative bank) to be held by the State Government. Under sub section (1) of Section 58, all moneys received by an apex society in respect of shares purchased from out of the Principal State Partnership Fund on redemption of the shares or by way of dividend are otherwise required to be credited to that fund. Under sub section (2) of the section, all moneys received by the Central society in respect of the shares of primary societies purchased from out of the subsidiary State Partnership Fund on redemption of such shares or by way of dividend or otherwise shall in the first instance, to be credited to that fund and then transferred to the Apex Society for being credited by them to their Principal State Partnership Fund. Sub section (3) further provides that all moneys and dividends credited to the Principal State Partnership Funds as specified above should be paid to the State Government irrespective of whether the shares stand in the name of the Apex Society or Central society. The State Government is not entitled to get any return on the above, as per clause (4) of section 58.

(c) Societies which receive Government share capital contribution :– At present Government share capital contribution is provided to the following types of societies, under the various schemes approved by the Central and State Governments :-

(1) Credit societies and service co-operatives (seva societies, formerly large sized and small sized multi-purpose societies).

(2) District Central Co-operative Banks.

(3) Maharashtra State Co-operative Bank, Maharashtra State Agricultural and Rural Development Bank, Maharashtra State Co-operative Housing Finance Society.

(4) Maharashtra State Co-operative Marketing Federation, District Marketing societies and primary marketing societies.

(5) Processing societies including sugar factories and spinning mills.

(6) Fishery societies, poultry societies, piggery societies. Dairy Societies.

(7) Co-operative Wholesale and retail stores and certain other primary consumers societies.

(8) Industrial societies including labour contract societies and forest labourers societies.

(9) Weavers societies.

(10) Housing societies for backward classes.

(11) Farming societies.

Share capital contribution in case of primary agricultural credit societies and District Central Banks is indirect whereas share capital contribution in case of all other societies is direct. As such, only the State Co-operative Bank and the District Central Co-operative Banks are required to maintain the principal and subsidiary State Partnership Funds, respectively.

D) Own Capital :- Byelaws of every society provides for share capital contributed by the members of the society. The auditor should verify the schedule provided by the society, with the personal ledger balance and General ledger. The auditor should confirm that the balances are agreed with the balance shown in the General Ledger. The maximum limits for holding shares by any individual is prescribed in Section 28 of the Act.Auditors should ensure that it is adhered to.

In case of calls in for arrears or calls in advance for share capital, the auditor should observe that the provisions of Rule 39 and byelaws are to be complied with. In case of change in the face value of shares or increasing the limit of minimum share holding for active members or otherwise, proper steps should have been taken by the society such as – informing members regarding calling of arrears for share amount, changes in byelaws, period in which the calls are to be paid by the members, forfeiture of shares, etc.

28.2. ***Valuation of Shares*** **:-** The valuation of shares is required while refunding the share capital to the member after cessation of his membership as per rule 23 of the Maharashtra Co-operative Societies Rules 1961 only if the society has limited liability for shares. For the unlimited liability of shares the societies are required to refund the actual amount received by them.

In case of limited liability, the society shall refund the amount as it is arrived at by a valuation based on the financial position of the society as shown in the last audited balance sheet preceding the cessation of membership. The rule also provides further that, the amount so refunded should not exceed the face value of share, though the valuation is more than the face value as per byelaws. In case of value less than the face value, the amount refunded should be the lesser value, as it comes from valuation.

The value required to be refunded, should be as per last audited balance sheet which means that the auditor should give the valuation in his audit report every year. The rule 23 provides the manner of valuation of share. Divide the net worth of the society by the number of shares to arrive at the valuation of shares. Thus the auditor has to first calculate the net worth.Net worth is also defined in the explanation under the rule ***"Net worth means paid-up share capital plus free reserves (Reserve fund, unutilized building fund, dividend equalization fund, carried forward balance net profit, any other fund which is not marked specifically for any liability)*** and deducting therefrom accumulated loss, shortfall in provision."

The accounting standard provide for valuation of shares, as the ***net realisable value of the assets divided by the number of shares of paid up capital***. The net realisable value should be determined as under by the auditor for the co-operative societies.

Sr. No.	Particulars	Amount
A	**Own Funds**	
1	Paid up share capital	
2	Statutory Reserve	
3	Building Fund	
4	Other Free Capital Reserves (created from appropriation of Net Profits)	
5	Profit of the current year	
6	Total (column 1 to 5)	
7	Minus Accumulated losses (if any)and short provisions	
8	Net realizable value of Assets	
9	No of paid up shares	
10	Value per share (column 8 divided by column 9)	
11	Face value of per share	
12	Excess / decrease of value per share	

Notes :-

a. The revenue reserves created by charging profit and loss account should not be considered for valuation of share as they represent erosion in the value of the assets, such as depreciation fund, Bad and doubtful fund, investment fluctuation fund etc. However, excess provision may be considered by the auditor for valuation. But the same should be disclosed in the audit report.

b. Funds like employees provident fund, gratuity fund should not be considered for the purpose of valuation**.**

c. Funds created for the specific purpose as per Byelaws out of appropriation of profit may be considered for valuation if they are not utilised for the same purpose.

d. Another method for valuation of shares would be on the basis of realisable value of the assets as described below. This also gives the ***net worth*** of the society.

Sr. No.	Particulars	Amount
1	Total assets	
a)	Liquid Assets	
b)	Current Assets	
c)	Fixed Assets (minus depreciation on them or if depreciation fund is created it should be subtracted from the assets)	
2	Total of Assets	
3	All receivables	
4	All payables	
5	Net of receivable and payables + or – (3-4)	
6	Net realisable assets (2-5) or net worth	
7	No. of shares (excluding Government share capital)	
8	Book value of the shares (6 divided by 7)	

Explanatory Notes:-

1) The liquid assets should include the cash and bank balance, investment, which are realisable immediately, call deposits, and money at short call notice etc.
2) Current Assets: includes stocks, stock of printing stationary, vehicles, safe and furniture, dead stock, furniture and fittings, fixtures, etc.
3) Fixed Assets: includes land and building, machinery and plants, lease hold lands, etc.
4) Other receivable: includes all other items excluding those mentioned in 1,2,3, above, including the loans and advances, sundry debtors, but does not include fictitious assets like preliminary expenses, or losses carried forward, accumulated losses etc. as they are to be deducted from the own funds.
5) Other payables include: Government share capital, share anamat, deposits, borrowings, other payable, sundry creditors, and other items of liability side excluding the profit, or accumulated profits.
6) It should be noted that the share capital, statutory reserves, capital reserves, as stated in above paragraphs, should not be considered for this purpose.However the net of own funds should be tallied with the amount of net realisable assets, as per the first method of valuation.

28.3. ***Reserves and Provisions*** **:-** ***Statutory reserve fund-*** Under section 66 of the Maharashtra Co-operative societies Act, all co-operative societies are required to carry one fourth of their net profits to the statutory reserve fund. The Registrar has however, been empowered under the section to permit societies to contribute a lesser amount to the Reserve Fund, but not less than one tenth of the net profits. Thus, creation and maintenance of the reserve fund out of the annual profits is compulsory under the provisions of the Act and no distribution of profits can be made until necessary amount as

required under Section 66 of the Act has been carried to the statutory Reserve Fund. The Reserve Fund is indivisible and it can be used only for purposes permitted under the Act, viz., for writing off losses and bad debts or for some public purpose likely to promote the object of the Act or for some purposes of the State or local interest. In addition to amounts credited out of profits, byelaws of societies generally lay down that entrance fees, donation not earmarked for specific purposes and other unusual or extra-ordinary receipts should also be credited to reserve fund. Capital profits on sales of immovable properties and other fixed assets and similar other non-recurring receipts, which are not to be distributed by way of dividend, are also required to be credited to reserve fund or some other fund. Under Section 66 of the Act, the reserve fund of the society may be used in its business or invested outside the business of the society subject to the Provisions of Section 70 of the Act. However, under Rule 54 of the Maharashtra Co-operative Societies Rules, reserve fund is required to be invested separately. The Registrar has directed that the reserve fund of primary societies should be deposited with district central co-operative banks. The district central co-operative banks and urban banks are required to deposit their reserve fund with the Maharashtra State Co-operative Bank, Limited, Mumbai.

28.4. ***Investment reserve and other funds*** **:-** The district central Co-operative banks or state Co-operative banks can invest their 50 % of the reserve fund in their business, subject to the prior approval of the Registrar. If the reserve fund is equal to or more than its paid-up share capital such society may invest that portion of the reserve fund which is in excess of its paid-up share capital, or a portion thereof , in its business decided by general body meeting with prior approval of the Registrar. In addition to the modes specified in clause (a) to (d) of section 70, the societies can invest their funds in debentures issued by the Co-operative Agricultural and Rural Multipurpose Development bank or State or Central Government loans. The housing societies are permitted to invest their fund for expenditure on the maintenance, repair and renewal of building of the society if they are formed on co-partnership basis. The processing societies and industrial societies, such as sugar factories, spinning mills etc. are permitted to invest in acquiring, purchase or construction of lands, buildings, and machinery, decided by general body meeting with prior approval of the Registrar. The Government has also permitted them by notifications mentioned below, to contribute upto 10 % of their reserve fund to National Defence fund, or other funds approved by Central Government, National defence certificates, or defence deposit certificate or Koyana relief fund.

GN C and R DD NO. CSL / 1562/ 54874-J DATE 20.11.62

GN C and R DD NO. CSL / 1562/ 25415-J DATE 18.4.64

GN C and R DD NO. CSL / 1567/ C-3 DATE 20.12.67

28.5. ***Funds created out of profits*** **:–** The term "fund" should strictly speaking denote investment of a reserve outside the business of the society. Thus, the term should be applied only when the particular reserve is represented by specific investments outside the business of the society. The Institute of Chartered Accountants of India has recommended that all reserves, which are not represented by specific securities should be called reserves or reserve account and the term " Reserve Fund " should be used only when the amount of the fund is invested outside the business of the company. However, so far as co-operative societies are concerned, there is no such distinction made either in the Act or the Rules and the term " fund " is indiscriminately used to denote all reserves created out of profits, irrespective of whether the amounts thereof are represented by specific investments outside the business of the society. The Statutory Reserve Fund, however, has to be distinguished from other funds in as much as in the Act itself, it is styled as "fund", although in certain cases, it may not be represented by actual investments.

(a) Meaning of "Reserve" – The term ***"reserve"*** has not been defined either in the Co-operative Societies Act or the Companies Act. The term, however, has been negatively defined in the Companies Act as ***" not including any amount written off or retained by way of providing for any known liability "***. The term ***"provision"*** means any amount

"written off or retained by way of providing for depreciation, renewals or diminution in value of assets as retained by way of providing for any know liability of which the amount cannot be determined with substantial accuracy ". The Companies *Act further lays down that* ***where a provision in the opinion of the directors of the company is in excess of that which is reasonably necessary for the purpose, the excess must be treated as a reserve and not as provision***. This provision has been made with a view to preventing creation of secret reserves during years when large profits have been made. However, no such provision has been made in co-operative law, and societies are free to create any number of reserves either by charging the amounts to profits or by way of appropriation of profits and since practically no distinction has been made between reserves and provisions and there are also no statutory restrictions on the amounts to be provided of undermined liabilities and anticipated losses, the creation of secret reserves is facilitated. It is therefore, the duty of the auditor to see that all amounts held back or retained from profits are correctly shown in the balance sheet under their proper heads. ***He has to ascertain that the provisions made for undermined liabilities and anticipated losses are reasonable and where they are in excess of what he considers reasonably necessary,*** they should be shown under the heading " Reserves "and not as "provisions". A certificate expressing the opinion of the Board of Directors that, the amounts provided for or considered by them are reasonably necessary should also be obtained.

(b) Provision for losses and unascertained liabilities – It has, however, to be noted that the existence of reserves including the statutory reserve fund entirely depends upon the valuation placed on the different assets, and if these are excessive, either owing to inadequate provision for depreciation or inclusion of fictitious assets or any other reason, the reserve may be merely nominal or may be considerable smaller than what they have been made out to be in the balance sheet.

(c) Provision – A provision is required to be made when a loss is anticipated, but the amount thereof cannot be ascertained exactly. As the loss will 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 at to show the correct position and a provision account created and shown on the liability side. *Such provisions will have to be made for losses likely to be sustained on the realisation of certain assets and also for accruing liabilities the amounts of which cannot be precisely ascertained, which will not result in the acquisition of corresponding assets*. Examples of losses in the realisation of assets are bad debts, rebates, discounts or other allowances etc. It is the duty of the auditor to see that either such losses are written off, or adequate provision is made to meet them.

(d) Provision for unascertained liabilities – As regards unascertained liabilities, it is likely that bills discounted may be dishonored, guarantees may have to be fulfilled, or damages under pending action, claims for which have not been admitted may have to be paid. Losses might also result from fire or other risk not fully covered. Such provisions are to be shown either under their proper headings or under the general heading of ***" suspense accounts "***. The auditor has to see that adequate provision has been made for all such accruing liabilities. However, no provision is required to be made for liabilities accruing which would result in the acquisition of assets of corresponding value, as, for example, orders for purchase of capital goods, forward sales or purchases, unfinished contracts, etc., *except where special commitments have been made and losses are anticipated.*

28.6. ***Assessment and treatment of Doubtful and Bad Debts – Auditor's responsibility as regards adequacy of provisions*** **:-** *In preparing and examining the balance sheet of the society, it is the duty of the auditor to satisfy himself that all the assets shown in the balance sheet appear at their proper*

value, that they exist in fact and that no asset has been disposed off or charged in any way without the transaction being recorded in the books of the society. Sub-clause (iv) of clause (6) of rule 69 of the Maharashtra Co-operative Societies Rules provides that the audit memo shall contain schedules with full particulars of any money or other property of the society, which appears to the auditor to be bad or doubtful debt. Examination of overdue debts has been made a special responsibility of auditor in view of their far-reaching consequences on the financial position of the society. All overdues in agricultural credit societies and non agricultural credit and non credit societies are required to be classified into good, doubtful or bad in accordance with the instructions of the Registrar contained in various Circulars, are to be calculated and provided for. The auditor should carefully study these circulars, and the ***principles*** enunciated therein should be applied to the classification of the outstanding debts of other types of societies. For the district central banks and urban banks, Reserve bank and NABARD have issued prudential norms for classification, recognitions and provisioning under their Master circulars No. UBD/BSD/IP.30/ 12.05.05/2001-02 dated 26.12.2002 and NO. NB. DOS. No. POL/ P-57.2002-03 Circular No. 193/ DOS.21/2002 dated 17.8.2002 respectively, which have been subsequently modified every year in July, should be required to be studied and applied for the classification of bad debts.

Having ascertained in the manner laid down in the Registrar's circulars the extent of doubtful and bad debts in the society and the amount of the provision he considers necessary, the auditor should proceed to check the provision for Bad Debts Account or the Bad Debts Fund Account in the general ledger and see that the required entries have been made therein. It should be seen that necessary entries have been made therein. It should be seen that necessary entries have been passed either through the cashbook or the journal.

28.7. ***Writing off of bad debts*** :– Section 65(1) and Rule 49 A of the Act requires that all bad debts should be written off before arriving or the amount to the amounts of net profits. However, instead of writing off bad debts against current profits, it is more appropriate to write off the bad debts against the provision for Bad Debts or the Bad Debts Fund already existing or brought forward from previous year, and fresh provision made after reviewing the bad debts position then existing. The difference on the account will then represent the extent of the new provision that is required to be made by debiting to the profit and loss account for the year. It has to be noted that writing off bad debts by directly debiting the amount of the bad debts to the current profits, amounts to ***bypassing the provisions laid down in Rule 49 of the Maharashtra Co-operative Societies Rules and should be objected to by the auditors.***

Where the provision for bad debts is considered inadequate by the auditor, he should discuss the matter with the management and suggest the committee to increase the provision, and he should ***qualify his report and also deal with it in his audit memo.*** He has to certify the adequacy of provision for urban Co-operative banks and District Central Co-operative Banks, State Co-operative bank and has to report the same to the Reserve Bank and NABARD respectively.

28.8. ***Depreciation in the value of Investments- Investments Fluctuation Fund*** **:-** Where a large number of investments are held and the market value of the investments on the date of the balance sheet is less than their book value, it is necessary to provide for the loss that has occurred. This generally is done by creating an Investment Fluctuation Reserve or Provision for Depreciation of Investments by debiting the required amount to the annual profit and loss account each year and crediting the Investment Fluctuation Fund or Provision for Depreciation of Investments. Contribution to the Investment Fluctuation Fund is compulsory under provisions of Rules 51 and sub rule (xiii) of the rule 49 A of the Maharashtra Co-operative Societies Rules. For the urban cooperative banks, Reserve Bank of India has issued circular No. BPD.PCB.Cir. 12/09.29.00/2003.04 dated 4th September 2003 for creation of investment fluctuation Reserve and investment depreciation Reserve respectively. These circulars have been modified and converted into a Master Circular by the RBI/NABARD, for the investments held for trading and sales and for investments held till maturity. Auditors are required to study them for provision purposes in the urban banks.

28.9. *Sinking Fund* :- A sinking fund is created either to redeem an existing liability at the end of a certain period or to provide for the diminution in the value of existing assets, which will have to be replaced at the end of the stated period. ***Societies which are permitted to raise funds by issue of debentures are required to create a sinking fund for the redemption of the debentures at the end of the period for which they are issued.*** Housing societies, Industrial Estates, State Agricultural and Rural Development banks and similar other societies which acquire immoveable property like buildings, factory sheds, etc., are required to create sinking fund which is required to be invested outside the business of the society. As already stated the creation of the sinking fund entails a charge on the profit and loss account every year of an amount which, if invested at compound interest, will produce the required amount necessary to redeem the liability to acquire the new asset at the end of the given period. Thus, societies, which have issued debentures, will be enabled to pay off the debenture replacing their buildings,will have sufficient money to construct a new building. In case of debentures, the investments of the sinking fund are held in the names of the trustees in accordance with the terms of the trust deed. In case of housing societies, however, since there are no creditors, and the investments belong to the society itself, sinking fund certificates are required to be issued to the members who have contributed towards the sinking fund at regular intervals according to the provisions of their Byelaws. The sinking fund is created by debiting to profit and loss account according to the provisions of sub rule 2(1) of Rule 49 A of the Maharashtra co-operative societies Rules 1961.

28.10. *Bonus Equalization Fund* :- Rule 52 of Maharashtra Co-operative societies Rules provides for the creation of the Bonus Equalization Fund. Sub-rule (1) permit societies to create out of their profits a Bonus Equalization Fund for payment of bonus to members and non-members, other than paid employees. *As regards payment of bonus to paid employees, necessary provision has to be made before calculating the net profit and is therefore, a charge on profits, whereas provision for payment of bonus as contemplated in Rule 52 forms an appropriation of the profits and has to be approved by the annual general meeting*. Under clause (4) of section 2 of the Act, ***"bonus"*** means payment made in cash or kind out of the profits of the society, to a member or to a person who is not a member, on the basis of his contribution (including any contribution in the form of labour or service) to the business of the society, and in the case of a farming society, on the basis of both such contribution and also the value or income or, as the case may be, the area of the lands of the members brought together for joint cultivation as may be decided by the society , but ***does not include any sum paid or payable as bonus to any employee of the society, under the Payment of Bonus Act, 1965*.** Sub-rule (2) lays down that the Bonus Equalization Fund shall be utilized only for payment of bonus.

28.11. *Dividend Equalization Fund* :– Sub-rule (2) provides for the creation of the Dividend Equalization Fund out of the net profits made by the society. The sub-rule lays down that contribution in any one year shall not exceed two percent of the net profits and contribution to this fund shall cease when the amount of the fund amounts to ***nine percent of the paid-up share capital*** of the society. The society may draw upon this fund in any year only when it is unable to maintain a uniform rate of dividend it has been paying during the preceding five years or more. It is thus clear that this fund can be drawn upon only in lean years when the society is unable to maintain a uniform rate of dividend on its shares and will not be available to increase the rate of dividend in any year to a level above that at which it has been paying during last five years or more, subject to the recommendation of the rate by the Board of Directors, which cannot be changed by the General meeting as per provisions of the sub rule (4) of the rule 52 of the Maharashtra Co-operative Societies Rules 1961.

28.12. *Other funds and provisions* :– ***Funds to be charged to profits and to be created out of profits-*** The term " fund " as already stated, is very loosely used in the Act and the Rules. It is used to describe not only funds created out of profits, but also other amounts charged to profits or set apart, not only out of profits, but also out of realizations for meeting unforeseen losses and undetermined liabilities, which should be appropriately shown under the heading ***"provisions"***. However, since the Act does not make any distinction between reserves and provisions, the nomenclature specified in the

byelaws of the society to describe these funds or provisions, may be used for purpose of balance sheet. Section 65 and Rule 49 A of the Maharashtra Co-operative Societies Act permits societies to create a number of funds and reserves out of their annual profits. Creation of some of the funds is compulsory under the provisions of the Act Rules and byelaws of the society, while financial prudence necessitated creation of some other funds and provisions. The nomenclatures of these funds and provision generally indicate the purposes for which they have been created and are being maintained. Thus, Bad Debts Fund and Provision for Bad Debts as already explained is maintained and has to be utilized for writing off bad debts. Charity Fund is created and maintained for payment of charities. Building Fund is created to enable the society to conserve funds to have a building of its own. Although, many of the so called " funds " are in the nature of reserves and provisions, neither Form " N " nor the instruction contained in the marginal notes against the various items require them to be shown under their correct headings.

28.13. ***Legal provisions regarding creation and maintenance of certain funds - Funds created by charging to profit and loss account*** **:-** It has also to be noted that section 65 (2) of the Act does not make any distinction between funds contribution to which are to be charged to profits and other funds which are to be created by way of appropriations of the net profits except statutory reserve fund and bonus equalization fund, charity fund under section 69. Auditors, however, should object to creation of funds and reserves, which have not been specifically permitted under the provisions of the Act, Rules and the byelaws of the society. Contributions to the following funds are required to be charged to the profits for the year before arriving at the figure of net profits: -

(a) Co-operative education and training fund [Rule 49 A (ix)]

(b) provision for election fund for payment of election expenses; [Rule 49 A (x)]

(c) Bad Debts Fund and provision required writing off bad debts. [Rule 49 A (xi)]

(d) Investment Fluctuation Fund. [Rule 49 a (xiii)] [Rule 49 A (2)] and rule 51

(e) Share capital Redemption Fund. [Rule 49 A (xii)] and [rule 51(ii)

(f) Purchase rebate payable to members and non-member customers of consumers societies (Patronage bonus) [Section 65(2)].

(g) Sinking Fund or guarantee Fund. [Rule 49 A (2)] and [Rule 51 (i)]

Under provisions of Rule 49 A, contributions to the following funds are required to be made before arriving at the net profits as state above.

(1) Contribution, if any, to be made to any sinking fund or guarantee fund constituted under the provisions of the Act, Rules or byelaws of the society for ensuring due fulfillment of guarantee given by Government in respect of any loan raised by the society.

(2) Provision considered necessary for depreciation in the value of any security, bonds or shares held by the society as part of its investments.

(3) Any provision required to be made for the redemption of share capital contributed by Government or by a federal society.

These funds are compulsorily required to be maintained.

As regards amounts to be credited to these funds, it has to be noted that the amount to be credited to the Share Capital Redemption Fund will depend on the period during which the share capital has to be redeemed as per terms and condition laid down by Government Similarly, the contribution to the sinking fund or guarantee fund will also be laid down by Government and will depend on the amount of the guarantee given. The amount of the Investment Depreciation Fund will have to be determined on consideration of the values of the specific securities held by the society.

28.14. ***Funds created by appropriation of net profits*** :- Rule 50 (1) of the Maharashtra Co-operative Societies Rules 1961, provides that a society may appropriate its profit for education of members, any co-operative or charitable purpose including relief to poor, education, medical relief and advancement of any other general public utility upto 20% of the net profits. Rule 50 (2) provides for appropriation of net profit for creation of following funds;

(a) Development fund

(b) Dividend Equalization Fund; and

(c) Any other fund created under bye-laws

Apart from the above provision, the various sections that provide the appropriation of funds after arriving at net profit are 1) charity funds under section 69, and 2) reserve fund under section 66 of the Act.

28.15. ***Charity Fund*** :– Section 69 of the Maharashtra Co-operative Act permits a society to create and maintain a charity fund out of its profits by crediting to this fund an amount ***not exceeding 20 per cent of its net profits*** for the year. Out of this fund, donation and charities can be made only with the approval of state federal society, as notified by the State Government. The State Government has notified Maharashtra State Co-operative Union [Notification No.WPC.2872/10211/C-5 Dated 13.4.1972.]. Donations approved under the Income tax Act can, however, be debited as trade expenses, but other payments by way of donations, contributions to funds or by way of charities will have to be made only out of the Charity Fund created under provisions of this section,but approval of the State federal society notified by the State Government, will have to be obtained. It should also be seen that the limit of 20 per cent laid down in the Act is not exceeded. This limit, as we have already seen, includes donation in the form of advertisements in souvenirs, etc. It has, however, to be noted that approval of the State federal society is necessary for payments to be made out of the Charity Fund and not for setting aside or crediting amount to the Charity Fund out of annual profits. " Charitable purpose " under section 2 of the Charitable Endowments Act, 1860, includes relief for the poor, education, medical relief, advancement of any other object of general public utility, but does not include a purpose, which relates exclusively to religious teaching or worship.

28.16. ***Provision for Overdue Interest*** :– As we have seen, Rule 49 A of the Maharashtra Co-operative Societies Act clearly lays down that all interest accrued and accruing in accounts, which are overdue, should be excluded from the amount of the net profits. Overdue loan accounts are those accounts in which the principal or any installment which has fallen due has been defaulted. If interest not actually realised, *i. e.* interest receivable, has been included in profits, it is necessary that the portion of interest receivable, which is overdue, should be deducted. This is done either by debiting the interest account and crediting the "Provision for Overdue Interest" account, or by deduction of overdue interest from the total amount of interest. Either way, it should be seen that no overdue interest is taken to profits. This has been dealt with separately. For Urban Co-operative Banks, and District Central Co-operative and State Co-operative Banks, various guidelines issued by the Reserve Bank of India/NABARD should be adhered to.

28.17. ***Contingent liabilities*** :– It is possible that there may arise in future liabilities relating to transaction effected in the past. Thus, for example, bills might have been discounted before due dates, cheques might have been credited to accounts by the Bank before their realisation and similar other cases like the discounting of hundies, etc. The society may also be holding certain partly paid shares on which full amounts have not been paid. Guarantees issued by the society may still be outstanding. There may also be pending arbitration cases and suits filed in the civil courts against the society, results of which have not been known. There might also be claims made which might not have been accepted by the society such as income tax or other taxes. The auditor should enquire into all such matters with a view to ensuring that adequate provision is made in the accounts for these liabilities. Ordinarily, unless the liabilities are definite, provision is not made in the accounts. However, the position is required to be made clear by means of a footnote below the balance sheet.

28.18. ***Arrangement and grouping of liabilities and disclosures*** :– From **" N "** Liabilities – The following are the instructions contained in the marginal notes regarding the manner in which the various items of liabilities are to be shown in the balance sheet. These are kind of ***disclosures to the balance sheet***. Corresponding figures at the end of the previous year are required to be shown.

I. Share capital :– ***Share capital contributed by Government and by co-operative societies and different classes of individual members are to be shown separately. Terms of redemption or conversion of any redeemable preference shares need to be mentioned***.

Summary of authorised and subscribed share capital distinguishing between the various classes of capital, number of total shares to be issued and face value of each share needs to be shown separately. Calls in arrears are to be shown as a deduction from subscribed capital and calls received in advance as an addition.

Subscriptions received towards shares and amounts credited to Share Suspense Account pending transfer to share capital account are to be shown as a separate item.

II. Reserve Fund and other funds :- (a) Statutory Reserve Fund (i. e. Reserve Fund created and maintained under Section 66) and other reserves and funds are to be shown separately.

Funds are required to be shown under various heads : -

a) Statutory Reserve Fund
b) Building Fund
c) Special Redevelopment Fund
d) Bad and Doubtful Debts Reserve
e) Investment Depreciation Fund
f) Divident Equalization Fund
g) Bonus Equalization Fund
h) Other Funds

(b) Additions and deduction since last balance sheet are to be shown under each of the specified heads.

(a) Funds in the nature of reserves and funds created out of profits for specific purposes are to be shown separately.

Funds are required to be shown under various heads : -

III. Staff provident Fund :– Staff Provident Fund and any other fund such as insurance or bonus fund, gratuity fund etc., maintained for the benefit of the employees need to be shown separately.

IV. Secured Loans :-The nature of the security should be specified in each case. Where loans have been guaranteed by Government or State Co-operative Bank or Central Co-operative Bank, a mention thereof should also be made together with the maximum amount of such guarantee. Loans from (1) Government, (2) State Co-operative Bank or Central Co-operative Bank, State Bank of India and other banks should be shown separately.

Secured loans should further be classified as per "N" form .

V. Unsecured loans should be classified as per "N" form

VI. Deposits :– ***Deposits from societies and individuals should be shown separately.***

Deposits should be classified as per "N" form .

VII. Current Liabilities and provision as per "N" form

VIII. Profit and loss account

Profit for the last year

Less – appropriations

Add- current profits.

IX. Contingent Liabilities, which have not been provided for, ***should also be mentioned in the Balance Sheet by way of a footnote.***

CHAPTER No. 29

ACCOUNTING STANDARDS

29.1. ***Introductory*** **:-** The auditor has to certify the true and fair position of the financial statements, as per M.S.C. Act.However, what constitutes " true and fair" view has not been defined in Companies Act as well as Co-operative Societies Act. Considering this, the Institute of Chartered Accounts of India has constituted Accounting standards Board and the Auditing Practices Committee, has issued accounting standards, and standard auditing practices. The intention behind this is to describe the accounting principles and the methods of applying these principles to the preparation and presentation of financial statements so that they give a true and fair view.

In the preface to the statements of accounting standards, the committee has stated that while discharging their attest function, it will be the duty of the Statutory Auditors to ensure that the Accounting Standards are implemented in the presentation of financial statements covered by their audit reports. In the event of any deviation from the standards, it will also be their duty to make adequate disclosures in their reports so that the users of such statement may be aware of such deviations. The Statutory Auditors have to verify that the societies have followed the Accounting Standards in preparation of accounts and presentation of financial statements.If not, they have to qualify their report accordingly. The Statutory auditors who do not follow the instructions containing Government notification will be deemed to be negligent in carrying out their duties and necessary disciplinary action will be taken against such auditor including removal from panel.

29.2. ***Applicability to Co-operative Societies*** :- There is provision in the Co-operative Societies Rules, Rule no. 69(3), that the auditor shall state "whether in his opinion accounting policies adopted by societies are as per accounting standards laid down by State Government or by ICAI, New Delhi. The Reserve Bank of India has issued some instruction regarding applying accounting standards and disclosures to the financial statements in regards to Co-operative Banks.

29.3. ***Accounting standards*** **:-** Till now, the Institute of Chartered Accountants of India has issued 29 Accounting Standards as detailed below. The standards which can be and how they would be applied to the various types of societies is mentioned in notification issued by Government of Maharashtra. For applicability purpose, societies are classified in 3 categories and standards which apply to every category is given against that category which is as follows.

1. Level **one** Societies	a) Banks b) Societies whose turnover (excluding other income) exceeds Rs. 50 crores in immediately preceding accounting year. c) Societies having borrowing including deposits exceeds Rs. 10 crores at any time during immediately preceding accounting year.
2. Level **Two** Societies	a) Societies having turnover (excluding other income) exceeds Rs. 1 crore but does not exceed Rs. 50 crores in immediately preceding accounting year. b) All societies having borrowing (including deposits) exceeds Rs. 1 crores but does not exceed Rs. 10 crores at any time during immediately preceding accounting year.
3. Level **Three** Societies	a) Societies not covered in (1) and (2) above.

Applicability of Accounting Standards (AS) to different Level of Societies :

Sr. No.	Level of Societies	Applicable AS
1	Level one Societies	AS 1,2,3,4,5,6,7,9,10,11,12,13,14,15,16,17,18,19,20,22,24,26,28,29
2	Level Two Societies	AS 1,2,4,5,6,7,9,10,11,12,13,14,15,16,18,19,20,22,24,26,28,29
3	Level Three Societies	AS 1,2,4,5,6,7 AS 9,10,11,12,13,14,15,16,19,20,22,26,28,29

Note : In respect of applicability of AS 19,20,28,29, there are some exemptions in application of certain matters to Level 2 & Level 3 Societies as follows :-

AS	Levels II Societies	Level III Societies
19	Certain disclosures relating to reconciliation and break up of minimum sublease payments, minimum sublease payments and general descriptions are not applicable (*i.e.* paragraphs 22(c), (e)and (f); 25(a), (b)and (e); 37 (a) and (f); and 46 (b) and (d)).	Same as level II entities. Further disclosure of accounting policy of initial direct costs is not applicable (*i.e.* paragraphs 37 (g) and 46(e).
20	Diluted earnings per share (both including and excluding extraordinary items) is not required to be disclosed.	Same as level II entities. Further, information required by paragraph 48(ii) is not required to be disclosed.
28	Have an option to measure 'value in use' on the basis of reasonable estimate thereof instead of using present value technique. Consequently, if they exercise that option, the relevant provisions of AS 28 such as discount rate etc. and the disclosure requirements of paragraph 121 (g) will not be applicable.	Same as level II entities.
29	Paragraphs 66 and 67 relating to certain disclosure not -applicable.	Same as Level II entities.

These accounting standards are available on website of Institute which is **www.icai.org**

These Accounting Standards are as follows.

Sr. No.	Accounting Standard No.	Name of Accounting Standard
1	1	Disclosure of Accounting Policies
2	2	Valuation of Inventories
3	3	Cash Flow Statements
4	4	Contingencies and Events Occurring after the Balance Sheet Date
5	5	Net Profit or Loss for the period, Prior period items and Changes
6	6	Depreciation Accounting
7	7	Construction Contracts
8	9	Revenue Recognition
9	10	Accounting for Fixed Assets
10	11	The effects of Changes in Foreign Exchange Rates
11	12	Accounting for Government Grants
12	13	Accounting for Investments
13	14	Accounting for Amalgamations
14	15	Employee Benefits
15	16	Borrowing Costs
16	17	Segment Reporting
17	18	Related Party Disclosures
18	19	Leases
19	20	Earnings per share

Sr. No.	Accounting Standard No.	Name of Accounting Standard
20	21	Consolidated Financial Statements
21	22	Accounting for Taxes on Income
22	23	Accounting for Invt. in Associates in Consolidated financial statements
23	24	Discontinuing Operations
24	25	Interim Financial Reporting
25	26	Intangible Assets
26	27	Financial Reporting of Interests in Joint Ventures
27	28	Impairment of Assets
28	29	Provisions, Contingent Liabilities and Contingent Assets

29.4. ***Applicability of Accounting standards*** **:-** As the Accounting standards now by virtue of amendment in Rule 69 of Maharashtra Co-operative Societies Rule 1961 are applicable to the Co-operative Societies, auditor has to certify that, accounting policies adopted by society are in conformity with the Accounting Standards issued by ICAI / State Government time to time. Reserve Bank of India has made following accounting standards applicable to co-operative banks.

Accounting standard No. AS	Description of Accounting Standard	Reserve Banks' circular, directive No.
13	Investments fluctuation reserve	BPD.PCB.Cir.12/09.29.00/2003-04/ dated 4.9.03
13	Investment classification, valuation	CO.BSD.IPCB 44.12.05.05/ 2000-2001 dated 23.4.01
13	Investment classification valuation for District Central Banks	RPCD No. RF. BC. 17 / A.492-93 dated 4.9.92

The related accounting standards applicable to various types of societies are explained elsewhere in the manual. However, those which are not covered elsewhere are described in the forgoing paragraphs.

29.5. ***Accounting Standard AS 1*** **:-**

1. Disclosure of Accounting Policies :- Certain fundamental accounting assumptions underlie the preparation and presentation of financial statement.

1.1) Fundamental Accounting Assumptions :- The financial statements are prepared on the certain accounting assumptions. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed. They are as follows:

1.2) Going Concern :- The society is normally viewed as a going concern that is a society in operation for the foreseeable future. It is assumed that the enterprise/ society has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

1.3) Consistency :- It is assumed that accounting policies are consistent from one period to another.

1.4) Accrual :- Revenues and costs are accrued, that is, recognized as they are earned or incurred and not as money is received or paid and recorded in the financial statements of the periods to which they relate. (The considerations affecting the process of matching costs with revenues under the accrual assumptions are not dealt with this statement)

2. Selection of Accounting policies :- 2.1) The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the society in the preparation and presentation for financial statements.

2.2) There is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which society operate in a situation of diverse and complex economic activities make alternative accounting principles and methods of applying those principles acceptable. The choice of the appropriate accounting principles and the methods of applying those principles in the specific circumstances of each society call for considerable judgment by the management of the society.

3) Consideration in the selection of accounting policies :- The concept behind the accounting policies is to present the true and fair view of the financial statements i.e. Balance sheet and profit and loss account. The consideration for selection and application of accounting policies are;

3.1) Prudence: In view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only the best estimate in the light of available information.

3.2) The accounting treatment and presentation in financial statements of transaction and events should be governed by their substance and not merely by the legal form.

3.3) Financial statements should disclose all "material" items *i. e.* items the knowledge of which might influence the decisions of the user of the financial statements.

4) Disclosure :-

4.1) All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

4.2) The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

4.3) Any change in the accounting policies which has a material effect in the current period or which is reasonable expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies, which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

4.4) If the fundamental accounting assumption, *viz.* going concern, Consistency and Accrual are followed in financial statement, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

29.6. ***Accounting Standard AS 3* :- *Cash Flow Statement* :-** This statement should disclose movement in cash and cash equivalents classifying cash flow from operating, investing and financing activities.

Cash comprises cash on hand and demand deposits with bank.

Cash equivalents for short term, highly liquid investments readily convertible into cash.

Cash flows are inflow and outflow of cash and cash equivalents.

Operating activities are principal revenue producing activities of the enterprise, and those which are not investing or financing activities.

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash and cash equivalents.

Financing activities are activities that result in changes in size and composition of owner's capital and borrowings.

29.7. ***Accounting Standard AS 4 : Contingencies and Events occurring after the Balance Sheet date* :-**

1) **Contingencies :-** The amount of contingent loss should be provided for by a charge in the statement of profit and loss if: a) it is possible that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been incurred as on the balance sheet date, and

b) A reasonable estimate of the amount of the resulting loss can be made.

2) The existence of contingent loss should be disclosed in the financial statements if either of the conditions in the paragraph above is not met, unless the possibility of a loss is remote.

3) Contingent gains should not be recognized in the financial statements.

***4) Events Occurring after the Balance sheet date* :-**

4.1) Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing on the balance sheet date or that indicate that the fundamental accounting assumption of going concern is not appropriate.

4.2) Disclosure should be made in the report of the approving of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

***5) Disclosure* :-** a) for the contingencies, the disclosures required are I) the nature of contingency ii) the uncertainties, which may affect the future outcome and iii) an estimate of the financial effect, or a statement that such an estimate cannot be made.

b) For events occurring after the balance sheet date, the disclosure required are I) the nature of event and ii) an estimate of the financial effect, or a statement that such an estimate cannot be made should be disclosed to the management who approves the financial statements.

29.8. ***Accounting Standard AS 5* :- *Net profit or loss for the period, prior period items and changes in Accounting policies* :-**

1) Ordinary Activities are any activities, which are undertaken by an enterprise as part of its business, and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.

2) Extraordinary items are income or expenses, which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

***3) Net profit or loss for the period* :-** All items of income and expenses, which are recognized in a period should be included in the determination of net profit or loss for the period unless an accounting standard requires or permits otherwise.

4) The net profit or loss for the period comprises the a) profit or loss from ordinary activities; and b) extraordinary items.

***5) Extraordinary Items* :-** Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact of current profit or loss can be perceived.

6) Profit or loss from ordinary activities :- When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

7) Generally in the following circumstances ***disclosure*** of items of income and expense is required.

i) The write-down of inventories to net realizable value as well as the reversal of such write-downs;

ii) A restructuring of the activities on an enterprise and the reversal of any provisions for the costs of restructuring;

iii) Disposals of items of fixed assets;

iv) Disposal of long term investments

v) Legislative changes having retrospective application;

vi) Litigation settlements; and

vii) Other reversals of provisions.

8) Prior period items :- The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

9) Changes in Accounting Estimates :-

a) The effect of a change in an accounting estimate should be included in the determination of net profit or loss in; (a-1) the period of change, if the change affects the period only; or (b-1) the period of the change and future periods, if the change affects both.

b) The effect of change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate.

c) The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.

10) Change in Accounting Policies :-

a) A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statement of the enterprise.

b) Any change in an accounting policy, which has a material effect, should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.

c) A change in accounting policy consequent upon the adoption of an accounting standard should be accounted for in accordance with the specific transitional provisions, if any, contained in that Accounting Standard. However, disclosures required in above paragraphs should be made unless the transitional provisions of any other accounting standard require alternative disclosures in this regard.

29.9. *Accounting Standard AS 7* :- *Accounting for Construction Contracts*

1) In accounting for construction contracts in financial statements, either the percentage of completion method or the completed contract method may be used. When a contractor uses a particular method of accounting for a contract then the same method should be adopted for all other contracts, which meet similar criteria.

2) The percentage of completion method can be used if the outcome of the contract can be reliably estimated.

3) In case of fixed price contracts this degree of reliability would be provided if the following conditions are satisfied :-

i) total contract revenues to be received can be reliably estimated;

ii) Both the costs to complete the contract and the stage of contract performance completed at the reporting date can be reasonably estimate; and

iii) The costs attributable to the contract can be clearly identified so that actual experience can be compared with prior estimates.

4) In the case of cost plus contracts this degree of reliability would be provided only if both the following conditions are satisfied: a) Costs attributable to the contract can be clearly identified: and b) costs other than those that are specifically reimbursable under the contract can be reliably estimated.

5) While recognizing the profit under percentage of completion method an appropriate allowance for future unforeseeable factors should be made on either a specific or a percentage basis.

6) The Costs included in the amount at which construction contract work is stated should comprise those costs that relate directly to a specific contract and those that are attributable to the contract activity in general and can be allocated to specific contracts.

7) ***A foreseeable loss*** on the entire contract should be provided for in the financial statements irrespective of the amount of work done and the method of accounting followed.

8) ***Disclosure :-***

i) The amount of construction work-in-progress;

ii) Progress payments received and advances and retention on account of contracts included in construction work-in-progress; and

iii) The amount receivable in respect of income accrued under cost-plus contracts not included in construction work –in- progress.

If both the percentage of completion method and the completed contract method are simultaneously used by the contractor the amount of contract work described in (I) above should analysed to disclose separately the amounts attributable to contracts accounted for under each method.

9) ***Disclosure of changes*** in an accounting policy used for construction contracts should be made in the financial statements giving the effect of the change and its amount. However if a contractor changes from the percentage of completion method to the completed contract method for contracts in progress at the beginning of the year it may not be possible to quantify the effect of the change. In such cases disclosure should be made of the amount attributable to profits reported in prior years in respect of contracts in progress at the beginning of the accounting period.

29.10. *Accounting Standard AS 9* : *Revenue Recognition* :-

1) Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary Activities of an enterprise from the sale of goods, from the rendering of services, and from the use by other enterprise resources yielding of services, and from the use by other of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivable or other consideration.

2) **Accounting Standard :-** a) Revenue from sales or service transactions should be recognized when the requirements as to performance set out in paragraph b) and c) given below, are satisfied,

provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

b) In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled: I) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and II) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

c) In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Such performance should be regarded as being achieved when no significant uncertainty exists regarding the amount of consideration that will be derived from rendering the service.

d) Revenue arising from the use by other of enterprise resources yielding interest, royalties and dividends that should only be recognized when no significant uncertainty as to measurability or collectibility exists. These revenues are recognized on the following basis.

i) Interest:- On the time proportion basis taking into account the amount outstanding and the rate applicable.

ii) Royalties:- On accrual basis in accordance with the terms of the relevant agreement.

iii) Dividends from investment in shares :- When the owner's right to receive payment isestablished .

3) Disclosure :- In addition the disclosures required by Accounting Standard I on Disclosure of accounting policies (AS I), an enterprise should also disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

4) Prudential Norms for Revenue recognition :- The Reserve Bank of India and National Agricultural and Development Bank (NABARD) have issued guidelines on revenue recognition in respect of interest, and charges charged on the overdue accounts in its various circulars, which are explained elsewhere in banking section. They have issued these guidelines for Urban Co-operative Banks and District Central Co-operative Banks respectively.

5) Provisions of Co-operative Act :- The rule 49 A of the M.S.C. Rules 1961, provides to recognize the interest income on actual basis, and if, it is included in income, though not received, the society has to provide for overdue interest for the portion of interest actually not received, in respect of overdue accounts only.

29.11. ***Accounting for Government Grants* :- *(AS12)*** (1) Government grants should not be recognized until there is reasonable assurance that (I) the enterprise will comply with the conditions attached to them, (ii) the grants will be received.

2) Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Where the grant related to a specific fixed asset equals the whole, or virtually the whole, of the cost of the asset, the asset should be shown in the balance sheet at a nominal value. Alternatively, government grants related to depreciable fixed assets may be treated as deferred income which should be recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset, *i. e.*, such grants should be allocated to income over the periods and in the proportions in which depreciation on those assets is charged. Grants related to non-depreciable assets should be

credited to capital reserve under this method. However, if a grant related to a non-depreciable asset requires the fulfillment of certain obligations, the grants should be credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income balance should be separately disclosed in the financial statements.

3) Government grants related to revenue should be recognized on a systematic basis in the profit and loss statement over the periods necessary to match them with the related costs which they are intended to compensate. Such grants should either be shown separately under 'other income' or deducted in reporting the related expense.

4) Government grants of the nature of promoters' contribution should be credited to capital reserve and treated as a part of shareholders' funds.

5) Government grants in the form of non-monetary assets, given at a concessional rate, should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value.

6) Government grants that are receivable as compensation for expenses or losses incurred in a previous accounting period or for the purpose of giving immediate financial support to the enterprise with no further related costs, should be recognized and disclosed in the profit and loss statement of the period in which they are receivable, as an extraordinary item if appropriate. (See accounting standard AS 5)

7) A contingency related to a government grant, arising after the grant has been recognized, should be treated in accordance with Accounting Standard As 4, contingencies and events occurring after the balance sheet date.

8) Government grants that become refundable should be accounted for as an extraordinary item, as per accounting standard AS 5.

9) The amount refundable in respect of a grant related to revenue should be applied first against and unamortized deferred credit reaming in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount should be charged to profit and loss statement. The amount refundable in respect of a grant related to a specific fixed asset should be recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, *i.e.*, where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

10) Government grants in the nature of Promoters' contribution that become refundable should be reduced from the capital reserve.

11) ***Disclosure :-*** The following should be disclosed.

a) The accounting policy adopted for government grants, including the methods of presentation in the financial statements.

b) The nature and extent of government grants recognized in the financial statements, including grants of non-monitory assets given at a concessional rate or free of cost.

12) ***Government grants : Accounting in Co-operative Societies* :-** The Co-operative Societies are receiving grants in the nature of share capital, loans and subsidies for managerial cost etc.

The Government share capital is included in the Share capital of Government as per byelaws, and shown at liability side. As per terms and conditions of the share capital, the society has to provide capital redemption fund by charging profit and loss account, to the period for which the share capital is provided.

The managerial and other subsidies received by the societies are credited to the profit or loss account of the society, or otherwise credited to the reserve fund, *i.e.* capital reserve.

The loans are refunded in the period for which they are sanctioned.

29.12. ***Accounting for Amalgamations :- AS 14*** **:-**

1) An amalgamation may be either a) an amalgamation in the nature of merger, or (b) an amalgamation in the nature of purchase.

2) An amalgamation should be considered to be an amalgamation in the nature ;of merger when all the following conditions are satisfied;

a) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

b) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity share already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

c) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

d) The business of the Transferor Company is intended to be carried on after the amalgamation by the Transferee Company.

e) No adjustment is intended to be made to the book values of the assets and liabilities of the Transferor Company when they are incorporated in the financial statements of the Transferee Company except to ensure uniformity of accounting policies.

3) An amalgamation should be considered to be an amalgamation in the nature of purchase when any one or more of the conditions specified in paragraph 7.2 above is not satisfied.

4) When an amalgamation is considered to be amalgamation in the nature of merger, it should be accounted for under the pooling of interest method described in paragraphs 7.6 to 7.8.

5) When an amalgamation is considered to be an amalgamation in the nature of purchase, it should be accounted for under the purchase method described in paragraphs 13.9 to 13.12.

6) ***Pooling of interest method :-*** In preparing the transferee company's financial statements, the assets, liabilities and reserves (whether capital or revenue or arising on revaluation) of transferor company should be recorded at their existing carrying amounts and in the same form as at the date of the amalgamation. The balance of the Profit and Loss account of the Transferor Company should be aggregated with the corresponding balance of the Transferee Company or transferred to the General Reserves, if any.

7) If, at the time of the amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies should be adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies should be reported in accordance with Accounting Standard (AS) 5 ' prior period and extraordinary items and changes in accounting policies.

8) The difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the Transferor Company should be adjusted in reserves.

9) ***The Purchase method :-*** In preparing the transferee company's financial statements, the assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or, alternatively, the consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. The reserves (whether capital or revenue or arising on revaluation) of the transferor company, other than the statutory reserves, should not be included in the financial statements of the transferee company except as stated in paragraph 13.12.

10) Any excess of the amount of the consideration over the value of the net assets of the Transferor Company acquired by the Transferee Company should be recognised in the transferee company's financial statements as goodwill arising on amalgamation. If the amount of the consideration is lower than the value of the net assets acquired, the difference should be treated as Capital Reserve.

11) The goodwill arising on amalgamation should be amortised to income on a systematic basis over its useful life. The amortisation period should not exceed five years unless a somewhat longer period can be justified.

12) Where the requirements of the relevant statute recording the statutory reserves in the books of the Transferee Company are complied with, statutory reserves of the Transferor Company should be recorded in the financial statements of the Transferee Company. The corresponding debit should be given to a suitable account head (e.g., amalgamation Adjustment Account'), which should be disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account should be reversed.

13) ***Common procedures :-*** The consideration for the amalgamation should include any non-cash element at fair value. In case of issue of securities, the value fixed by the statutory authorities may be taken to be the fair value. In case of other assets, the fair value may be determined by reference to the market value of the assets given up. Where the market value of the assets given up cannot be reliably assessed, such assets may be valued at their respective net book values.

14) Where the scheme of amalgamation provides for an adjustment to the consideration contingent on one or more future events, the amount of the additional payment should be included in the consideration if payment is probable and reasonable estimate of the amount can be made. In all other cases, the adjustment should be recognised as soon as the amount is determinable. (See AS 4)

15) ***Treatment of Reserves :-*** Specified in a scheme of Amalgamation: Where the scheme of amalgamation sanctioned under a statute prescribes the treatment to be given to the reserves of the transferor company after amalgamation, the same should be followed.

16) ***Disclosures :-*** 1) For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation: a) names and general nature of business of the amalgamating companies; b) effective date of amalgamation for accounting purpose; c) the method of accounting used to reflect the amalgamation; and d) particulars of the scheme sanctioned under the statute.

17) For amalgamations accounted for under the pooling of interest method, the following additional disclosures should be made in the first financial statements following the amalgamation: a) description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

18) For amalgamations accounted for under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation: a) consideration for the amalgamation and a description of the consideration paid or contingently payable; and b) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

19) When an amalgamation is effected after the balance sheet date but before the issuance of the financial statements of either party to the amalgamation, disclosure should be made in accordance with AS 4, but the amalgamation should not be incorporated in the financial statements. In certain circumstance, the amalgamation may also provide additional information affecting the financial statements themselves, for instance, by allowing the going concern assumption to be maintained.

20) ***Provisions in Co-operative Societies Act : Amalgamation :-***

a) Section 17 provides amalgamation, transfer, division or conversion of Societies, section 18 provides forceful division or reorganization of the societies by the Registrar. Section 18-A provides amalgamation of Co-operative Banks and section 18-B provides

amalgamation of primary agricultural credit Societies. While, Section 18 C provides for reorganization of societies on account of alteration of limits of local areas in which they operate, and Section 16 provides for change of liability of the societies from unlimited to limited and vice versa. All these provisions are required to be considered as per the Accounting standard 14 regarding amalgamation.

b) Change in liability :- Section 16 provides that the societies can change their liability from limited to unlimited and vice versa. For this, the society requires I) that all members and creditors should asset, or deem to assets; and II) all claims of members and creditors who exercise the option, given under subsection 2 of the section e.g. the members and creditors who have opted for withdrawing their shares, deposits or loans, within specified period should be satisfied. That is, they should be refunded their claims. The manner in which the claims are required to be refunded is specified in sub rule (3) of the rule 15, which states that,

For the members :- The value of the shares should be ascertained as a) in the case of a society with unlimited liability, the value of a share shall be the actual amount received by the society in respect of such share, b) in the case of a society with limited liability, the value of a share shall be the amount arrived at by valuation based on the financial position of the society as shown in the last audited balance sheet, provided that it shall not exceed the actual amount received by the society in respect of such shares.

For the Creditors :- The amount of deposit or otherwise indicated in writing by the creditor while submitting his option to the maximum of his credits,or the scheme prepared by the society with mutual agreement as provided in the scheme.

c) Amalgamation, transfer, division or conversion :- Section 17 provides that the society, with the previous approval of the Registrar, by resolution passed by two-thirds majority of the members present and voting at a special general meeting held for the purpose, decide —

i) to amalgamate with another society;

ii) to transfer its assets and liabilities, in whole or part to any other society;

iii) to divide itself into two or more societies; or

iv) to convert itself into another class of society.

The above said amalgamation, conversion, division or transfer will take place only after approval of the Registrar, who requires to be satisfied that proper procedure as required by the Act,Rules, and byelaws is followed, the members and creditors, and other interested persons have assented, and have exercised their option, and the claims of the members and creditors and other interest persons, who exercise the option within the specified period have been met in full or otherwise satisfied.

Sub rule 4 of the rule 16 provides that the society should issue notice to the members, creditors and other interested persons, whose interests are likely to be affected by the transfer of the society's liabilities. And members, creditors and other interested persons, after receipts of notice, within one month exercise their options as required under clause (i) of the proviso to subsection (1) of Section 17. If they have not submitted their options within the specified period, they shall be deemed to have assented to the transfer of liabilities of the society to another society. In case of option, the society shall meet in full or otherwise satisfy all claims of members and creditors and other interested persons, as per sub rule (5) of Rule 17. A society or societies are required to follow the procedure laid down in Section 17 and sub rule 17 for amalgamation, conversion, division, or reorganization, as the case may be.

d) Registrar's power to direct amalgamation, division, reorganization or transfer :- In the interest of the public or co-operative movement, the Registrar is empowered to direct the Society or society to amalgamate, divide or reorganize the society as per Section 18 of the M.S.C. Act. However, the Registrar is required to do so after his satisfaction to this regard, and after consulting with the federal society.

Sub section 4 of Section 18 provides that every member or creditor of, or other person interested in each of the societies to be amalgamated, divided or reorganized, who has objected to the scheme of amalgamation, division or reorganization, within the period specified, shall be entitled to receive, on the issue of the order of amalgamation, division or reorganization, his share of interest if he is a member, and the amount in satisfaction of his dues if he is a creditor.

This section does not apply to the Urban Co-operative Banks or Agriculture Credit Societies, as there is a separate provision for these societies in section 18 A and 18 B of the Act.

e) Amalgamation of Cooperative Banks **:-** Section 18 A provides that if the Registrar is satisfied that it is essential a) in the interest of the public, b) in order to secure proper management of one or more Banks, and after consulting with the federal society, by order provide for the amalgamation of those banks into a single bank, with such constitution, property, rights, interests and authorities, and such liabilities, duties and obligations as may be specified in the order.

Such order may provide for the reduction of the interest or rights which the members, depositors creditors, employees and other persons may have in or against any bank to be amalgamated to such extent as the Registrar considers necessary in the interest of persons for the maintenance of the business of that bank to its liability. And this order is final and conclusive, and shall not be called in question in any court as per sub section (7) of Section 18 A. This provision is different from the provisions of the section 17 of the Act.

f) Amalgamation of primary agricultural credit societies **:-** Section 18B provides for amalgamation of one or more agricultural Societies.

1) For ensuring economic viability of one or more primary agricultural credit societies;
2) For avoiding overlapping or conflict of jurisdictions of such societies in any area;
3) In order to secure the proper management of one or more such societies.
4) In the interest of the credit structure or cooperative movement in the State as a whole,
5) In the interest of the depositors; or
6) For any other reason in public interest.

For the purpose of amalgamation, the Registrar should publish the Order after consulting with the federal society, specifying in it the amalgamation of those societies into a single society, with such and such constitution, property, rights, interests and authorities, and such and liabilities, duties and obligations of the amalgamated society.

Such order may provide for the reduction of the interest or rights which the members, depositors creditors, employees and other persons may have in, or against any society to be amalgamated to such extent as the Registrar considers necessary in the interest of such persons for the maintenance of the business of that society, to its liabilities. And this order is final and conclusive, and shall not be called in question in any court as per sub section (7) of Section 18 A as it is applicable to Urban Co-operative Banks. This provision is different from the provisions of Section 17 of the Act.

g) Reorganization of Societies **:-** In the event of merger of any area or due to diminished or increased area or if the area is altered, wherein the society is operating, the area may be district, Taluka, municipal area or any other local area and such area is divided into two or more areas. And the state Government is satisfied that in the public interest or in the interest of the Co-operative movement, or in the interest of the society or societies, or for the purpose of proper demarcation of area of operation for the societies in each area, it is essential to reorganize any such society or societies, the State Government may by an order, provide for division of any existing society into two or more societies, amalgamation or two or more existing societies into one society, dissolution of any existing society or reconstitution of any existing society affected by the territorial changes. Proviso (g) of the sub section (2) of Section 18C provides for the transfer, in whole or in part, of the assets, rights and liabilities of

any existing society, including the rights and liabilities under any contract made by it, to one or more societies and the terms and conditions of such transfer; the provision of this section further provides for the substitution of any such transferee for the existing society, or the addition of any such transferee, as a party to any legal proceeding or any proceeding pending before an officer or authority, to which the existing society is a party; and the transfer of any proceedings pending before the existing society or its officer or authority;

The proviso further provides regarding employees of the society, as the transfer or re-employment of any employee of the existing society to, or by, such transferee and the terms and conditions of service applicable to such employee after such transfer or re-employment. It also further provides that the terms and conditions of any such employee shall not be made less favorable than those applicable to him while in the service of the existing society, except with the previous approval of the State Government.

h) Reconstruction of societies :- Section 19 provides for reconstruction and this section is dealt in audit of liquidation societies.

Provisions in Income Tax Act regarding reorganization of Co-operative Bank :-

Section 44DB of the Income Tax Act, 1961 provides that deduction under Section 32, Section 35D, Section 35DD or Section 35DDA shall, in a case where business reorganization of a co-operative bank has taken place during the financial year, be allowed in accordance with the provisions of this Section. Definitions of business reorganization, amalgamation, demerger, etc. have been given in the said Section. The auditors are advised to go through the provisions of the said Section.

29.13. ***Accounting for retirement benefits in the financial statements of Employees AS 15*** :-

1) This standard relates to the retirement benefits of employees in the books of employer, which deals with Provident Fund, Superannuation / Pension, Gratuity, Leave encashment benefit on retirement, post retirement health and welfare schemes and Other retirement benefits.

2) In respect of retirement benefits in the form of provident fund and other defined contribution schemes, the contribution payable by the employer for a year should be charged to the statement of profit and loss for the year. Thus, besides the amount of contribution paid, a shortfall of the amount of contribution paid compared to the amount payable for the year should also be charged to the statement of profit and loss for the year. On the other hand, if contribution paid is in excess of the amount payable for the year, the excess should be treated as pre-payment.

3) In respect of gratuity benefit and other defined benefit schemes, the accounting treatment will depend on the type of arrangement, which the employer has chosen to make.

a. If the employer has chosen to make payment for retirement benefits out of his own funds, an appropriate charge to the statement of profit and loss for the year should be made through a provision for the accruing liability. The accruing liability should be calculated according to Actuarial valuation. However, those enterprises which employ only a few persons may calculate the accrued liability by reference to any other rational method e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

b. In case, the liability for retirement benefits is funded through creation of a trust, the cost incurred for the year should be determined Actuarially. Such Actuarial valuation should normally be conducted at least once every three years. However, where the Actuarial valuations are not conducted annually, the Actuary's report should specify the contributions to be made by the employer on annual basis during the inter-valuation period. This annual contribution (which is in addition to the contribution that may be required to finance

unfunded past service cost) reflects proper actual of retirement benefits charged to the statement of profit and loss for each such year. Where the contribution paid during a year is lower than the amount required to be contributed during a year to meet the accrued liability as certified by the Actuary, the shortfall should be charged to the statement of profit and loss for the year. Where the contribution paid during a year is in excess of the amount required to be contributed during the year to meet the accrued liability as certified by the Actuary, the excess should be treated as a pre-payment.

c. In case, the liability for retirement benefits is funded through a scheme administered by an insurer, an Actuarial certificate or a confirmation from the insurer should be obtained that the contribution payable to the insurer is the appropriate accrual of the liability for the year. Where the contribution paid during a year is lower than amount required to be contributed during the year to meet the accrued liability as certified by the Actuary or confirmed by the insurer, as the case may be, the shortfall should be charged to the statement of profit and loss for the year. Where the contribution paid during the year to meet the accrued liability is certified by the Actuary or confirmed by the insurer, as the case may be, the excess should be treated as a pre-payment.

4) Any alterations in the retirement benefit costs arising from :–

a) Introduction of a retirement benefit scheme for existing employees or making of improvement to an existing scheme, or

b) Changes in the Actuarial method used or assumptions adopted, should be charged or credited to the statement of profit and loss as they arise in accordance with Accounting Standard (AS) 5. Additionally, a change in the Actuarial method used should be treated as a change in an accounting policy and disclosed in accordance with Accounting Standard AS 5.

5) When a retirement benefit scheme is amended with the result that additional benefits are provided to retired employees, the cost of the additional benefits should be accounted for in accordance with paragraph 8.4.

6) ***Disclosures*** **:-** The financial statements should disclose the method by which retirement benefit costs for the period have been determined. In case the costs related to gratuity and other defined benefit schemes are based on an Actuarial valuation, the financial statements should also disclose whether the Actuarial valuation was made at the end of the period or at an earlier date. In the latter case, the date of the Actuarial valuation should be specified and the method by which the accrual for the period has been determined should also be briefly described, if the same is not based on the report of the Actuary.

29.14. ***Accounting Standard (AS) 16 Borrowing Costs*** **:-**

1) Borrowing cost are interest and other costs incurred by an enterprise in connection with the borrowing of funds.

The borrowing cost may include a) interest and commitment charges on bank borrowings and other short term and long term borrowings; b) amortization of discounts or premiums relating to borrowing; c) amortization of ancillary costs incurred in connection with the arrangement of borrowings; d) finance charges in respect of assets acquired under finance leases or under other similar arrangements; and e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

2) ***Recognition : Borrowing costs*** that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this statement. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

3) ***Capitalisation of borrowing costs*** **:-**

a. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the Actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

b. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

c. The capitalisation of borrowing costs as part of the cost of a qualifying asset should commence when all the following conditions are satisfied: (a) expenditure for the acquisition, construction or production of a qualifying asset is being incurred; (b) borrowing cost are being incurred; and (c) Activities that are necessary to prepare the asset for its intended use or sale are in progress.

d. Capitalisation of borrowing costs should be suspended during extended periods in which Active development is interrupted.

e. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

f. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

4) ***Disclosure*** :- The financial statement should disclose: (a) the accounting policy adopted for borrowing costs; and (b) the amount of borrowing costs capitalised during the period.

5) ***Co-operative Act*** **:-** In the Co-operative Act, there is no specific provision for capitalisation of the borrowing cost. However, in the Manual elsewhere, this concept is described.

29.15. ***Accounting Standard AS 17*** **:-** ***Segment Reporting*** **:-**

AS 17 requires reporting of financial information about different types of products and services, and enterprise provides different geographical areas in which it operates. Geographical segment is a distinguishable component of an enterprise providing products or services in a particular economic environment that is subject to risk and returns that are different from components operating in other economic environment.

If the risk and returns are affected mainly due to difference in products and services, then primary reportable segment shall be business segment. Similarly, if returns and risks are affected by operation in different geographical areas, then primary reportable segment should be geographical segment.

A business segment or geographical segment is reportable segment if --

a. revenue from sales to external customers and from transactions with other segments exceeds 10% of total revenue of all segments.

b. segment result, whether profit or loss is 10% or more of (i) combined result of all segments in profit or (ii) combined result of all segments in loss whichever is greater in absolute amount.

c. segment assets are 10% or more of total assets of all segments.

If total external revenue attributable to reportable segment constitutes less than 75% of total revenue, then additional segment should be identified.

29.16. ***Accounting Standard (AS) 18* :- *Related Party transactions* :-**

Parties are considered to be related if, at any time during the reporting period, one party has ability to control or exercise significant influence over the other party in making financial and / or operating decisions.

This standard deals with following related party relationships :-

i. Enterprises directly or indirectly through one or more intermediaries, control or are controlled by or are under common control with reporting enterprise.

ii. Associates, Joint venture of reporting enterprise and investing party in respect of which reporting enterprise is an associate or joint venture

iii. Individuals owning and with interest in voting power of the reporting enterprise that gives them control or significant influence over the enterprise and relatives of such individuals.

iv. Key Management Personnel and their relatives.

v. Enterprises over which any other persons in iii and iv are able to exercise significant influence.

Following are not deemed to be related parties :-

a) Two co-operative societies simply because of common director.

b) Customer, supplier, franchiser, distributor or general agent merely because of economic dependence.

c) Financiers, trade union, public utilities, Government departments and bodies merely by virtue of normal dealing with enterprise.

Disclosure under this standard is not required in the following cases :-

i. If such disclosure conflicts with enterprise's duty of confidentially under statute, duty cast by regulator or competent authority.

ii. In consolidated financial statement, in respect of intra group transactions.

iii. In case of state control enterprises, regarding related party relationship and transactions with other state control enterprises.

Disclosure is required in respect of transaction with related parties of :-

i. Purchase and sales transactions

ii. Receiving deposits.

iii. Making loans

iv. Making investment.

v. Payments to related parties in respect of expenses.

Auditor shall carry out substantive audit procedures in relation to related party transactions.

***Provisions of Co-operative Societies Act* :-** Explanation I to sub section (2) of Section 75 defines "family" (related parties); Section 73CA provides prohibition of certain transactions with directors or members of committee. Sub Section (A1) of Section 73CA provides that, in case of a society, which gives loans to members for purchasing machinery, implement, equipments, commodity or other goods

or which deals in such goods, no member or whose member of the family is a dealer in such goods or is a director of a company or partner in a firm carrying on business in such goods in the area of operation of the society, is not eligible to be a member of committee of such a society.

Personal expenses incurred on proceeding under Section 78, 78A or 96 are prohibited as per Section 71A of the Act and sub clause (vi) of sub section 2 of Section 81 of the Act; the auditor shall consider these provisions while making disclosure of related party transactions.

In case of Urban Co-operative Banks, Reserve Bank of India has prohibited disbursing of loans and advances to their directors and their relatives and firms and companies in which they are interested as partner or director.

29.17. ***Accounting Standard (AS) 19 : Leases*** **:-**

1) Applicability :- This accounting standard is applicable for accounting to all leases other than:

a) Lease agreement to explore for or use natural resources, such as oil, gas, timber, metals, and other mineral rights; and

b) Licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and

c) Lease agreements to use lands.

2) Definitions :-

1) A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

1) ***A finance lease*** is a lease that transfers substantially the entire risks and rewards incident to ownership of an asset.

2) ***An operating lease*** is a lease other than a finance lease.

3) ***A non- cancelable lease*** is a lease that is cancelable only: a) upon the occurrence of some remote contingency; or b) with the permission of lessor; or c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or upon payment by the lessee of an additional amount such that at inception continuation of the lease is reasonably certain.

4) ***The inception of the lease*** is the earlier of the date of the lease agreement and the date of a commitment by the parties to the principal provisions of the lease.

5) ***The lease term*** is the non-cancelable period for which the lessee has agreed to take on lease the asset together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further payment, which option at the inception of the lease it is reasonably certain, the lessee will exercise.

6) ***Minimum lease payments*** are the payments over the lease term that the lessee is, or can be required, to make excluding contingent rent, cost s for services and taxes to be paid by and reimbursed to the lessor, together with: a) in the case of the lessee, any residual value guaranteed by or on behalf of the lessee; or b) in the case of the lessor, any residual value guaranteed in the lessor: I) by or on behalf of the lessee; or ii) by an independent third party financially capable of meeting this guarantee.

However, if the lessee has an option to purchase the asset at a price which is expected to be sufficiently lower than the first value at the date the option becomes exercisable at the inception of the lease, is reasonably certain to be exercised, the minimum lease payments comprise minimum payments payable over the lease term and the payment required to exercise this purchase option.

7) ***Fair value*** is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

8) ***Economic life*** is either :- a) the period over which an asset is expected to be economically usable by one or more users; or b) the number of production or similar units expected to be obtained from the asset by one or more users.

9) ***Useful life*** of a leased asset is either; a) the period over which the leased asset is expected to be used by the lessee; or b) the number of production or similar units expected to be obtained from the use of the asset by the lessee.

10) ***Residual value*** of a leased asset is the estimated fair value of the asset at the end of the lease term.

11) ***Guaranteed residual value*** is :- a) in the case of the lessee, that part of the residual value which is guaranteed by the lessee or by a party; on behalf of the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and b) in the case of the lessor, that part of the residual value which is guaranteed by or on behalf of the lessee, or by an independent third party who is financially capable of discharging the obligations under the guarantee.

12) ***Unguranteed residual value :-*** of a leased asset is the amount by which the residual value of the asset exceeds its guaranteed residual value.

13) ***Gross investment in the lease :-*** is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor.

14) ***Unearned finance income:*** is the difference between: (a) the gross investment in the lease; and (b) the present value of (I) the minimum lease payments under a finance lease from the standpoint of the lessor; and (ii) any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

15) ***Net investment in the lease :-*** is the gross investment in the lease less unearned finance income.

16) ***The interest rate implicit in the lease :-*** is the discount rate that, at the inception of the lease, causes the aggregate present value of (a) the minimum lease payments under a finance lease from the standpoint of the lessor, and (b) any unguaranteed residual value to the lessor, to be equal to the fair value of the leased asset.

17) ***The lessee's incremental borrowing rate of interest :-*** is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.

18) ***Contingent rent :-*** is that portion of the lease payments that is not fixed in amount but is based on a factor other than just the passage of time (e.g., percentage of sales, amount of usage, price indices, market rates of interest).

***3) Classification of leases* :-**

a) Finance lease :- A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Title may or may not eventually be transferred.

b) Operating lease :- A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership.

***4) Leases in the Financial Statements of Lessees* :-**

4.1) Finance lease :-

1) At the inception of a finance lease, the lessee should recognise the lease as an asset and a liability. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of the lease. However, if the fair value of the leased asset exceeds the present value of the

minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee. In calculating the present value of the minimum lease payments, the discount rate is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate should be used.

2) Lease payments should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

3) Finance lease gives rise to a depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for a leased asset should be consistent with that for depreciable asset, which are owned, and the depreciation recognised should be calculated on the basis set out in Accounting Standard (AS 6) Depreciation accounting. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be depreciated over the lease term or its useful life, whichever is shorter.

4. Disclosure :- The lessee should, in addition to the requirements of AS 10, Accounting for Fixed asset, As 6, Depreciation accounting, and the governing statute, make the following disclosures for finance lease: (a) asset acquired under finance lease as segregated from the asset owned; (b) for each class of asset, the net carrying amount at the balance sheet date; (c) a reconciliation between the total of minimum lease payments at the balance sheet date and their present value. In addition, an enterprise should disclose the total of minimum lease payments at the balance sheet date, and their present value, for each of the following periods; (I) not later than one year; (ii) later than one year and not later than five years; (iii) later than 5 years. (d) Contingent rents recognised as expense in the statement of profit and loss for the period; (e) the total of future minimum sublease payments expected to be received under non – cancelable subleases at the balance sheet date; and (f) a general description of the lessee's significant leasing arrangement including, but not limited to, the following; (I) the basis on which contingent rent payments are determined; (ii) the existence and terms of renewal or purchase options and escalation clauses, and (iii) restriction imposed by lease arrangement, such as those concerning dividends, addition debt, further leasing

5. Operating lease :-

1) Lease payments under an operating lease should be recognised as an expenses in the statement of profit and loss and a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

2. The lessee should make the following disclosures for operating leases:

(a) the total of future minimum lease payments under noncancelable operating leases for each of the following periods; (i) not later than one year (ii) later than one year and not later than five years; (iii) later than five years.

(b) The total of future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date.

(c) Lease payments recognised in the statement of profit and loss for the period, with separate amounts for minimum lease payments and contingent rents;

(d) Sublease payments received (or receivable) recognised in the statement of profit and loss for the period;

(e) A general description of the lessee's significant leasing arrangement including, but not limited to the following: (i) the basis on which contingent rent payments are determined; (ii) the existence and terms of renewal or purchase options and escalation clauses; and (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

6) Leases in the Financial Statements of Lessors :-

1) ***Finance Lease:*** The lessor should recognize assets given under a finance lease in its balance sheet as a receivable at an amount equal to the net investment in the lease.
2) The recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on the net investment of the lessor outstanding in respect of the finance lease.
3) The manufacturer or dealer lessor should recognise the transaction of sale in the statement of profit and loss for the period, in accordance with policy followed by the enterprise for outright sales. If artificially, low rates of interest are quoted, profit on sale should be restricted to that which would apply if a commercial rate of interest were charged. Initial direct costs should be recognised as an expense, in the statement of profit and loss at the inception of the lease.

7. Disclosure :- The lessor should make the following disclosures for finance leases: (a) a reconciliation between the total gross investment in the lease at the balance sheet date, and the present value of minimum lease payment receivable at the balance sheet date. In addition, an enterprise should disclose the total gross investment in the lease and the present value, of minimum lease payments receivable at the balance sheet date, for each of the following periods; (I) not later than one year; (ii) later than one year and not later than five years; (iii) later than 5 years. (b) Unearned finance income; (c) the unguaranteed residual values accruing to the benefit of the lessor; (d) the accumulated provision for uncollectable minimum lease payments receivable; (e) contingent rents recognised as expense in the statement of profit and loss for the period; and (f) a general description of the significant leasing arrangement of the lessor; and (g) accounting policy adopted in respect of initial direct costs.

8. Operating leases :-

1) the lessor should present an asset given under operating lease in its balance sheet under fixed assets. Lease income from operating leases should be recognised in the statement of profit and loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the use of the leased asset is diminished.
2) The depreciation of leased asset should be on a basis consistent with the normal depreciation policy of the lessor for similar asset, and the depreciation charge should be calculated on the basis set out in AS 6, Depreciation Accounting.
3) The lessor should, in addition to the requirements of AS 6, depreciation Accounting and AS 10, Accounting for fixed assets, and the governing statute, make the following disclosure for operating leases.
4) (a) For each class of assets, the grass carrying amount, the accumulated depreciation and accumulated impairment loss at the balance sheet date; and (I) the depreciation recognised in the statement of profit and loss for the period; (ii) impairment losses recognised in the statement of profit and loss for the period; (iii) impairment losses reversed in the statement of profit and loss for the period;
   (b) The future minimum lease payments under non-cancelable operating leases in the aggregate and for each of the following periods; (I) not later than one year; (ii) later than one year and not later than five years; (iii) later than 5 years.
   (c) Total contingent rents recognised as income in the statement of profit and loss for the period;
   (d) A general description of the lessor's significant leasing arrangement; and
   (e) Accounting policy adopted in respect of initial direct costs.

9) Sale and lease back transactions: If a sale and leaseback transaction results in a finance lease, any excess or deficiency of sales proceeds over the carrying amount should not be immediately recognised as income or loss in the financial statements of a seller-lease. Instead, it should be deferred and amortized over the lease term in proportion to the depreciation of the leased asset.

If a sale and lease back transaction results in an operating lease and it is clear that the transaction is established at fair value, profit or loss should be recognised immediately. If the sale price is below fair value, and profit or loss should be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.

For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognised immediately.

29.18. ***Accounting Standard (AS) 20 : Earning per share*** **:-**

Basic and diluted earnings per share are required to be presented on the face of the statement of Profit and Loss account with equal prominence for all the periods presented.

Earning per share is required to be presented even when amounts disclosed are negative.

Basic earnings per share are calculated by dividing net profit or loss for the period attributable to share holders by number of shares as at the end of the financial year.

Disclosures :-

i. Basic and diluted earnings per share excluding extraordinary items, if the net profit or loss include such item. (for extraordinary items refer AS 4)

ii. The amounts used as a numerator in calculating basic and diluted EPS and reconciliation of those amounts to the net profit or loss for the period.

iii. Nominal value (face value) of share along with EPS per share.

29.19. ***Accounting Standard (AS) 21*** **:** ***Consolidated Financial Statements*** **:-**

This standard is applicable in preparation and presentation of consolidated financial statements for group of enterprise under the control of main society.

Consolidated financial statements are to be presented in addition to separate financial statements.

Financial statement of parent society and its various units should be combined on a line by line basis by adding similar items of assets, liabilities, income and expenses.

While preparing consolidated financial statements, tax expenses to be shown in consolidated financial statements should be aggregate of amount of tax expenses appearing in separate financial statements of parent society and its various units.

Consolidation should be prepared using uniform accounting policies, unless it is not practicable to use the same. If the accounting policies followed are different, the fact should be disclosed together with proportion of such items.

Disclosures :-

i. List of all units giving names, addresses.

ii. Names of all units whose reporting dates are different than that of parent society.

When consolidated statements are presented for first time, figures for previous year need not be given.

Suggestion :-

i. While preparing consolidated financial statements, transactions of purchase, sales, expenses and income between parent society and its units should be excluded.

ii. In case of manufacturing co-operative society, quantitative details and cost of captive consumption, if any, should be shown as a footnote to the consolidated financial statements.

29.20. ***Accounting Standard (AS) 22 : Accounting for taxes on income*** **:-**

This standard deals with accounting for taxes on income.

Deferred tax is the tax effect of timing differences (Timing differences means differences between taxable and accounting income that originate in one period and capable of being reversal in subsequent period). Permanent differences should not be considered.

Deffered tax should be recognised for all timing differences that may result in creation of deferred tax asset or liability.

Deffered tax assets for unabsorbed depreciation or carry forward of losses should be recognised only when there is virtual certainty of sufficient future taxable income with supported convincing evidence, to recover the amount of differed tax asset.

At each balance sheet date, assessment of unrecognized deferred tax asset is to be made.

When there is reasonable or virtual certainty that sufficient taxable income will be available in the future to realize deferred tax asset, it should be accordingly recognised. At the same time, in case of recognized deferred tax asset, there are evidences that it cannot be realized in future, then it should be written down.

Measurement :- Current tax should be measured using applicable tax rates while deferred tax should be measured using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax asset and liability should not be at discounted to its present value.

Disclosure :-

1. Enterprise should upset asset and liability representing current tax if it
   a) Has legally enforceable right to set off the recognised amount, and
   b) The deferred tax asset and deferred tax liabilities relate to taxes on income levied by same governing taxation laws.
2. Deferred tax assets and liabilities should be shown separately in the balance sheet after investment and unsecured loans respectively.
3. Nature of evidence supporting the recognition of deferred tax asset, if enterprise has unabsorbed depreciation or carry forward of losses under tax laws.

29.21. ***Accounting Standard (AS) 24 :- Discontinuing operations*** **:-**

The standard deals with discontinuing operations of an enterprise. Discontinuing operation is a component of enterprise that the enterprise pursuant to single plan is,

i. Disposing substantially in its entirety.

ii. Disposing of piecemeal such as by selling of component assets and selling its liabilities individually.

iii. Terminating through abandonment of that representing a separate major line of business or geographical area of operations, and that can be distinguished operationally and for financial reporting purposes.

Enterprise should apply the principles of recognition and measurement that are set out in other accounting standards (AS 4 and AS 28) for the purpose of deciding as to when and how to recognise and measure changes in assets and liabilities and revenue, expenses, gains, losses and cash flows relating to discontinue operations.

Disclosure :- Disclosures are to be presented in the notes.However following are to be disclosed on the face of Profit and loss account.

a) Amount of pretax (profit or loss prior to charging income tax) profit or loss from ordinary activities of discontinuing operations and income tax expenses thereto.

b) Amount of pretax gain or loss on disposal of assets of discontinuing operation.

Disclosure required should be continued till the period in which discontinuation is completed.

Any disclosure required should be presented separately for each discontinuing operation.

29.22. *Accounting Standard (AS) 28* : *Impairment of assets* :-

This standard should be applied in accounting for impairments of all assets other than;

1. Inventory (AS 2 is applicable)
2. Assets arising from construction contract (AS 7 is applicable)
3. Financial assets including investments that are included in scope of AS 13 - Accounting for Investment.
4. Deferred tax assets (AS 22).

An impairment loss is the amount by which carrying amount of asset exceeds its recoverable amount. Recoverable amount is the higher of an asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from continuing to use of assets and from its disposal at the end of its useful life. Carrying amount is the amount at which asset is recognised in the balance sheet after deducting accumulated depreciation.

At each balance sheet date it needs to be assessed as to whether there is triggering event that requires impairment testing to be made. Triggering event shall be assessed based on external information like fall in interest rate or industry growth rate or change in law etc. Where there is triggering event, the impairment loss needs to be assessed at each cash generating unit.

Disclosures :-

i. Amount of impairment loss recognised and reversed in the statement of profit and loss account.
ii. Amount of impairment loss adjusted against revaluation reserve.
iii. Basis of determination of recoverable amount.
iv. Nature of individual asset.
v. Description of cash generating unit.
vi. Any change in aggregation of assets for identifying cash generating unit and reasons.

29.23. *Accounting Standard (AS) 29 : Provisions, Contingent liabilities and Contingent Assets :-*

Provisions :- The standard defines provisions as liability which can be measured only be using substantial degree of estimation. A provision should be recognised when, and only when,

i. An entity present obligation (legal or constructive) as the result of past event.
ii. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
iii. realizable estimate can be made of the amount of obligation.

The amount recognised as a provision should be best estimate of expenditure required to settle the present obligation at balance sheet date.

Provision shall not be discounted.

Provision should be used only for expenditure for which the provision was originally recognised. Provision should not be recognised for future operating losses.

Disclosure :-

i. Reconciliation of amount of provision at the beginning and at the end of period.

ii. Nature of obligation and timing of outflow.

iii. Any uncertainties relating to outflow.

iv. Any expected reimbursement.

Contingent Liabilities :- The standard defines contingent liabilities as;

a) a possible obligation that arises from past event and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future event not wholly within the control of entity.

b) Present obligation that arises from past event but it not recognised because it is not probable that outflow of resources embodying economic benefits will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability.

An entity should not recognise contingent liability. At the balance sheet date, enterprise shall disclose brief description of contingent liabilities. if practicable, it shall also disclose estimate of financial effect, and uncertainties relating to outflow.

Contingent liabilities should be shown by the way of footnote to the balance sheet as explained in N form of MCS Rules 1961.

Contingent Assets :- Contingent assets are not to be recognised.

———

CHAPTER No. 30

AUDITING STANDARDS

Consequent upon 97th amendment in Constitution of India, certain amendments have been made in Maharashtra Co-Operative Societies Act, 1960 *w. e. f.* 13th day of August, 2013 section 81 (2) is amended as under.

"The audit under sub-section (2) of Section 81 of the Act shall be carried out as per Auditing Standards notified by the State Government from time to time"

Therefore, it is necessary to notify Auditing Standards. The institute of Chartered Accountants of India, New Delhi has issued 37 Auditing Standards so far. Government Of Maharashtra here by notifies that the Auditing, Review and Other Standards as notified by ICAI, New Delhi are applicable to audit of Co-Operative Societies to the extent applicable to respective Audit. These Auditing, Review and Other Standards are issued and updated by the Institute of Chartered Accountants of India and are available on website of Institute which is **"www.icai.org"** All auditors (Government auditors, Chartered Accountants, Certified Auditors) should comply with auditing standards. Non-Compliance with auditing standards by auditors will amount to negligence in duties and necessary Action will be taken against auditors.

Particulars of Auditing Standards is as follows.

Sr. No.	Auditing Standard No.	Name of Auditing Standard
1	2	3
1	200	Overall Objectives of the Independent Auditor
2	210	Agreeing the terms of Audit Engagements
3	220	Quality control – an audit of financial statements
4	230	Audit documentation
5	240	The Auditors responsibilities relating to Fraud
6	250	Consideration of Laws and Regulations in an Audit
7	260	Communication with those charged with Governance
8	265	Communicating Deficiencies in Internal Control
9	299	Responsibility of Joint Auditors
10	300	Planning an Audit of Financial statements
11	315	Identifying and Assessing the risks of Material Misstatement
12	320	Materiality in Planning and Performing an Audit
13	330	The Auditors responses to Assessed Risks
14	402	Audit considerations relating to an entity using a service organization
15	450	Evaluation of Misstatements identified during the Audit
16	500	Audit Evidence
17	501	Audit Evidence – Specific considerations for selected
18	505	External confirmations
19	510	Initial Audit engagements – Opening balances
20	520	Analytical procedures
21	530	Audit Sampling
22	540	Auditing accounting estimates
23	550	Related Parties
24	560	Subsequent Events
25	570	Going concern

Sr. No.	Auditing Standard No.	Name of Auditing Standard
1	2	3
26	580	Written Representations
27	600	Using the work of another Auditor
28	610	Using the work of Internal Auditors
29	620	Using the work of an Auditors Expert
30	700	Forming an opinion and Reporting financial statements
31	705	Modifications to opinion in the Independent Auditors
32	706	Emphasis of matter para and Other matter paragraph
33	710	Comparative information – Corresponding Figures
34	720	The Auditors responsibility in relation to other information
35	800	Audits of Financial Statements prepared in accordance
36	805	Special considerations – Audits of single financial statements
37	810	Engagements to report on Summary Financial Statements

Explanation to some important auditing standards are given below:-

30.1. SA 520 : *Analytical Procedures* :-

a) The objectives of the auditor are: (a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and (b) To design and perform analytical procedures near the end of audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with auditor's understanding of the entity;

b) Auditor should apply analytical procedures at overall review stages of audit as well as while applying substantive procedures;

c) Application of analytical procedures is based on the expectation that relationships among data exist and continue in absence of known conditions to the contrary. Presence of these relationships provides audit evidence as to completeness, accuracy and validity of data produced by the accounting system. However, reliance on results of analytical procedures will depend on auditor's assessment of the risk that analytical procedures may identify relationships as expected when, in fact, a material misstatement exists;

d) When analytical procedures identify significant fluctuations or relationships that are inconsistent with other relevant information or that deviate from predicted amounts, the auditor should investigate and obtain adequate explanations and appropriate corroborative evidence.

30.2. SA-530 – *Audit Sampling* :-

2.1. Scope :- SA 530 deals with the auditor's use of statistical and non-statistical sampling while designing and selecting the audit sample in performing audit procedures.

2.2. Objective :- Provides a reasonable basis to draw conclusions about the population from which the sample is selected.

2.3. Definitions:-

a) **Audit sampling :–** The application is such that all sampling units have a chance of selection in order to draw conclusion about the entire population. Sampling unit might be physical items or monetary units.

b) **Sampling Risk :–** It can lead to two types of erroneous conclusions :-

i. Affecting audit effectiveness –where in case of test of controls, that controls are more effective than they actually are, or in the case of test of details, that a material misstatement does not exist when in fact it does.

ii. **Affecting audit efficiency** – where in case of test of controls, that controls are less effective than they actually are, or in the case of test of details, that a material misstatement exists when February 2013 Slide 4 in fact it does not.

c) **Statistical Sampling –** An approach to sampling that has the following characteristics:

i. Random selection generally using random number tables in MS Excel.

ii. Use of probability theory to evaluate sample results, including measurement of sampling risk.

d) If **(c)** is not being applied, then we fall back on non-statistical sampling.

e) **Tolerable Misstatement** – To obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement. **It may be the same amount or an amount lower than performance materiality.**

f) **Tolerable rate of deviation** –To obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation.

2.4. Sample Size :- Auditor to determine sample size sufficient to reduce sampling risk to an acceptably low level, lower level risk auditor willing to accept, greater the sample size.

2.5. Performing Audit Procedures :- Perform audit procedures appropriate to the purpose. If same is not applicable to the selected item, perform the procedure on a replacement item.

2.6. Nature and Causes of Deviations and Misstatements :- The auditor shall investigate the nature and cause of any deviations or misstatements identified and evaluates their possible effect on the purpose of the audit procedure and on other areas of the audit.

In the circumstances when a misstatement or deviation discovered in a sample is considered to be an anomaly, the audit shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population.

30.3. SA-540- *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.*

3.1. Scope of this SA :- This Standard on Auditing (SA) deals with the auditor's responsibilities regarding accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements. It also includes requirements and guidance on misstatements of individual accounting estimates, and indicators of possible management bias.

3.2. Nature of Accounting Estimates :- Some financial statement items cannot be measured precisely, but can only be estimated. For purposes of this SA, such financial statement items are referred to as accounting estimates. The degree of estimation uncertainty affects, the risks of material misstatement of accounting estimates, including their susceptibility to unintentional or intentional management bias.

Difference between outcome of an AE and amt originally disclosed in FS does not necessarily represent a misstatement of FS, particularly for fair value AE.

3.3. Objective :- The objective of the auditor is to obtain sufficient appropriate audit evidence whether in the context of the applicable financial reporting framework:

(a) accounting estimates, including fair value accounting estimates, in the financial statements, whether recognised or disclosed, are reasonable; and

(b) related disclosures in the financial statements are adequate.

3.4.Identifying and Assessing the Risks of Material Misstatement:-Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements by SA 315;

3.5. Responses to the Assessed Risks of Material Misstatement; the auditor shall determine:-

(a) Whether management has appropriately and consistently followed the methods for making the accounting estimates and applicable financial reporting framework relevant to the accounting estimate.

(b) Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures.

(c) Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.

3.6. Indicators of Possible Management Bias :- During the audit, the auditor may become aware of judgments and decisions made by management which give rise to indicators of possible management bias.

3.7. Disclosures in accordance with the Applicable Financial Reporting Framework :- The presentation of financial statements in accordance with the applicable financial reporting framework includes adequate disclosure of material matters. The applicable financial reporting framework may permit, or prescribe, disclosures related to accounting estimates, and some entities may disclose voluntarily additional information in the notes to the financial statements. These disclosures may include, for example:

· The assumptions used.

· The method of estimation used, including any applicable model.

· The basis for the selection of the method of estimation.

3.8. Disclosures Related to Accounting Estimates :- For accounting estimates that give rise to significant risks, the auditor shall also evaluate the adequacy of the disclosure of their estimation uncertainty in the financial statements in the context of the applicable financial reporting framework.

30.4. SA- 550 - *Related Parties :-*

4.1. Scope of this SA :- SA 550 deals with auditors responsibilities regarding related party relationships and transactions when performing an audit of financial statements.

4.2. Nature of Related Party Relationships and Transactions :-

* Two Types of Transactions- One carrying normal risk of material misstatement and one carrying significant risk of material misstatement.
* Examples of Significant Risk of Misstatement in transactions (SA 315, SA 330)
* Complex structure and transactions.
* Ineffective Information Systems for identification of transactions and balances.
* Transactions not conducted at arm's length pricing.

4.3. Objectives and Auditors Responsibilities :- Understanding of Related Party Relationships and Transactions

4.4. Responsibilities relating to above objective :- Conclude as to whether financial statements associated with those relationships and transactions are true and fair and not misleading.Assess whether there are any fraud risk factors pertaining to related parties.

4.5. Objective :- Proper accounting and disclosure of Relationships and Transactions

4.6. Responsibilities relating to above objective :- Perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the framework.

4.7. Proposed Changes in Companies Bill 2012 :- Additional transactions such as leasing of property, appointment of agent for purchase & sale of goods, services, materials & property.Key Management Personnel to include Company Secretary and Chief Financial Officer.

4.8. Risk Assessment Procedures :- Specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions.

To inquire the management as to how they identify, nature of relationships and type/purpose of transactions.

Obtain understanding of controls from management and others within the entity to identify, account for , disclose, authorize and approve significant transactions and arrangements in normal and outside normal course of business.

4.9. Responses to Risk of Material Misstatement; Non-Identified Related Parties :- If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:

- Communicate to engagement team.
- Request management to identify all transactions.
- Inquire as to why the entity's controls failed to detect related party relationships and transactions.
- Perform appropriate substantive audit procedures.
- Reconsider risk of material misstatement.

4.10.Accounting, Disclosure of Related Party Relationships and transactions -In forming an opinion on the financial statements in accordance with SA 700, the auditor shall evaluate:

a) Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and

b) Whether the effects of the related party relationships and transactions:

i. Prevent the financial statements from achieving true and fair presentation; or

ii. Cause the financial statements to be misleading.

4.11.Documentation :- Includes Names of Indentified Related Parties and Nature of Related Party Relationships.

30.5. SA-560 - *Subsequent Event* :-

5.1. Scope of this SA :-

* Auditor's responsibilities relating to Subsequent event in audit of financial statement.
* Consider additional responsibilities if audited financial statement included in other documents after the issuance of financial statement.

5.2. Subsequent Event :-

* **TYPE 1 :-** provide evidence of conditions that existed at date of financial statement.
* **TYPE 2 :-** provide evidence of conditions that arose after date of financial statement.

5.3.Nature :- Subsequent events are significant events occurring between balance sheet date and the date of auditor's report. Auditor should consider effect of subsequent events on financial statements and on auditor's report.

5.4.Objectives :- Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statement.

Auditor should perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of auditor's report that may require adjustment of, or disclosure in financial statements have been identified. Procedures to identify events that may require adjustment of, or disclosure in financial statements would be performed as near as practicable to the date of auditor's report.

5.5. Facts Which Become Known to the Auditor After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued :-

(a) Discuss the matter with management and, where appropriate, those charged with governance,

(b) Determine whether the financial statements need amendment and, if so,

(c) If management amends the financial statements, the auditor shall,

(d) Carry out the audit procedures necessary in the circumstances on the amendment,

(e) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

5.6. Facts Which Become Known to the Auditor After the Financial Statements have been Issued :- Same as above with respect to situation.

5.7. Conclusion :- When Auditor becomes aware of events which materially affect financial statements, the auditor should consider whether such events are properly accounted for in financial statements. When the management does not account for such events that auditor believes should be accounted for, auditor should express a qualified opinion or an adverse opinion, as appropriate.

30.6. SA-570 - *Going Concern* :-

6.1. Scope :- This Standard on Auditing deals with the auditor's responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the preparation of the financial statements. Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future.

6.2. Objectives :- The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern assumption in the preparation of the financial statements;

(b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

(c) To determine the implications for the auditor's report.

6.3.Nature :- If, in the auditor's judgement, sufficient appropriate audit evidence has been obtained to support the going concern assumption, the auditor would not qualify his report on this account. If the financial statements have been prepared on a going concern basis but, in the auditor's judgment, management's use of the going concern assumption in the financial statements is inappropriate, the auditor shall express an adverse opinion.

6.4.Audit Evidence :- When a question arises regarding the appropriateness of the going concern assumption, the auditor should gather sufficient appropriate audit evidence to attempt to resolve, to the auditor's satisfaction, the question regarding the entity's ability to continue in operation for the foreseeable future.

6.5.Evaluating Management's Assessment :- The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.

If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in SA 560 the auditor shall request management to extend its assessment period to at least twelve months from that date.

6.6.Period beyond Management's Assessment :- The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.

6.7. Communication with Those Charged with Governance :-

(a) Whether the events or conditions constitute a material uncertainty;

(b) Whether the use of the going concern assumption is appropriate in the preparation of the financial statements; and

(c) The adequacy of related disclosures in the financial statements.

6.8. Audit Conclusions and Reporting :- If, in the auditor's judgement, the going concern assumption is appropriate because of mitigating factors, in particular management's plans for future action, the auditor should consider whether such plans or other factors need to be disclosed in the financial statements. Where the auditor concludes that such plans or other factors need to be disclosed, but have not been adequately disclosed, the auditor should express a qualified or adverse opinion, as appropriate.

30.7. SA-580 - *Written Representations* :-

7.1 .Scope :- This Standard on Auditing (SA) deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance.Written representations are audit evidence similar to responses to inquiries.

7.2. Objective :- To obtain written representation from management that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor.

A written statement by management to confirm certain matters or to support other audit evidence, does not include financial statements it is supporting books and records.

7.3. Management Responsibilities :-

- Preparation of Financial Statements to give a true & fair view.
- It has provided all relevant information and access as agreed in the terms of the audit engagement.
- All transactions have been recorded an are reflected in the financial statements.

7.4. Date of and Period(s) covered :-

- The shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements.
- It shall be for all financial statements.

7.5. Doubt as to the Reliability of Written Representation :-

- Determine the effect that auditor's concern may have on the reliability of representation and audit evidence.
- Perform audit procedures to attempt to resolve the matter in case written representations are inconsistent with other audit evidence.
- Reconsider the competence, integrity ,ethical values or diligence of management.

7.6. Requested Written Representation not provided :-

- Discuss matter with management and those charged with governance.
- Reconsider the level of risk on the engagement.
- Re-evaluate the integrity of management and evaluate the effect on the reliability of representation and audit evidence.
- Determine possible effect on the opinion in the auditor's report.
- Possible withdrawal from the engagement for lack of appropriate action by management or those charged with governance.

7.7. Communicating a Threshold Amount :-

- SA 580 requires the auditor to accumulate misstatement identified other then those that are clearly trivial.
- Determine a threshold above which misstatement cannot be regarded as trivial.
- Communicate to management a threshold for purpose of the requested written representations.

A written representation letter is not a substitute for Auditors' responsibilities to plan and execute an effective audit.

7.8. Conclusion:-The written representation about the responsibility of management to provide the auditor with all relevant information agreed in the terms of the audit engagement may state that management believes that, except for information destroyed in a fire, it has provided the auditor with such information. The requirement in paragraph 19 does not apply because the auditor concluded that management has provided reliable written representations. However, the auditor is required to consider the effects of the pervasiveness of the information destroyed in the fire on the financial statements and the effect thereof on the opinion in the auditor's report in accordance with [Proposed] SA 705.

30.8. SA-600 - *Using the Work of Another Auditor* :-

8.1. Scope :- When the auditor delegates work to assistants or uses work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied.

8.2. Framework :-When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit.

When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of specific assignment if the other auditor is not a member of the Institute of Chartered Accountants of India.

8.3. Nature :- The principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, The principal auditor might discuss with the other auditor the audit procedures applied or review a written summary of the other auditor's procedures and findings which may be in the form of a completed questionnaire or check-list. The principal auditor may also wish to visit the other auditor. The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of the previous audit work of the other auditor.

8.4. Acceptance as Principal Auditor :-

For Acceptance as Principal Auditor;

(a) the materiality of the portion of the financial information which the principal auditor audits;

(b) the principal auditor's degree of knowledge regarding the business of the components;

(c) the risk of material misstatements in the financial information of the components audited by the other auditor;

8.5. Co-ordination between Auditors and Reporting Considerations :- The other auditor, knowing the context in which his work is to be used by the principal auditor, should co-ordinate with the principal auditor.

If principal auditor concludes that he cannot use the work of another auditor and is unable to audit that component, he expresses a qualified opinion / disclaimer, as appropriate – due to scope limitation.

8.6. Division of Responsibility :- When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report should state clearly the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/ branches/subsidiaries or other components audited by other auditors.

30.9. SA-610 - *Using the Work of Internal Auditor* :-

9.1. Scope :- This Standard on Auditing (SA) deals with the external auditor's responsibilities regarding the work of internal auditors when the external auditor has determined, in accordance with that the internal audit function is likely to be relevant to the audit.

9.2. Objectives :- Objectives of the internal audit function and the external auditor are different, some of the ways likely to be relevant to the audit, are to determine;

- Monitoring of internal control.
- Examination of financial and operating information.
- Review of operating activities.
- Review of compliance with laws and regulations.
- Risk management.
- Governance.

9.3. Determining Whether and to What Extent to Use the Work of the Internal Auditors :- The external auditor shall determine :

(a) Whether the work of the internal auditors is likely to be adequate for purposes of the audit; and

(b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures.

In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, the external auditor shall evaluate:

(a) competence of the internal auditors;

(b) Whether the work of the internal auditors is likely to be carried out with due professional The objectivity of the internal audit function;

(c) The technical care; and

(d) Whether there is likely to be effective communication between the internal auditors and the external auditor.

9.4. Using Specific Work of the Internal Auditors :- To determine the adequacy of specific work performed by the internal auditors for the external auditor's purposes, the external auditor shall evaluate whether;

(a) The work was performed by internal auditors having adequate technical training and proficiency;

(b) The work was properly supervised, reviewed and documented;

(c) Adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions;

(d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and

(e) Any exceptions or unusual matters disclosed by the internal auditors are properly resolved.

9.5. Planned Effect of the Work of the Internal Auditors on the Nature, Timing or Extent of the External Auditor's Procedures :-

- The timing of such work;
- The extent of audit coverage;
- Materiality for the financial statements as a whole
- Proposed methods of item selection;
- Documentation of the work performed; and
- Review and reporting procedures.

9.6. Conclusion :- Paragraph 2 of ISA 610 deals with the situations where this ISA would not be applicable (internal auditors provide direct assistance to the external auditor in carrying out audit procedures). In India, clause 1 of Part I of the Second Schedule to the Code of Ethics provides that a Chartered Accountant in Practice shall be deemed to be guilty of professional misconduct if he discloses information acquired in the course of his professional engagement to any person other than his client, an auditor cannot provide access to his working paper to the another auditor. Therefore, keeping in view the requirements of Code of Ethics, the situation, "where, in terms of the applicable legal and regulatory framework, it is not permissible for the internal auditor to provide access to his working papers to the third parties".

30.10. SA 620 : *Using the Work of an Auditor's Expert* :-

a) This SA deals with the auditor's responsibilities regarding the use of an individual or organization's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence;

b) The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert;

c) The objectives of the auditor are to determine whether to use the work of an auditor's expert and if using the work of an auditor's expert, to determine whether that work are adequate for the auditor's purposes;

d) If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert;

e) The nature, timing and extent of the auditor's procedures with respect to the requirement of this SA will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including the nature of the matter to which that expert's work relates, the risks of material misstatement in the

matter to which that expert's work relates, the significance of that expert's work in the context of the audit, the auditor's knowledge of and experience with previous work performed by that expert and whether that expert is subject to the auditor's firm's quality control policies and procedures;

f) The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity;

g) The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert;

h) The nature, scope and objectives of that expert's work;

i) The respective roles and responsibilities of the auditor and that expert;

j) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and

k) The need for the auditor's expert to observe confidentiality requirements;

l) The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including;

m) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence;

n) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and

o) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data;

p) The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion.

30.11. SA-700 - *Forming an Opinion and Reporting on financial Statement* :-

11.1. Scope :- This Standard on Auditing deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

11.2. Objectives :-

(a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

(b) Express clearly that opinion through a written report that also describes the basis for the opinion.

11.3. Unmodified opinion :- The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

11.4. Forming an Opinion on the Financial Statements :- The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

(a) The financial statements adequately disclose the significant accounting policies selected and applied;

(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

(c) The accounting estimates made by management are reasonable;

(d) The information presented in the financial statements is relevant, reliable, comparable and understandable;

(e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.

11.5. Form of Opinion :- The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

If the auditor:-

(a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

(b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor shall modify the opinion in the auditor's report in accordance with SA 705.

Auditor's Opinion :-

When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

(a) The financial statements present fairly, in all material respects, in accordance with [the applicable financial reporting framework]; or

(b) The financial statements give a true and fair view of in accordance with [the applicable financial reporting Close box bracket.]

11.6. Supplementary Information Presented with the Financial Statements :- If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether such supplementary information is clearly differentiated from the audited financial statements. If such supplementary information is not clearly differentiated from the audited financial statements, the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall explain in the auditor's report that such supplementary information has not been audited.

30.12. SA-705 - ***Modifications to the Opinion in the Independent Auditor's Report*** **:-**

12.1. Scope :- This Standard on Auditing (SA) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised)4, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

12.2. Objective :- The objective of the auditor is to express clearly an appropriately modified opinion on the financial statement that is necessary when:

(a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

12.3. Types of Modified Opinions :-

Ø **Qualified Opinion :-**

(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Ø **Adverse Opinion :-** The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Ø **Disclaimer of Opinion :-** The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

12.4. Consequence of an inability to obtain sufficient appropriate audit evidence due to a management imposed limitation after the auditor has accepted the Engagement :-

1. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management to remove the limitation

2. If management refuses to remove the limitation referred to in paragraph 11, the auditor shall communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

3. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows;

a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or

b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:

Ø Resign from the audit, where practicable and not prohibited by law or regulation; or

Ø If resignation from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.

30.13. SA-706 *Emphasis of Matters Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* :-

13.1. Scope :- This Standard on Auditing (SA) deals with additional communication in the auditor's report when the auditor considers it necessary to:

(a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or

(b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

13.2. Objective:-Additional communication in the auditor's report, to:

(a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or

(b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

30.14. SA-710 - *Comparative Information – Corresponding Figures and Comparative Financial Statement* :-

14.1. Scope :- This Standard on Auditing (SA) deals with the auditor's responsibilities regarding comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in SA 510 regarding opening balances also apply.

14.2. The Nature of Comparative Information :- For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.

14.3. Objectives :-

(a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and

(b) To report in accordance with the auditor's reporting responsibilities.

14.4. Comparative Financial Statements :- When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed.

30.15. SA - 720 - *The Auditor Responsibility in Relation to Other Information in Document Containing Audited Financial Statement*: -

15.1. Scope :-This Standard on Auditing (SA) deals with the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon.

15.2. Objective :- The objective of the auditor is to respond appropriately when documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report.

15.3. Requirements :-

a) **Reading Other Information :-**

Ø The auditor shall read the other information to identify material inconsistencies, if any, with the audited financial statements

Ø The auditor shall make appropriate arrangements with management or those charged with governance to obtain the other information prior to the date of the auditor's report. If it is not possible to obtain all the other information prior to the date of the auditor's report, the auditor shall read such other information as soon as practicable.

b) **Material Inconsistencies Identified in Other Information Obtained Prior to the Date of the Auditor's Report :-**

- Ø When revision of the audited financial statements is necessary and management refuses to make the revision, the auditor shall modify the opinion in accordance with SA 705.
- Ø When revision of the other information is necessary and management refuses to make the revision, the auditor shall communicate this matter to those charged with governance; and
- Ø Include in the auditor's report an Other Matter(s) paragraph describing the material inconsistency in accordance with SA 706.
- Ø Where withdrawal is legally permitted, withdraw from the engagement.

c) **Material Inconsistencies Identified in Other Information Obtained Subsequent to the Date of the Auditor's Report :-**

- Ø When management agrees to revise the other information auditor's report thereon and the other information are informed of the revision.
- Ø When management refuses to make the revision of such other information that the auditor concludes is necessary, appropriate further actions by the auditor may include obtaining advice from the auditor's legal counsel.

d) **Material Misstatements of Fact:-**When discussing an apparent material misstatement of fact with management, the auditor may not be able to evaluate the validity of some disclosures included within the other information and management's responses to the auditor's inquiries, and may conclude that valid differences of judgment or opinion exist.

30.16. SA-800-*Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Framework* :-

16.1. Scope :- This SA deals with special considerations in the application of those SAs to an audit of financial statements prepared in accordance with a special purpose framework.

16.2. Objective :- Special considerations that are relevant to;

(a) The acceptance of the engagement;

(b) The planning and performance of that engagement; and

(c) Forming an opinion and reporting on the financial statements.

16.3. Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework :- The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.

The special purpose financial statements may be used for purposes other than those for which they were intended.

16.4. Acceptability of the Financial Reporting Framework :- In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.

16.5. Restriction on Distribution or Use :- Auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the auditor's report.

30.17. SA - 805 - ***Special Considerations - Audits of Single Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*:-**

17.1. Scope :- This SA deals with special considerations in the application of those SA to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework.

17.2. Objective :- The objective of the auditor, when applying SAs in an audit of a single financial statement or of a specific element, account or item of a financial statement.

17.3. Accepting the Engagement :- Why it is not practicable to audit of SFS if you are not also engaged to audit complete financial statement;

- Ø The Auditor does not have the same understanding of the entity and internal control,
- Ø The Auditor also does not have the audit evidence.

17.4. Special Considerations - Audits of Single Financial Statements and Specific Elements:-

- Ø Materiality of Single Financial Statement < materiality of full financial statements.
- Ø If it is necessary to issue Adverse Opinion / Disclaimer of Opinion on full Financial Statement, then unmodified opinion on Single Financial Statement cannot be expressed.

17.5. Forming an Opinion and Reporting Considerations :-

- Ø Apply SA 700
- Ø Also include the following in the Audit Report;
  - 35 17 Monitoring of internal control
  - 35 17 Describe the intended users for whom Single Financial Statement have been prepared.
  - 35 17 Evaluate whether financial statement adequately describe the financial reporting framework applied in preparing single financial statement in the Notes on Accounts.
  - 35 17 Include Emphasis of Matter paragraph.

30.18. SA - 810 - ***Engagements to Report on summary Financial Statements*:-**

18.1.Scope :- This Standard on Auditing (SA) deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

18.2. Objectives :-

(a) Determine whether it is appropriate to accept the engagement to report on summary financial statements;

(b) Form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and

(c) Express clearly that opinion through a written report that also describes the basis for that opinion.

18.3. Engagement Acceptance :- Before accepting an engagement to report on summary financial statements, the auditor shall;

(a) Determine whether the applied criteria are acceptable;

(b) Obtain the agreement of management that it acknowledges and understands its responsibility:

If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management set out in paragraph 6(b), the auditor shall not accept the engagement to report on the summary financial statements, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this SA.

18.4. Nature of Procedures :-

(a) Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.

(b) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.

(c) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements.

18.5. Form of Opinion :- When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases;

(a) The summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [the applied criteria]; or

(b) The summary financial statements are a fair summary of the audited financial statements, in accordance with [the applied criteria].

18.6. Modified Opinion on the Summary Financial Statements :- If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements.

18.7. Comparatives :- If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements.

30.19. SRE-2400 - *Engagements To Review Financial Statement*:-

19.1. Purpose :-

Ø To establish standards and provide guidance,

Ø On the Practitioner's professional responsibilities,

Ø When a practitioner, who is not the auditor of an entity,

Ø Undertakes an engagement to review financial statements; and

Ø On the form and content of the report that the practitioner issues in connection with such a review.

19.2. Objective :-

Ø to enable a practitioner to state whether,

Ø on the basis of procedures which do not provide all the evidence that would be required in an audit,

Ø anything has come to the practitioner's attention that causes,

Ø the practitioner to believe that the F.S. are not prepared, in all material respects, in accordance with the applicable FRF (negative assurance).

19.3. Scope of Review :-

(a) Refers to review procedures deemed necessary in circumstances to achieve objectives of review,

(b) Procedures should be determined having regard to requirements of:

- This SRE
- Relevant professional bodies.
- Legislation & regulation.
- Terms of engagement.

19.4. Terms of Engagement :-

(a) Agree Terms of Engagement with the client:

- Engagement letter.
- Other suitable form of contract.

(b) Send to client an engagement letter documenting key terms of appointment:

- Confirms practitioner's acceptance of appointment
- Avoids misunderstandings reg. objectives & scope.
- Clarifies practitioner's responsibility.

19.5. Planning :-

(a) Obtain/ update knowledge of client business.

(b) Need to have understanding of other matters relevant to FS.

19.6. Procedures & Evidence :-

1) Apply judgment in determining specific nature, timing & extent of procedures
2) Apply same materiality considerations as in audit.
3) Also inquire about events subsequent to date of FS that may require adjustment/ disclosure in financial statement.

19.7. Procedures to be performed :-

1. Obtaining an understanding of the entity's business and the industry in which it operates.

2. Inquiries concerning the entity's procedures for recording, classifying and summarising transactions, accumulating information for disclosure and preparation of F.S.

3. Analytical procedures designed to identify relationships and individual items that appear unusual.

4. Inquiries of persons having responsibility for financial and accounting matters concerning.

19.8. Material Scope Limitation :- Describe the limitation and either:

- Express a qualification of negative assurance provided regarding possible adjustments to FS that might have been deemed necessary had the limitation not existed; OR
- When possible effect of limitation is so significant & pervasive that no level of assurance can be provided, do not provide any assurance

19.9. Conclusions and Reporting :-

a. Report should contain a clear written expression of negative assurance.

b. Assess whether any information obtained during review indicates:

- FS do not give true and fair view in accordance with FRF.

30.20.SRE – 2410 – ***Review of Interim Financial Information Performed by the Independent Auditor of the Entity*** **:-**

20.1. SRE Application :-

a) For reviewing IFI he updates this understanding through inquiry & analytical procedures

b) Plan & perform engagement with attitude of professional skepticism.

20.2. Objective of Engagement to Review IFI :-

(a) Review of IFI does not provide a basis for expressing an opinion whether the financial information gives a true and fair view, or is presented fairly, in all material respects, in accordance with applicable FRF.

(b) Review not designed to obtain reasonable assurance that IFI is free from material misstatement.

(c) Review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

(d) Review may bring significant matters affecting IFI to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

20.3. Procedures for a Review :-

1) The auditor should have an understanding of the entity and its environment

2) Identify the types of potential material misstatement and consider the likelihood of their occurrence; and

3) Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework.

The auditor should inquire whether management has changed its assessment of the entity's ability to continue as a going concern. If any significant doubt on the entity's ability to continue as a going concern, the auditor should :-

(a) Inquire of management as to its plans for future actions based on its going concern assessment, the feasibility of these plans, and whether management believes that the outcome of these plans will improve the situation; and

(b) Consider the adequacy of the disclosure about such matters in the interim financial information.

20.4. Management Representations :- The auditor should obtain written representation from management that;

(a) It acknowledges its responsibility for the design and implementation of internal control to prevent and detect fraud and error;

(b) The interim financial information is prepared and presented in accordance with the applicable financial reporting framework;

(c) It has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity;

(d) It has disclosed to the auditor all known actual or possible non compliance with laws and regulations whose effects are to be considered when preparing the interim financial information;

20.5. Auditor's Responsibility for Accompanying Information :-

1) The auditor should read the **other information** that accompanies the interim financial information to consider whether any such information is materially inconsistent with the interim financial information.

2) If a matter comes to the auditor's **attention that causes** the auditor to believe that the other information appears to include a material misstatement of fact, the auditor should discuss the matter with the entity's management.

20.6. Documentation :- The auditor should prepare **review documentation** that is sufficient and appropriate to provide a basis for the auditor's conclusion and to provide evidence that the review was performed in accordance with this ISRE and applicable legal and regulatory requirements.

30.21 .SRE- 3400- ***The Examination of Prospective Financial Information*** **:-**

21.1.Scope :- "Prospective financial information" means financial information based on assumptions about events that may occur in the future and possible actions by an entity. The purpose of this ISAE is to establish standards and provide guidance on engagements to examine and report on prospective financial information including examination procedures for best-estimate and hypothetical assumptions.

21.2. Acceptance of Engagement :- Before accepting an engagement to examine prospective financial information, the auditor would consider, amongst other things;

- The intended use of the information;
- Whether the information will be for general or limited distribution;
- The nature of the assumptions, that is, whether they are best-estimate or
- hypothetical assumptions;

The auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use.

21.3. Examination Procedures :- When determining the nature, timing and extent of examination procedures, the auditor's considerations should include:

(a) The likelihood of material misstatement;

(b) The knowledge obtained during any previous engagements;

(c) Management's competence regarding the preparation of prospective financial information;

(d) The extent to which the prospective financial information is affected by the management's judgment; and

(e) The adequacy and reliability of the underlying data.

21.4. Presentation and Disclosure :-

(a) The presentation of prospective financial information is informative and not misleading;

(b) The accounting policies are clearly disclosed in the notes to the prospective financial information;

(c) Any change in accounting policy since the most recent historical financial statements is disclosed, along with the reason for the change and its effect on the prospective financial information.

When the auditor believes that the presentation and disclosure of the prospective financial information is not adequate, the auditor should express a qualified or adverse opinion in the report on the prospective financial information, or withdraw from the engagement as appropriate.

30.22. SRE-3402- ***Assurance Report on Controls At a Service Organisation:-***

22.1.Scope:-This SAE deals with assurance engagements undertaken by a professional accountant in public practice to provide a report for use by user entities and their auditors on the controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting.

22.2. Objective :- To obtain reasonable assurance about whether, in all material respects, based on suitable criteria:

(i) The service organization's description of its system fairly presents the system as designed and implemented throughout the specified period;

(ii) The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period;

(iii) Where included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved throughout the specified period;

22.3. Points to be consider :-

a) The service auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to assurance engagements;

b) Where this SAE requires the service auditor to inquire of, request representations from, communicate with, or otherwise interact with the service organization, the service auditor shall determine the appropriate person(s) within the service organization's management or governance structure with whom to interact;

c) If the service organization requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall be satisfied that there is a reasonable justification for the change;

d) The service auditor shall assess whether the service organization has used suitable criteria in preparing the description of its system, in evaluating whether controls are suitably designed, and, in the case of a type 2 report, in evaluating whether controls are operating effectively;

e) When planning and performing the engagement, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of controls

f) The service auditor shall determine which of the controls at the service organization are necessary to achieve the control objectives stated in the service organization's description of its system, and shall assess whether those controls were suitably designed;

g) If the service organization has an internal audit function, the service auditor shall obtain an understanding of the nature of the responsibilities of the internal audit function and of the activities performed in order to determine whether the internal audit function is likely to be relevant to the engagement;

h) The service auditor's assurance report shall include the basic elements prescribed by this SAE.

———

CHAPTER No. 31

AUDIT REPORT AND FOLLOW-UP OF AUDIT

31.1. ***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 the audit notes and queries taken down during the course of audit. In order to avoid overloading of the file, the Registrar has directed that all documents of permanent interest should be segregated from routine working papers and schedules and kept in a permanent file called the "A" file, which should be maintained by the auditor for each society in his charge. This "A" file should contain a copy of the registered byelaws of the society and subsequent amendments received from the Registrar along with business rules and other rules and regulations framed by the society such as staff Provident Fund Rules and Service Rules, Rules for payment of allowance and reimbursement of expenses incurred by the directors and the staff, etc. Papers of current importance, such as schedules, bank reconciliation's, 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.

The "A" file should also have a separate section for recording matters of permanent interest such as list of account books, names of officers and extent of their authority. A brief resume of arrangements for internal control, deficiencies and weakness of internal check, accounting and sanctioning procedure, presentation of accounts, creation and maintenance of various files, etc., should be kept in the same file. Details of important contracts or agreements relevant to the audit and also all matters, which may obviate the lengthier and not so easy process of referring to various original documents, may also be included. It also includes the important resolutions of the board of directors, General meeting or any other committee, financial statements of audit period, ratio analysis records, and communication with the management. Audit programme, audit allotments and worksheet of the staff, copies of letter issued for confirmation and confirmations received, explanations obtained from the ex employees and working employees or member or directors of the society, copies of various information received from the society should be maintained as a current file for the year under audit.

While carrying out audit following points should be considered by auditor and necessary remarks should be included in his audit report and also maintain the record thereof in his audit file.

I. Internal Check.

(I) In what respect the system of internal check is defective.

(II) Possibility of collusion between members of staff.

(III) Reliability of otherwise of the officers handling cashbook and personal ledgers and any change necessary.

(IV) Any other remarks.

II. Staff.

Integrity of staff in general.

III. Audit.

(a) What portion of transactions is not audited?

(b) Percentage checking done in regard to what items.

(c) What transactions require particular attention?

(d) Other loopholes noticed, Benami transactions suspected, etc.

(e) Accounts of different nature merged in one another, business not allowed by the byelaws, but carried on in the name of Managing Director or other officer of the society.

(f) Any doubt or suspicion felt at the time of checking cash, securities or godowns or any other transaction of the society or Bank.

(g) Any other remarks concerning audit.

IV. Directors and their interest.

(i) Directors and their relationship, if any, with any member of the staff.

(ii) Indirect transaction carried on by Directors with the society, if any. Abuse of powers and their position by any of the directors or any indirect undue advantage taken by any of them.

(iii) The degree of control exercised by the Manager or the Managing Director over the senior members of the staff and the degree of control exercised by the senior officers over the rest of the staff, capacity of staff for their work.

(iv) Behavior of the staff towards the members of the public and the relationship of the society with other institutions.

(v) Any other remarks.

While laying down the above procedure, it is not the intention that the auditors should necessarily try to collect the above information, but, if in the course of their audit, they happen to come across any such information, they should note it in the audit files and necessary remarks should be given in the audit report. It is also not intended that they should confine themselves only to the points mentioned above. They may, if they think necessary, mention any other points not mentioned above.

———

CHAPTER No. 32

AUDIT NOTES AND QUERIES

32.1. ***Rectification on the spot*** :- During the courses of his audit, the auditor will have to mark his own notes about the working of the society, the irregularities noticed by him also points which require further clarification or explanation. 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 they are raised rather than taking exhaustive notes and attending to them later on to get cleared. Even matters, such as want of sanction, unattested corrections, unsigned documents, incomplete statements, etc., should also, wherever possible be got rectified on the spot and need not be reduced to writing unless they are considered important enough to be mentioned in the audit memo. Where additional particulars or further clarifications or explanations are required, these 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 a general way. Some of the queries and objections may also be of such importance that they may have to be discussed with responsible officers of the society. This should be done as promptly as possible before the audit report is drafted.

32.2. ***Writing out audit objections*** :- ***Query Sheets*** - All audit objections or queries as they are called should be written legibly on the left side 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 transaction such as date, amount, name of the party, receipt or voucher number, cashbook or 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. If the reply or the clarification or explanation is considered satisfactory, the objection raised may either be scored out or a distinctive tick indicating complete satisfaction should be made under initials of the auditor. However, since in the smaller societies, the secretary himself writes the accounts and there are no full-time employees, instead of reducing to writing every query or objection, the auditor may be intelligent enough to question and obtain necessary clarification on the spot so that it may not be necessary to make note of either the objection or the reply unless it is considered to be important enough to merit its inclusion in the audit memo. It has also to be noted that it may not always be possible to obtain written explanation or reply from the secretary every time. In such cases, the oral reply or explanation of the secretary or other office-bearer should be noted against the query along with the name and designation of the officer furnishing the reply or explanation. For ready reference a query sheet is given below.

Query sheet : No. Confidential / non confidential Date:

To,

The Chief executive Officer/ Managing Director

…..... Cooperative Society

Subject : Audit information regarding…

Sir,

Please refer to the subject cited above,

An additional information / explanation is required on the points raised below. You are requested to submit the information against the query in the provided margin to this office within 24 hours. It should be duly signed by you.

Sr. No.	Query for which explanation/ information is required	Reply or Explanation from the management
1	2	3

If the provided margin is not sufficient for your reply, please use a separate sheet for your reply and enclose the separate sheet of reply with this query sheet, and return the query sheet in **original.**

Sd/-	Sd/-
Statutory Auditor	CEO/MD or authorized officer

32.3. ***Usual audit objections*** :- The usual audit objections would ordinarily be of the following types :-

1) Unattested corrections, unsigned documents, incomplete documents and statements, i.e., documents in which spaces have been left blank or otherwise incomplete.
2) Mistakes 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, the original or the outer forms of which have not been attached to the office copy (carbon copy) or the counterfoil.
4) Remittances received for which official receipts from the printed receipt books or other official acknowledgements have not been made.
5) Payments for which vouchers are not available. List of missing vouchers 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 which 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 cashbook 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) 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.

32.4. ***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) Unfruitful 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.

(f) Irregular loans and advances such as: -

i. Loans made to non-members or on the surety of non-members.

ii. In agricultural credit societies, loans made without obtaining declarations creating charge on the land of the borrowers.

iii. Unauthorized loans to members of the committee, secretary or other officers.

iv. Loans, the amount of which exceeds the individual limits mentioned in the byelaws, 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 the Register, has not been obtained.

v. Loans, which are against the provision of the Act, Rules, and byelaws directions, issued by the Registrar or the Central Bank. Loans and advances made in contravention of the orders of the Registrar issued under provision of Rule 42 of the Maharashtra Co-operative Societies Rules.

vi. Benami loans, *i.e.*, loans, pertaining to persons other than the borrowers.

vii. Imprudent advances such as loans, which are not properly secured, loans of minors, loans sanctioned for purpose not permitted by the byelaws, etc.

(g) Sales made on credit where no provision for credit sales exists in the byelaws. Also, credit sales in excess of credit limit sanctioned.

(h) Investment or employment of funds in a manner not permitted under the Act, the rules or byelaws of the society or against the directions of the Registrar or the Central Bank.

(i) Other transactions, which involve breach of the provisions of the Act, Rules or the byelaws of the society.

32.5. ***Special Notes regarding serious objections*** :- Besides routine audit objections enumerated above, the auditor will have to make his own notes of the more serious irregularities, which cannot be got rectified on the spot and which call for special Action on the part of the committee. There might also be other matters, which require to be brought to the special notice of the general body or of the Registrar. The following are matters in respect of which the auditor will have to make special notes :-

(1) Unusual matters, which call for specific explanation.

(2) Expenditure of a revenue nature, which has been capitalized.

(3) Unsatisfactory arrangements for custody of cash, securities, stores and other property, control over receipts and disbursement of funds, defective system of accounting, failure to maintain necessary account books and registers, incomplete accounts, deficiencies in the arrangements for internal check, defective store control, etc.

(4) Cases in which the normally accepted canons of business and financial propriety are not observed.

(5) Transactions not adhering to the standard accounting policies affecting profit and loss account and Balance sheet.

(6) Entries in the books, which appear to be misleading or passed intentionally with a view to concealing irregularities.

(7) Cases in which the provisions of the Act, Rules, and Byelaws have been infringed, such as failure to hold general meeting, irregularities in the election or appointment of officers, failure to hold committee meetings regularly, transaction of business without quorum, etc., misuse of delegated authority or exercise of owners in excess of delegated authority.

(8) Activities undertaken that are not covered by the object clause of the byelaws. Employment or utilization of funds for business that is not permitted under the Act, Rules or byelaws of the society.

(9) Borrowing exceeding the limit laid down by byelaws without prior permission of the Registrar.

(10) Particulars of amounts, which ought to have been but have not been brought into account. Irregularities in the realization of amounts due to the society.
(11) Advances taken by office bearers and members of the staff which have not been accounted for and remain to be recovered.
(12) Loans and advances which have become irrecoverable or are not likely to be recovered in full. Other bad debts and losses which could have been avoided.
(13) Property held by the society, which is not likely to fetch its full value. Property which has no clear title, and requires to regularised in the name of the society. Investments which cannot be realized, or the market value of which is less than their book value.
(14) Particulars of losses other than normal trade, losses for which the committee or other office-bearers could be held liable. Cases in which members of the committee or officers have taken advantage of fluctuation in market and have benefited themselves.
(15) Moneys and other property of society, which has been unauthorisely, retained by any of the office-bearers.
(16) Inefficient working of manufacturing and processing units, abnormal wastage's and manufacturing losses.
(17) Missing loan bonds and other documents, such as promissory notes, applications, agreements, etc.
(18) Under utilization of installed capacity in case of processing units.
(19) Abnormal consumption of raw material as well as processing chemicals.
(20) Abnormal / Unnecessary purchases of machinery and store material.
(21) Reporting regarding non functioning of societies.
(22) Benami deposits transactions.
(23) Other matters considered important by the auditor**.**

32.6. ***Recording information of confidential nature*** :- In addition to the audit objections and informative notes taken down by the auditor, certain additional information of a confidential nature about the working of the society and its financial position to the conduct of the office-bearers, and the manner in which the affairs of the society are being managed will have also to be collected by the auditor and referred to whenever necessary, so that he would always be on his guard and will not be deceived. It is likely that the auditor, during the course of his audit might come across transactions, which might not have been in the interest of the institution, or which have been entered into primarily with a view to benefiting certain individuals. *There might also be entries in the books of accounts, which might arouse his suspicions. It would be the duty of the auditor to make notes of all matters which appear to be rather out of the way and probe them to the bottom so as to be satisfied that no serious irregularities lie hidden*. It has to be remembered that in the minds of the public at large, detection of frauds is such an important function of the auditor as to overshadow his other functions. Members and creditors of societies believe that the appointment of the auditor by the General Body or by Registrar would adequately safeguard their interests although honesty and integrity are not given sufficient consideration while electing officebearers. The auditor has, therefore, to approach very cautiously. He need not, however, approach his work with the feeling that there is always something wrong with the society or that he has to deal with people who are not quitehonest. He is entitled to believe that everybody is honest. At the same time, if he fails to take note of transactions which are irregular or overlooks entries which appear to be out of the way, in the belief that everything is alright with the society or that the integrity and honesty of the office-bearers should not be doubted, he is likely to be deceived and frauds and serious irregularities might remain undetected, for which he might subsequently be held liable. If brief notes are taken of all unusual matters, the auditor would be put on his guards, and it would be easy for him to determine which are the matters that call for greater attention and detailed scrutiny.

———

CHAPTER No. 33

DRAFTING OF THE AUDIT REPORT

33.1. ***Legal position regarding submission of audit report. -Filling in printed audit memo form.-*** The auditor is require to submit the following documents being part of audit report.

Sr. No.	Particulars	Specified / Provided by	Remarks	Draft / Specimen Annexure number
1	2	3	4	5
1.	Audit memorandum (audit certificate)	Under Sub-Rule 3 of Rule 69	Form N 1 for co-operative banks and N 2 for other type of societies. The certificate also shall quantify shortfall in various provisions over profit or loss and state clearly that after considering the effects of all provisions whether there is profit or loss to the society / over statement or understatement of profit.	
2.	Audit report	Section 81 (5 b) and Sub-Rule 3 of Rule 69/ Specified by the Registrar. The Registrar has stated in his circular No. ADT/H-1/A.M.dated 10th December 1986 to write on the points mentioned in the sub section (2) of the section 81 of the Act. For purpose of clarity, the Registrar has directed in the ADT/243/dated 12th March 1974 and circular No. ADT/ H-1/ lepahawal/ rachna/dated 19th May 1997. that the report should be divided into **three parts as part A, Part B, and part C**.	Audit report should be made in three parts as under **Part A :-** it should include (a) fraud (b) misutilisation of funds (c) misapplication of funds (d) manipulation of accounts (e) falsification of accounts (f) Auditor shall quantify shortfall in various provisions over profit or loss and state clearly that after considering the effects of all provisions whether there is profit or loss to the society. (g) serious infringement of provisions of Act, Rules, Byelaws and notification. (h) misutilisation of capital/loan/ grant received from Government. (i) personal expenses which are debited to Profit and loss account. (j) contravention of cash limits as per Rule 107 (c). (k) payment in cash in excess of the limits laid down as per MCS Rule 107 (d). **Part B :-** (a) remarks on scrutiny of Balance sheet and Profit and loss account. (b) deficiencies in working of societies.	

1	2	3	4	5
			(c) Activities undertaken beyond the object of society. (d) observation on meetings of AGM, BOD and committee meetings. (e) remarks on growth or decline in deposit/capital /loan/profits etc. and important ratio analysis. (f) contravention of provisions of ther allied Act like Stamp Act, Labour laws, Contract Act, etc. **Part C :-** (a) deficiencies in vouching, receipts, expenditure voucher. (b) unauthorized / not sanctioned expenditure. (c) expenditure which appears to be excessive to the auditor considering the size and volume of society. (d) general deficiencies observed in loan documents. (e) travelling expenditure of Board of Directors and Staff members beyond their powers and which appears to be excessive.	
3	Audit memo	Specified by Registrar	Form No.1 – mandatory for all types of societies. Form No.2 and onwards:- depending on type of society.	
4	Specific Report	Section 81 (5 B)	In respect of fraud, this report is to be submitted to the Registrar within 15 days from the date of submission of audit report and FIRshould be filed by the concerned Statutory Auditor with the permission of Registrar.	
5	Special Report	Section 81 (5 B)	In respect of financial irregularities resulting into loss to the society, auditor has to file special report along with audit report.	
6	Financial Statements	Rule 69 (3)	The auditor is required to duly certify the following statements approved by the management. (a) Balance sheet as on close of co-operative year. (b) Profit and Loss account (income and expenditure account) for the co-operative year/particular period.	

1	2	3	4	5
			(c) notes on accounts and accounting policies. (d) cash flow/receipt and payment. (e) schedules forming part of Balance sheet and profit and loss account (income and expenditure account).	
7	Long Form Audit Report	As specified by Reserve Bank of India	In case of Urban co-operative bank, State Co-operative Bank, District Central Co-operative Bank, auditor shall prepare and submit Long Form Audit Report along with Audit Report.	
8	General Remarks	As may be required while drafting LFAR and audit memo.	Repeated mistakes like vouchers are not having signature of approving authority, not signed by payee, vouchers are not numbered, cash book, bank book are not numbered, required supplementary documents/evidences are not attached with vouchers, suggestions for improvements, etc.	
9	Audit Classification Mark sheet	As specified by the Registrar in case of societies and in case of bank as specified by Reserve Bank of India and NABARD.	Auditor shall prepare the audit classification mark sheet and award audit classification which should form part of Audit Report.	
10	Schedules	Section 81, Rule 69 (6)	Schedule 1 - All transactions which appear to be contrary to the provisions of Act, Rules and Byelaws. Schedule 2 – All sums which ought to have been accounted but not brought into accounts. Schedule 3–All material improprieties and irregularities in expenditure or in realization of money due to the society. Schedule 4 – All moneys and properties of the society which appears to the auditor bad or doubtful of recovery. Schedule 5 – If government assistance is received, but not applied for the purpose for which it was granted. Schedule 6 – Personal expenditure debited to revenue.	

1	2	3	4	5
11	Audit Report summary (Executive summary)	As provided by Rule 69 (7)	Auditor should prepare summary of important 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.	

Whatever is contained in Special Report and Specific Report should also form part of Part A of the Audit Report.

All the queries and sub-queries in the printed audit memo should be gone through carefully and appropriate reply given against each query. The replies should be brief and to the point. All sub-queries should be reply separately. There should be no vagueness about the information furnished or the marks made against any query. If the reply to any query cannot be accommodated in the space provided for it, the point may be clarified in the **"General Remarks"** and the reply to the query may only invite attention to the relevant paragraph in the "general remarks" along with page number of audit report or the separate report accompanying the audit memo. All information furnished should be correct and should always agree with the information contained in the finals accounts, lists of overdues, schedules and other statements accompanying the audit memo. The questionnaires which shall be used for different types of societies are listed below.

Sr.. No	Old query Form No.	Type of society to which it is applicable	New query Form No.
1	2	3	4
1	1	All types of Societies.	1
2	2	Test audit report for all type of societies audited by the auditor	2
3	3	Agriculture Produce Market Committee.	3
4	4	District Central Cooperative Banks	4
5	5	Land Development Banks (Now Agriculture and Rural Development Bank)	4
6	6	Agricultural and credit societies, multi-purpose societies, seva sahakari sanstha.	5
7	7	Urban Cooperative Banks	4
8	8	Salary Earners Societies	5
9	9	Agricultural Sale Purchase Society	8
10	10	Farming Societies	6
11	11	Lift Irrigation Societies	6
12	12	Crop Protection Societies	6

1	2	3	4
13	13	Ginning and Pressing Societies	8
14	14	Oil Mills	3
15	15	Rice mills	3
16	16	Agricultural and Industrial Processing Societies	3
17	17	Sugar Factories	3
18	18	Industrial Sangh and Weavers Societies	6
19	19	Spinning Mill	3
20	20	Forest Labour's Societies	6
21	21	Labour Contract Societies	6
22	22	Dairy Societies	9
23	23	Dairy Union	9
24	24	Fisheries Societies	9
25	25	Poultry Societies	9
26	26	Piggary Societies	9
27	27	Consumers Stores and Societies	8
28	28	Housing Societies	7
29	29	Cooperative Producers Societies	3
30	30	Printing Press	6
31	31	Transport Societies	6
32	32	Industrial Estate	6
33	33	Education Societies	6
34	34	Supervising Unions regarding PACS at Taluka and District level.	10
35	35	District Cooperative Boards	10
36		All other remaining societies	10

33.2. ***Introduction of new query forms*** **: -** Considering the changes in the Act, duties and responsibilities of the auditor, working of the society, it is needed to change the earlier query forms No. 1 to 35 and prepare suitable and contemporary query forms. Considering this need, new forms are introduced in this manual which are annexed to the manual. The shortlist of the forms is given below. The auditors are advised to use them while submitting audit reports.

Form No.	**ANNEXURE 3 - AUDIT FORMS 1 TO 15.**
1	Applicable to all types of societies
2	For Test/ Re-audit of the society
3	For manufacturing and processing Societies
4	For Banking Societies
5	For Non- Banking Financial and Credit dispensing Societies
6	For Service Societies
7	For Housing Societies
8	For Marketing and trading Societies
9	For Animal Husbundries and dairy Societies
10	For other Societies
11	For Sakhar Sangh, Spinning Mill Federation & Handloom Powerloom Federation
12	For Urban Bank Federation, Credit Societies and Salary Earners Societies Federation
13	For Labour Contract Societies Federation (District & State Level)
14	For State level Cotton, Consumer, Marketing Federations and Tribal Development Corporation and District level Consumer and Marketing Federations including Ginning Pressing Federations
15	For Housing Federations and Other District & State Level Federal Societies

Note :- The above forms are applicable to the concerned society as mentioned on the top of the forms.

33.3. ***Certification of the Balance sheet and the profit and loss account.*** **-**Sub-rules (3) and (4) of Rule 69 of the Maharashtra Co-operative Societies Rules, 1961, further require the auditor to furnish a certificate regarding the correctness of the balance sheet and the profit and loss account of the society examined by him in Form N1 and N2.

33.4. ***Contents of Audit Report :-***

(a) Part A :- This part should consist of the serious irregularities, on which the registrar has to take action immediately. Also contains the serious irregularities in administration of the society, serious breaches of Act, rules and byelaws. Or the points which are required for making the special Report, for taking Actions against the Society, by the Registrar. **Part A of audit report shall generally include the following items:-**

1. Fraud
2. Misutilisation of funds and properties
3. Misapplication of funds
4. Manipulation of accounts
5. Falsification of accounts
6. Auditor shall quantify shortfall in various provisions over profit or loss and state clearly that after considering the effects of all provisions whether there is profit or loss to the society.
7. Serious infringement of provisions of Act, Rules, Byelaws and notification.
8. Misutilisation of capital / loan / grant received from Government.
9. Personal expenses which are debited to Profit and loss account.
10. Contravention of cash limits as per Rule 107 (c).
11. Payment in cash in excess of the limits laid down in the Income Tax Act as per Rule 107 (d).
12. In case of banks, property sold under Securitization Act 2002 below Reserve Price.
13. Contravention of unit exposure norms and sectoral exposure norms in case of UCB, MSCB and DCCB.
14. Sanctioning of unsecured loans in excess of limits as specified by RBI in case of banks and in excess of limits as specified in Byelaws in case of other societies.
15. Exceeding the borrowing power as specified by Section 43 and Rule 35 of MCS Act.
16. Repaying the share capital by the contravening the Rule 23 of MCS Rules 1961.
17. No Action against overdue in excess of one year.
18. Transactions with relatives of Board of Directors, companies, firms in which directors are interested are not at the reasonable rates.

Format of Part A :-

The following are the major discrepancies found during the audit.

Sr. No.	Particulars	Instances / Examples which require reporting	Auditor's remarks
1	2	3	4
1	Fraud	1) Debiting excess amount as against the voucher amount / bill amount. 2) Withdrawing the amount from bank but not crediting in cash book	During the period under audit fraud of Rs.——— has been detected. The said fraud has been committed by using ——

1	2	3	4
		3) Debiting the bank account without depositing the amount in bank 4) Disbursing loans without sanction/ without security/without loan documents/using forged documents 5) any other transaction with the intention to defraud the society by any person.	modus operandi (without security / fabricated documents / false security, etc.). The following persons are responsible for fraud. 1…. 2… 3… If there is no fraud, the auditor should mention the following remarks. "During the audit period, we have not found any fraud". This remark is mandatory.
2	Misutilisation of funds and properties	When the funds are not used by following due procedures, E.g. 1) purchasing / constructing building without inviting the tenders 2) purchasing the computers without inviting the tenders. 3) selling the movable / immovable properties without inviting bids 4) selling the movable / immovable properties below Reserve Price (Upset price)	During the audit period, funds and properties of societies are misutilised as under :- 1… 2… 3… In case, there is no misutilisation of funds and properties, he should give following remarks. "During our audit period, we have not found any misutilisation of funds and properties" This remark is mandatory.
3	Misapplication of funds	If the society raises funds for a particular purpose but uses them for another purpose, then there is misapplication of funds. E.g. 1) State Government has granted loan for construction of go-down, but it is used for payment of salary or other regular payments. 2) Use of sinking fund for day-to-day maintenance without passing required resolution in General Body. 3) Use of revenue reserve/general reserve for creating Reserve for Bad and Doubtful Debts. 4) Not using Government share capital redemption fund for repaying Government debt/capital on due date.	During our audit period, we have found following misapplication of funds. 1… 2… 3… If there is no misapplication of funds, auditor should make remark as under. "During our audit period, we have not found any misapplication of funds." This remark is mandatory.

1	2	3	4
4	Manipulation of accounts	1) Crediting interest received account without the amount being actually realized, In contravention of Income Recognition Asset Classifaction (IRAC) norms. 2) Loans shown to be recovered without actually being recovered by debiting new loan account. 3) Window dressing of accounts. E.g. loan account debit deposit account credit without deposit actually being received.	We have found following manipulation / window dressing of accounts during our audit period. 1… 2… 3… If there is no manipulation of accounts, then auditor should give his remarks as under. "we have not found any manipulation of accounts during our audit period" This remark is mandatory.
5	Falsification of accounts	1) Amount recovered from one party and credited to other party thereby showing incorrect position of state of affairs. E.g. A's account has become NPA. B's account is in PA category. Amount received from B is credited to A's account to conceal NPA. 2) Showing stock items and value of stock when there is no stock in existence.	We have found the following falsification of accounts during our audit period. 1… 2… 3… If there is no falsification of accounts, the auditor is required to give following remarks "During our audit period, we have not found any falsification of accounts" This remark is mandatory.
6	Quantify shortfall in various provisions	Society has shown net profit of Rs.1 crore and there is shortfall in following provisions. 1) NPA provision Rs.60 lakh 2) Overdue Interest provision Rs.40 lakh 3) Bonus provision Rs.10 lakh 4) Gratuity provision Rs.5 lakh	Considering total shortfall of Rs.115 lakh, society has incurred loss of Rs.15 lakh instead of Net profit of Rs.1 crore shown in the Profit and Loss account. If there are no shortfalls in provisions, auditor should state "There are no shortfalls in any provisions" This remark is mandatory.
7	Serious infringement of provisions of Act, Rules, Byelaws and notification.	1) Not holding Annual General Meeting before 30th September as provided in MCS Act 1960. 2) Payment of dividend out of capital by not calculating net profit as per Rule 49 A. 3) Not holding election even after completion of tenure of Board of Directors as per Section 73 (CB) (14)	We have observed following infringement of provisions of Act, Rules and Byelaws 1… 2… 3… If there are no infringements of Act, Rules, Byelaws and

1	2	3	4
		4) Receiving deposits from non-members/ public by co-operative society as per Section 43(1). 5) Providing loans to non-members and to the persons residing out of area of operation as per Section 44. 6) Investment of funds in contravention of Section 70. 7) Funds not to be used for proceedings filed or taken against officers in personal capacity as per Section 71 A 8) Not investing in Employees' Provident Fund as per Section 71. 9) Payment of dividend in excess of 15% as provided in Section 67. 10) Appropriation of net profit in contravention of section 65 (2) 11) Non-creation of Reserve fund as provided in Section 66. 12) Distribution of funds to the members in contravention of Section 64. E.g. Distributing certain amount as medical benefit to the members in addition to dividend. 13) Exceeding the borrowing power as specified by Section 43 and Rule 35 of MCS Act. 14) Repaying the share capital by the contravening the Rule 23 of MCS Rules 1961.	notifications, the auditor shall state "we have not found any infringement of provisions of Act, Rules, Byelaws and notifications.
8	Misutilisation of capital/loan/ grant received from Government.	Nonutilization of government loan received for construction of godowns and using it for some other purpose.	During the audit period, the society has received the government grant of Rs……. for … purpose and the same has been utilized for the same purpose. We have not found any misutilisation of government loan. This remark is mandatory wherever there is government loan/capital.
9	Personal expenses which are debited to Profit and loss account.	1) Telephone expenditure of personal nature of directors and staff paid by society. 2) Use of vehicle for personal purpose by directors and staff. 3) Advertisement expenses in personal nature. 4) Legal and Medical expenses. 5) Use of society's property for personal purpose.	During the audit, it was observed that, telephone / vehicle expense of Rs…… incurred by the directors / staff has been debited to Profit and loss account. It is required to be recovered.

1	2	3	4
		6) Use of societies manpower for personal purpose.	
10	Contravention of cash limits . as per Rule 107 (c)	Cash holding limit as per Rule 107 (c) for credit society is Rs.25,000/- and if actually cash maintained is more than Rs.25,000/- for more than 3 working days continuouly.	During the audit, it has been observed that on the following days cash on hand exceeded the prescribed limit as per days continuously. Rule 107 (c) If there is no contravention of cash limits, auditor shall state, "During the audit, we have not observed any contravention of Rule 107 (c)" This remark is mandatory.
11	Payment in cash in excess of the limits laid down in the Income Tax Act as per Rule 107(d).	As per Income Tax Act, any payment exceeding Rs.20,000/- should be paid only by account payee cheque. If any payments are made contravening the above provision, the same should be reported.	It is observed that, following payments are made in cash contravening the provisions of Income Tax Act as per Rule 107 (d). If there is no contravention of cash payment, auditor shall state, "During the audit, we have not observed any contravention of Rule 107 (d)" This remark is mandatory.
12	In case of banks, property sold under Securitization Act 2002 below Reserve Price.	The flat acquired by the bank under Securitization Act 2002 has been sold for Rs.20 lakh when the Reserve Price was Rs.25 lakh.	During the audit, it has been observed that, following assets have been sold below the Reserve Price. 1… 2… 3… If there is no sale below the Reserve Price, auditor shall state, "During the audit, we have not observed any sale of property below Reserve Price" This remark is mandatory.
13	Contravention. of unit exposure norms and sectoral exposure norms in case of UCB, MSCB and DCCB.	UCB has sanctioned loan of Rs.40 lakh when exposure limit was Rs.30 lakh. Outstanding of this loan was Rs.45 lakh	During audit period, we have observed that, bank has sanctioned loan in excess of exposure limit and limit was exceeded by Rs.10 lakh. If there is no contravention of unit and sectoral exposure, auditor shall state, "During the audit period, we have not observed any contravention of unit and sectoral exposure" This remark is mandatory.

1	2	3	4
14	Sanctioning of unsecured loans in excess of limits as specified by RBI in case of banks and in excess of limits as specified in Byelaws in case of other societies.	Bank has sanctioned unsecured loans totaling Rs.130 crores. The limit as specified by RBI *i. e.* 10% of total asset as per last audited Balance Sheet is Rs.110 crores.	During the audit, we have observed that, the bank has sanctioned the following limit in contravention of RBI directions. 1… 2… 3… If there is no contravention of any of the RBI guideline regarding sanctioning exposure norms, auditor shall state, "During the audit, we have not observed any contravention of RBI guidelines regarding unsecured loans, exposure and any other guidelines" This remark is mandatory.
15	Transactions with relatives of Board of Directors, companies, firms in which directors are interested are not at the reasonable rates.	Computers are available in market for Rs.50,000/- per piece of a particular configuration, but were purchased from director's company for Rs.70,000/- per piece.	It has been observed that, the society has entered into transaction with the following companies in which directors or their relatives are interested and the transactions are made beyond reasonable price. 1… 2… 3… If there are no such unreasonable transactions, auditor shall report, "During the audit, we have not observed any unreasonable transactions with directors and their relatives, companies and firms." This remark is mandatory.
16	No Action against overdue in excess of one year.	For a prudent running of business of credit, the societies required to recover the money regularly and for any default exceeding one year require to take legal action. In case the society has failed to take such action, it affects the continuity of business and therefore the auditor needs to report such accounts where actions are not initiated which is detrimental to the interests of society.	During the audit, we have observed that, society has not taken legal action for recovery in respect of following accounts even though they are in arrears for more than one year. 1) Sr. No. (2) A/c. Name (3) Amount overdue (4) Period of overdue.

(b) Part B :- This part deals with such matter as:-

1. financial stability.
2. loan policy.
3. progress of recoveries and position regarding overdues.
4. mode of conducting business.
5. deficiencies in the arrangements for internal check.
6. infringement of the provisions of the Act, Rules, byelaws and circular, instructions of the Registrar.
7. the general progress of the society.
8. its achievements and the degree of interest taken by the office-bearers and ordinary members of the society in its affairs.

In this part, one of the paragraphs would be devoted to recapitulation and stressing of important points to which attention had been drawn in the previous audit memo, but which have remained unattended to by the society. In that case, a remark that the matter has been touched in the report may be made against the relevant query in the audit memo. The Audit Rectification Report submitted by the society should have been carefully gone through by the auditor, prior to the commencement of his audit and the points reported to have been attended to or rectified should be carefully scrutinized during the course of audit. Mention should be made only of such points, which have not been attended to, or irregularities not rectified.

Part B of audit report shall generally include following items:

(a) remarks on scrutiny of Balance sheet and Profit and loss account.
(b) deficiencies in working of societies.
(c) Activities undertaken beyond the object of society
(d) observation on meetings of AGM, BOD and committee meetings.
(e) remarks on growth or decline in deposit / capital / loan / profits etc. and important ratio analysis.
(f) contravention of provisions of other allied Act like Stamp Act, Labour laws, Contract Act, etc.
(g) Unrectified Audit objections of previous Audit Report.

Format of Part B :-

The following are the major observations regarding the activity and working of the society found during the audit.

Sr. No.	Particulars	Instances / Examples which require reporting	Auditor's remarks
1	2	3	4
1	Remarks on scrutiny of Balance sheet and Profit and loss account.	1) Paid up share capital - Balances of paidup share capital of all members should be tallied with balance as shown by balance sheet. The additional share capital issued and number of members admitted including number of members resigned and share capital refunded should be mentioned in this section.	1) Share capital – during the audit, share capital amount has increased from Rs…… to Rs…… and number of additional members admitted during the year is …….. much. 2) Auditor shall state, whether share linking to borrowing is observed by society or not.

1	2	3	4
		2) Reserves and funds 3) Borrowing 4) Current liabilities 5) Cash in hand and at bank 6) Investment 7) Fixed assets 8) Current assets, loans and advances 9) Carry forward profit or accumulated losses 10) Comments on profit or loss of current year. As well as comparision of income and expenditure with last year, ciety and / or board of If there is vast difference, mention specific reason.	3) Whether reserve fund is invested separately, and investment is properly marked as investment for Reserve Fund? 4) Whether borrowing amount tallies with the balance as shown by the lending institute's certificate / extract? 5) Whether cash in hand is verified by senior officers of society and / or board of directors by surprise check? Whether cash in hand and at transit is fully insured? Whether cash is maintained at continuously higher level than that required for making good loss of interest to the society? 6) Whether investment amounts tally with the balances as shown by respective bankers/D.receipts/ CSGL certificate? 7) Whether society has made investment in mode which are not permitted by Act and Rules? 8) Whether society is holding huge investment in stock? Whether there is any unsalable or slow moving stock? 9) Whether there are any debtors who are in arrears for more than one year ? Whether society has taken any legal action?
2	Deficiencies in working of societies.	Society is not undertaking all activities as specified in the Byelaws and not complying with the principles and values of co-operatives.	The auditor is required to comment on whether the society is undertaking the activities as per the objectives for which it is set up and if all the principles of co-operatives are being observed.
3	Activities undertaken beyond the object of society	If the society has undertaken any activities which are beyond the objectives, the same should be reported.	The auditor should make a remark if the society has undertaken any activities beyond its objectives.

1	2	3	4
4	Observation on meetings of AGM, BOD and committee meetings.	The auditor should go through the minutes of the AGM, SGM, BOD and committees. Important decisions taken in such meetings whether implemented or not should be commented on. Whether the meetings had been conducted as per the provisions of the Act, Rules and Byelaws?	The auditor should prepare a list of meetings held and give suggestions for its improvement.
5	Remarks on growth or decline in deposit/capital/ loan/profits etc. and important ratio analysis.	The societies should prepare annual budget and get it approved in the General meetings.	The auditor should verify whether the societies are functioning as per the budget and if there is any deviation, the same should be reported and necessary corrective action should be suggested.
6	Contravention of provisions of other allied Acts like Stamp Act, Labour laws, Contract Act, Payment of Bonus Act, Minimum wages Act, Income Tax Act, Payment of Gratuity Act, etc.	It is possible that societies / banks do not execute their documents as per Maharashtra Stamp Act, 1958 and such documents will not have evidence value. Similarly the gratuity liability is not provided in the books. The various allied Act provisions are not complied.	The auditor is required to make a list of activities undertaken by the societies and applicable Act to them. Any contravention of such Act should be reported and corrective action should be suggested.

(c) Part C :- This part deals with the account irregularities and suggestions of the auditors, and the classification awarded by the auditor to the society.

Part C of audit report shall include the following items:-

(a) Deficiencies in vouching, receipts, expenditure voucher.

(b) Unauthorized / not sanctioned expenditure.

(c) Expenditure which appears to be excessive to the auditor considering the size and volume of society.

(d) General deficiencies observed in loan documents.

(e) Travelling expenditure of Board of Directors and Staff members beyond their powers and which appears to be excessive.

(f) Receipt entries (credit entries) not supported by receipts.

(g) Cash book, bank book, day book should be completed every day and signed by responsible officers. If not, necessary remarks should be given in Part C.

(h) List of missing vouchers and loan bonds,

(i) List of vouchers on which payee's acknowledgement is wanting.

(j) List of defective vouchers and loan bonds.

(k) List of payments which are not supported by documents such as bills or invoices, etc., or for which sub-vouchers are wanting.

(l) List payments, which are not properly authorized.

(m) List of items where delegated authority has been exceeded.

(n) List of remittances for which official receipts are not issued.

(o) Mistakes in interest calculations.

(p) Comments on bank reconciliation

(q) Comments on registers which are mandatory but not maintained as per rule 65.

(r) Other irregularities to be specified.

———

CHAPTER No. 34

QUALIFYING AUDIT REPORT

34.1. ***Qualification in audit report*** :- The Institute of Chartered Accountants of India has issued a statement on the ***"Qualifications in the Audit Report"*** which states that**,**

1) Before making a qualified report, the auditor should carefully consider the various aspect in their proper perspectives that when should qualify the report, where to make qualification, how to qualify the report and effects of the qualifications.
2) Before qualifying the report, auditor should consider carefully the materiality of the matter. It means that, if the materiality of the matter is negligible and meaningless regarding the true and fair position of the financial statement, he should just express disclaimer to it, instead of qualifying the report.
3) If the auditor finds that the items in the financial statement are misstated to such extent that the statement does not give a true and fair view, he should express adverse opinion.
4) All qualification should be contained in the auditor's report itself and should appear at one place in order to give the reader a clear view thereof.
5) The qualifications made in the auditor's report should be such ***" as not to leave any room for doubt in the minds of the public"***. It means that the qualification should be specific and not vague in nature. As the audit report of the Cooperative Societies is public document, that is open to the General public also, which is not concerned with the society.it is very necessary to write the qualification in the specific manner. The qualification should be clear and precise, and should give full information and not merely create grounds for suspicion.
6) The qualification should be preceded with the word ***" subject to……"*** or ***"except that…."***.
7) The auditor should state clearly whether in his opinion a particular matter stated in his report is in the nature of a qualification or is merely an explanation.
8) The auditor should quantify, wherever possible, the effect of the qualifications on the financial statements in a clear and unambiguous manner.
9) The qualification may be stated in the long form report of the auditor specifying the paragraphs in the Auditor's report, (Auditors Certificate) wherein the qualifications are stated.

34.2. ***Examples of qualifications*** :- The qualifications as per the Co-operative Societies Act are mainly related to the 1) True and fair view of the Financial Statements 2) Maintenance of Books of Accounts and 3) The required information and explanations are received or not.

1. ***True and fair view of the financial Statements*** :- ***The true and fair view of the financial statements means that they show the correct view and there is no material change which affects their correctness***. The materiality of the statements is defined by the Institute of Chartered Accountant of India, which states that, ***"items, the knowledge of which might influence the decisions of the user of the financial statement"***. Considering the above, the examples are given herewith.

a) The Sugar factory, conducting its cane transport through the Cane transport society, has shown payable as transport charges worth Rs.125 lakhs. After comparing the statements, it is found that there is no such amount payable to the transport society as per records.This has a material effect on the profit and loss account and balance sheet of the Sugar Factory, hence the auditor has to qualify his report, stating that the profit and loss account is incorrect to the tune of Rs.125 lakhs, and the balance sheet which shows it payable: there is no such need to pay it. This has also affected the cane price of that year.

b) The Urban Bank has computerized more than 10 branches, and they are fully computerized. The computers' value last year stood at Rs. 100 lakhs, the bank was charging depreciation on it at the rate of 10% and now this year it has charged at the rate of 33%, which will materially affect the profit and balance sheet of the bank.

c) A Marketing society, having depreciation fund worth Rs. 100 lakhs and assets for which it has created are worth Rs. 200 lakhs, has diverted the depreciation fund by making entry, crediting the reserve fund and debiting the depreciation fund for Rs. 50 lakhs. This is a material effect on the profit and loss account, as the society has reduced the depreciation fund, which was revenue reserve and added it to reserve fund, which is a capital reserve. This has not affected only this, but the society,by diverting it, has increased its borrowing capacity, and appreciated the value of assets also.

d) A marketing society, has no sales during the accounting year.However, the trading account shows profit in a reasonable manner. After investigation, it is observed that the society has overvalued the stock by increasing its values in schedules; the stock is unsalable, and no entry has been effected showing the increase in the cost, which has resulted in gross profit to the society without any sales.

e) An urban bank has not provided the unsecured portion of the doubtful debts, resulting in increase of profit, and distribution of dividend, which is not liable.

f) The spinning mill has purchased cotton from the traders, at the close of the year on credit, has not passed the entry for payable, and also not included it in the stock.

g) Expenditures, which are payable by the society are not provided for.

h) Sales effected on credit are not recorded, and included in the stock of a marketing society.

i) The urban credit society, urban bank, and seva societies have not provided the overdue interest and have taken it to the income, resulting in increase of the profit.

j) Charity fund is created by the society, by debiting to the profit and loss account, though the society's byelaws and Act provide to appropriate it from the net profits. And the society has paid from it donation to the charity purposes.

k) The sugar factory has sold the assets, while accounting the factory has not considered accumulated depreciation charged till the date of sale, which was credited to the depreciation fund.

l) The spinning mill has replaced its machinery; however, it has not made any accounting entry for the sale of the same, in terms of its scrap value.

m) The sugar factory has replaced its boiler tubes, expending much amount, and has capitalized the same instead of charging it to the deferred revenue account, as the tubes do not increase the capacity or efficiency of the boiler.

n) The Urban bank has not provided the depreciation in the value of its investments.

o) The industrial society has repaid its share capital at the face value; however, the book value shows erosion in the value of share, which is required to be paid as per the Act.

p) The seva sahakari society has valued its closing stock at selling price, instead of cost or market price whichever is less, as per current policy.

q) The urban credit society has given loan to the sugar factory, but has shown as deposit, without obtaining any security.

r) The District central bank has not provided for cadre fund as required by the Act.

s) The marketing society has shown goods on consignment, as its own, without passing the entry for sundry creditors.

34.3. ***Example of the transactions involving infringement of the provisions of the Act, the Rules and the byelaws*** **:-** A few examples of the transactions involving infringement of provisions of the Act, the Rules and the byelaws are illustrated below.The auditor is required to study the byelaws of the society and accordingly mention the details of infringements in his audit report.

1) A society has disbursed a loan outside the area of operation as per byelaws of the society.

2) A society has refunded shares to the members, who have resigned, at the face value; however, as per the last audit report the valuation of shares is less than the face value. Society has not adhered to the provisions of rule 23 of the M.S.C. Rules 1961.
3) An urban bank, urban credit society, and district central bank has disbursed loan, in excess of limits fixed in the byelaws and guidelines given by the Reserve Bank and NABARD and Rule 43(2).
4) A society has issued preferential shares to Government without amending its byelaws.
5) The society has given membership to the members without crediting, at least, value of one share as per byelaws.
6) Society has not taken share transfer fees for the transfer of shares as per byelaws.
7) The society has exceeded the borrowing capacity as per byelaws and sections 43 and rule 35.
8) The society has charged interest more than the amount of Principle, breaching the provisions of section 44 A.
9) The society is not permitted to accept deposits from non-members as per byelaws and section 45 of the Act. However, the society has accepted the same.
10) The society has disbursed the dividend in excess of the limit prescribed in section 67 of the Act.
11) The society has created funds by charging the profit and loss account instead of creating them by appropriation as per section 65 and rule 49 A.
12) The society has not appropriated 25 % of the net profit towards reserve fund as per section 66 of the Act, or has not obtained permission from the registrar to transfer less than 25% of net profits to reserve fund.
13) The society has not provided for the education fund as per the provision of the section 24 A and rule 20 B.
14) The urban bank and District Central bank has not invested its funds as per directives of the Reserve Bank of India and NABARD for SLR/CRR purposes, violating the Banking regulation Act, section 18 and 24.
15) The society has not invested funds as per modes given in Section 70 of the Act.
16) The society has not invested its provident fund separately as per provisions of the section 71 and rule 56 of the Act.
17) The society has used its funds for personal use as per section 71 A of the Act.
18) The member of the board of director of the society has defaulted on payment of dues.However, he is continuing as a member of board violating the provisions of Section 73 CA.
19) The annual General meeting has changed the rate of dividend recommended by the board of directors as per Section 75 and Rule.

———

CHAPTER No. 35

DRAFTING OF GENERAL REMARKS

35.1. ***Auditor's report*** **:-** It is necessary that the general remarks should be divided into several paragraphs consecutively numbered, with a clear-cut heading for each paragraph. In order to avoid a vague narrative, each paragraph should begin with a suggestive headline *e.g.* laxity in collection of overdues, inadequacy of the arrangements for internal control etc.

Some of the auditors merely point out accountancy irregularities. It is necessary that very serious irregularities that exist in the working of the society should be 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 present position.

(3) Deficiencies and defects to the arrangements for internal control and suggestions for their improvement.

(4) Management Loan policy (in case of central and Urban and other credit societies) 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 provisions of the Act, Rules and byelaws of the society, non-observance of the business rules and instructions issued by the Registrar and the federal society.

(7) Correctness or otherwise of the balance sheet and the profit and loss account. Brief comments or explanatory notes on only such of the items of assets and liabilities, which call for specific mention, should be given. It is not necessary to comment on each and every item of the balance sheet. Only where the auditor feels that remarks are called for or clarification on explanation is necessary in respect of any item, should comments be made.

(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 particular, working of sales depots, processing units, products etc. according to norms or standards 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 property of the society.

(13) Proper safeguarding and insurance of all property held by the society.

(14) Adequate provisions for depreciation of all wasting assets.

(15) The auditor showing the operational efficiency of the various activities undertaken by the society may work out various ratios.

(16) Classification awarded during the year under audit.

(17) Observations of the auditor regarding the affairs of the society. The auditor has to see that the society is *working on sound business lines and according to co-operative principles and the office-bearers are aware of their responsibilities and attend to their duties properly*.

(18) The accounts of which he has audited.

(19) The irregularities noticed by him.

(20) His suggestions for improvement. The suggestions made should be such as *can be implemented without much difficulty and without involving the society into undue financial commitments or administrative inconvenience.*

(21) The general remarks should be drafted with due regard to ***brevity and preciseness.***

(22) The general remarks of the auditor should be ***concise and to the point.***

(23) The drafting of the ***general remarks should be so planned as to embrace all-important aspects of the working of the society*** and defects noticed during the course of audit.

35.2. ***Draft Audit Report to be discussed with the management before final report is submitted :-*** The auditor should prepare the draft audit report and discuss with the management. The Registrar vide his circular No. ADT/552, dated 19-5-1966 has issued instructions that auditors should invariably discuss their draft audit reports in the meeting of the Board of Directors or Managing Committee of the society, before finalizing it. Some of the auditors merely discuss the draft audit report with the chairman, Secretary or other office-bearers of the society. Sometimes the draft audit memo is merely handed over to the Secretary or the Accountant for perusal and comments. This is not sufficient. The important points of the draft audit memo should be discussed at a meeting of the Board of Directors of the committee specially called for the purpose, if necessary. The auditor should attend this meeting and explain the points raised by him. The fact that the auditor attended the meeting of the Board or the Committee and discussed the draft of his audit memo with the members present should be recorded in the proceedings of the meeting.

———

CHAPTER No. 36

AUDIT CLASSIFICATION OF CO-OPERATIVE SOCIETIES

36.1. ***Introductory*** **:-** At the conclusion of his audit, the auditor is required to award an audit classification to the society. The auditors put all societies in one or other of the following classes**.**

Audit classification	Remarks
A	Excellent
B	Satisfactory
C	Poor
D	Very bad

The audit class is based on certain recognized principles, which the auditor is required to follow. Various points to be considered while awarding audit classification to agricultural credit societies, central and urban banks, land development banks, consumers societies, marketing societies, forest labourers societies, sugar factories, spinning mills, etc. have been explained in a number of circulars issued by the Registrar. A system of awarding marks according to the extent of fulfillment of various criteria has also been laid down in respect of certain types of societies and classification has to be awarded on the basis of total marks secured by the society.

It would, thus, be seen that audit classification is awarded according to well-recognized principles and auditors enjoy little discretion in the matter of awarding audit classification. Audit is the only method by which Government and the public can judge the position and achievements of the society and the ***audit class indicates the degree of success in achieving the objects*** for which the society has been organized and also its present position. Societies, which are awarded a high audit classification year after year, enjoy considerable public confidence and are in a position to raise funds required by them in a comparatively **easier manner**. **Audit must be conducted according to established audit practices and the instructions issued by the Registrar and the audit classification awarded after a careful examination of the extent of fulfillment of the various criteria prescribed for the purpose**, since a wrong classification will not only affect the working of the society and its credit, but will also mislead members and creditors of the society and also the general public as well as the wrong audit classification at higher side also mislead the creditors, depositors, members and Government.

The Registrar has issued a number of circulars laying down definite criteria, which have to be considered by auditors while awarding audit classification. Different criteria are grouped under suitable heads and a system of awarding marks according to the extent of their fulfillment has been prescribed by the Registrar. Audit classification to the society has to be based on the total marks secured by it. A statement showing the different criteria prescribed by the Registrar for the type to which the society belongs and the marks allotted under each head and sub-head, has to be prepared by the auditor to enable him to determine in what audit class the society should be placed. The statement showing the marks allotted under each head referred to above may be shown to the office-bearers of the society if they desire to see it. ***The Registrar in his circular No. ADM/243, dated 6-12-1955, has directed that in order to enable the society to know why the particular audit class has been awarded to the society, the auditor should devote a separate paragraph in his general remarks to be appended to the audit memo, the considerations in view of which the particular audit classification has been awarded to the society***. Where a system of awarding marks has been prescribed, the auditor should follow strictly the criteria given in the marklist and give marks accordingly and then award audit classification. So far, the Registrar has laid down specific criteria and maximum marks under each criteria, for the purpose of determining the classification to be awarded in case of the following types of the societies :-

Sr. No.	Type of society to which it is applicable	Circular issued by the Registrar/NABARD
1	District Central Cooperative Banks	NB.Dos.HO.POL / 1830 /J.1/ 2003.04 (Circular 58/ DoS.3/ 2004 dated 1st March 2004
2	Land Development Banks (Now Agriculture and Rural Development Bank)	ADT/298/AC, (LDB), dated 15-6-1964 and No. ADT (AC) (LDB) dated 31-8-1967
3	Agricultural and credit societies, multi purpose societies, seva sahakari sanstha.	Outward No.1177 dated 16/09/2002
4	Urban Cooperative Banks	CC/ADT/A/ACB/AC/15/2005 dated 07/01/2005
5	Salary Earners Societies and Urban Credit societies	SA/LEP/1210/PATS/LEP/856 dated 20/09/2010
6	Agricultural Sale Purchase Society	(Registrar's circular No. ADT/298/AC dated 23-7-1970).
7	Sugar Factories	ADT/29/AC, (CSF), dated 10-8-1966
8	Spinning Mill	ADT/298/AC dated 30-4-1970
9	Consumers Stores and Societies	ADT/298/AC, dated 23-7-1970
10	Marketing societies	ADT/298/AC dated 23-7-1970
11	Forest labour societies	ADT/298/AC, dated 15-2-1969

36.2. ***Broad principles*** :- From the above table, it can be understood that audit classification is awarded based on the working of the society. There are other societies, where the Registrar has not issued circular but the auditor has to give the audit classification. The broad principles for awarding audit classification to different types of societies, where specific instructions have not been issued, are as under :-

(i) Co-operative vitality :– Following area to be considered at the time of checking the co-operative vitality, and all these added together indicate the co-operative vitality of the society.

(a) The extent of the interest manifested by the members in the working of the society as judged by their **attendance and the extent of intelligent participation** in the general meetings.

(b) The proper selection of the office-bearers.

(c) The outlook of the members of the committee as can be seen by their strict observance of the bye-laws, Act and Rules.

(d) The efforts made by them to interest the ordinary members in their economic activities,

(e) Administrative set-up and co-operative ideals of the society and the extent to which these efforts have borne fruits as indicated by the loyalty of the members to the society:

(f) Punctuality in the repayment of their dues and discharge of other liabilities undertaken by them such as pooling and joint sale of produce in case of marketing societies,

(g) Participation in the production programs of the society in case of industrial societies purchasing their requirements from the co-operative stores, etc., and

(h) Members' willingness to allow their entire economic life to be moulded by the society. Joint efforts for bringing about improvement in living conditions of the weaker sections of the community by increasing productivity of their labour, provision of resources required by them, increasing their employment opportunities and saving them from being exploited by the economically stronger section of the community active participation in community development activities are also important considerations.

(ii) ***Administrative Efficiency*** :- This is judged by the degree of efficiency attained in the day-to-day working of the society, due observance of co-operative principles and sound canons of business and financial propriety in the conduct of business and the sum total of the results achieved by the society in relation to the maximum which the society is intended or is capable of achieving both from the business and the co-operative stand points. In other words, the extent to which the society has been able to cater to the various needs of its members and the manner in which its affairs are being conducted, should determine the administrative efficiency of the society. The committee should meet regularly at least once a month and discuss ways and means to develop the business of the society. The general meetings should also be well attended and all important policy decisions should have been taken after careful consideration.

(iii) ***Operational Efficiency*** :- This will depend upon adoption of sound purchase policy and maintenance of all stocks at satisfactory levels, preparation of financial budgets and adoption of budgeting system for purchases and sales and costs, avoidance of wastage and effecting economy in costs, full utilization of available resources and manpower and of installed capacity by working multiple shifts, adoption of measures for increasing productivity of labour, prompt and efficient service to members and other customers. Profit earned is only one of the criteria for judging operational efficiency.

(iv) ***Financial stability*** :- The following features determine the adequacy of the capital structure and soundness of the financial conditions of the society.

(1) The adequacy of the owned resources of the society in relation to its total needs and its capacity to raise funds to meet the financial requirements of its members;

(2) Proper balance between its own funds and its borrowings and satisfactory increase in its own funds;

(3) Proper distribution of its assets as may be appropriate for the type of activity undertaken by the society and standard prescribed by the Registrar and finally.

(4) The precautionary and other measures taken and the policy in working adopted to ensure strict fulfillment of the legal, social, financial and other obligations by the society to its members, creditors and other customers and to the society by its members and other debtors.

(v) ***Staff.*** **-** Unless a society has adequate, competent, properly qualified and trained staff employed under satisfactory conditions and adequately remunerated, it will not be able to discharge its functions satisfactorily.

(vi) ***Internal control.*** **-** A satisfactory system of internal control is the *sine-qua-non* of successful management. The following are the essential features of a sound system of internal control.

i. Proper delegation of authority and distribution of work and responsibility amongst the officers and the different members of the staff so as to ensure that the work of each employee is checked by another and no individual howsoever highly placed has the sole responsibility for all the phases of a transaction.

ii. Provision of checks and balances at every accounting point to prevent collusion and also to ensure prompt detection of frauds and errors.

iii. Unambiguous fixation of duties and responsibilities of each employee and proper supervision over all these arrangements to ensure smooth and efficient working.

iv. Satisfactory arrangements for safeguarding of the cash, securities, stock in trade and other property of the society.

v. Maintenance of up-to-date accounts and records and arrangements for internal audit.

(vii) Accounts and Records. - Correct and up-to-date maintenance of account books and records and availability at all times of any financial or statistical information that may be required, correct and up-to-date posting of ledgers, prompt preparation of monthly/quarterly statements of accounts and reports for consideration at Board meetings, maintenance of cost accounts.

(viii) Rectification of audit objections. - Action taken to remedy the defects pointed out by the Auditor and punctual submission of the audit rectification reports, is also an important consideration.

(ix) Overdues. - Punctual repayment of the dues by any member and prompt recovery of other debts due to the society. Prompt and adequate action to recover all dues and overdues and precautions taken to arrest the growth of overdues.

The above are the more important of the general considerations applicable to all types of societies. However, certain special criteria have to be taken into consideration while awarding audit classification to different types of societies having due regard to the nature of business conducted by them and the special features of their working.

36.3. Special instructions for certain type of societies.-*The Registrar has* also issued general instructions for awarding audit classification of urban banks and non-agricultural credit societies under Registrar's circular No. ADM-6-20, dated 26-11-1957. Under Circular No. M.F./Audit dated 30-10-1956, the Joint Registrar for Industrial Co-operation and Village industries, Poona, has laid down criteria for granting audit classification to industrial co-operatives.

The NABARD in its circular No.NB.Dos.HO.POL / 1830 /J.1/ 2003.04 (Circular 58/ DoS.3/ 2004 dated 1st March 2004 has laid down criteria for awarding audit classification to District Central Co-operative Banks. The same is made applicable by the Registrar vide his letter No. ANI/ LEP/ JIMSABANK Vargvari/ 782/ 2004 dated 21st July2004 . These are being followed while awarding audit classification to District Central Co-operative Banks in this State.

36.4. Appeals against audit classification awarded by auditor. -Although audit classification has to be awarded on consideration of a number of factors and definite criteria, laid down by the Registrar, that are required to be taken into consideration, it is possible that some of the societies may feel that they deserve a higher audit classification. Such societies may appeal to the Registrar for raising the audit class awarded to them by the auditor, stating the grounds, which justify award of a higher audit class. The appeal for audit classification is heard by the Registrar as per section 154 of the M.C.S. Act. The Registrar may also raise the audit class if he is satisfied that the society deserved a higher audit class and communicate his decision to the society and the Registrar.

———

CHAPTER No. 37

SPECIAL REPORTS. (For Administrative actions)

37.1. ***Circumstances in which Special Reports must be submitted*** **:-** A special report should be submitted in respect of the following matters: -

(A) Cases in which important provisions of the Act, Rules or bye-laws of the society have been infringed, such as failure to hold annual general meeting in time, irregularities in the election or appointment of office-bearers, failure to hold committee meetings regularly, transaction of business without quorum, etc.

(B) Activities undertaken which are not convergent with the byelaws, investment of funds against the provisions of section 70 or in business not permitted by the byelaws.

(C) Cases in which office-bearers have entered into transactions, which have brought loss to the society and cases in which they have taken advantage of fluctuations in markets and have benefited themselves, or occasioned, unwarranted losses to the society.

(D) Imprudent and irregular advances of loans and cash credits, Benami loans, loans against inadequate or non-existing security, disproportionate loans to members of the committee and their relatives or certain influential members, etc.

(E) Advances taken by the officers not accounted for or subsequently refunded in cash or debited to account. Temporary misappropriation of cash or other property of the society.

(F) Infructuous or objectionable expenditure, expenditure disproportionate to the financial position of the society or the importance of the occasion.

There would also be many other matters, which the auditor may desire to bring to the special notice of the administrative officers. In all such cases, the auditor should submit a special report.

37.2. ***Instructions for preparation of Special Reports*** **:-** While submitting a special report, the auditor is required to pay attention of certain vital matters. ***In the first place, he should satisfy himself that circumstances exist which warrant submission of a special report*** or ***that there are matters which he considers important.*** His special reports should, therefore, be ***restricted to important matters on which some administrative action is called for***. Unimportant matters need not be reported. ***Secondly, the auditor should have conducted thorough investigation and collected sufficient evidence to make out cases for civil or criminal liability to be fixed*** on the culprits. *Mere mention of suspicious circumstances without collecting necessary evidence to prove the guilt will not be sufficient. If the auditor is unable to carry out a thorough and complete investigation himself, he should explain the circumstances and suggest ordering an inquiry.* But before enquiry is suggested, the Auditor should make thorough enquiries and collect relevant evidence himself. *He must exercise powers given to him under the Act and Rules only cases where it is impossible for him to investigate the matter and collect evidence covered by audit; evidence to be collected by visiting distant places, etc. Thereafter only should he recommend enquiry*.

———

CHAPTER No. 38

SPECIFIC REPORTS (For Criminal actions)

38.1. ***Circumstances in which specific report is required: Indian Penal code (Offences)*** **:-**As per Section 81 (5 B) where auditor has come to conclusion in his audit report that any person is guilty of any offence relating to accounts or any other offences, he shall file specific report to the Registrar within the period of 15 days from the date of submission of his audit report.

The object of the audit is to find out errors and frauds, as the standard auditing principles state. It is the primary duty of the auditor to find out the frauds, misapplication, misfeasance, and misappropriations, during the course of audit. After searching the frauds and misappropriations, auditor has to lodge criminal prosecution against the culprits. For lodging the complaint the auditor is required to obtain permission from the Registrar. It is not possible to the Registrar to permit to lodge the case, until the complete know-how of the case, for this reason the auditor has to submit specific report to the Registrar.

Circumstances in which specific report is required to be submitted are enumerated eleswere.

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

Sr. No.	Nature of offence	IPC section
1	Theft	378
2	Theft by clerk or servant of property in possession of master	381
3	misappropriation – ***misappropriation as dishonest appropriation or conversion for a person's own use of property belonging to another***. It also covers subsequent wrongful or fraudulent retention of property .	403
4	Criminal breach of Trust - ***whoever, being in any manner entrusted with property, or with any*** **dominion over property, dishonestly** ***misappropriates or*** **converts to his ownuse** ***that property, or*** **dishonestly uses** ***or*** **dispossess of** ***that*** **property in violation of any direction of law** ***prescribing the*** **mode in which such trust is to be discharged,** ***or of*** **any legal contract, express or imply,** ***which he has made touching the*** **discharge of such trust,** ***or*** **willfully suffer any other person so to do,** ***commits "criminal breach of trust***	405
5	Criminal breach of trust by clerk or servant -	408
6	Criminal breach of trust by public servants, bankers, by merchant or agent etc	409
7	Cheating	415
8	Cheating by personation	416
9	Cheating with knowledge that wrongful loss may ensure to person whose interest offender is bound to protect	
10	Cheating and dishonestly inducing delivery of property	420
11	Dishonest or fraudulent removal and concealment of property	424
12	Use of forged document or electronic record as genuine	471
13	Forged document or electronic record	470
14	Forgery	463
15	Making a false document	464
16	Forgery of valuable security-will etc.	467
17	Forgery for purpose of cheating	468
18	Forged document	470
19	Falsification of accounts	477-A

38.2. ***Criminal misappropriation :-*** The offence most commonly met with in Co-operative societies is the misappropriation of its funds. Section 403 defines ***"misappropriation as dishonest appropriation or conversion for a person's own use of property belonging to another***. It also covers subsequent wrongful or fraudulent retention of property though innocently come by. ***The dishonest intention to appropriate the property of another is common both in theft and misappropriation***.

38.3. ***Misapplication and misappropriation distinguished :-*** *Where the funds of a society have been misapplied, but there was no intention to derive any personal benefit, the misapplication of the money, though illegal will not amount to misappropriation* and hence no criminal action will lie against the wrong-doers, even though loss has been occasioned to the society. Thus, for example, when loans have been advanced in excess of the limits specified in the byelaws or loans have been made to non-members or against inadequate security, no offence is committed. The remedy in such cases is to invoke the provisions of section (88) and not institute criminal proceedings. Similarly, when transactions have been entered into in a negligent manner or against the provisions of the Act, Rules or the byelaws of the society, the remedy is to institute proceedings under section (88) and claim damages.

A person can be **held liable for criminal misappropriation**, ***only if he dishonestly misappropriates or converts for his own use, money, goods or other moveable property, which has come into his possession*****. As in the case of** ***theft, dishonest intention to appropriate illegally is the basis for institution of criminal proceedings***. To sustain a charge of misappropriation, therefore, the prosecution has to prove that *the accused deprived the complainant of his property and wrongfully misappropriated it, or retained it with dishonest intention.* However, mere retention of money would not warrant a conviction unless there is evidence to prove that the accused used or retained the money dishonestly.

It is, no doubt, impossible for the prosecution to follow the money in the hands of the accused person and to prove that he spent certain specific amount in any particular manner. The prosecution must stop when it is proved that the accused has received the money, has acknowledged the receipt of the money and has failed to pay it to his master or show it in his master's account. Where it is the duty of the accused to pay the money received by him, this non-payment is *prima facie* evidence that he has wrongly appropriated them for himself. **Non-payment coupled with false account either as to the receipt of the money or its disposal is conclusive evidence**.

On a charge of misappropriation, it is sufficient for the prosecution to prove that some of the money mentioned in the charge has been misappropriated by the accused even though it may be uncertain as to what is the exact amount so misappropriated. Evidence has accordingly to be led that the accused retained, misappropriated or converted for his own use, money, goods or other property of the society, and that he did so dishonestly. Evidence may have to be led to establish that the accused received the money, but did not credit the amount in his cashbook or pay it over to his society and was in financial difficulties at the time.

The mere fact that the accused was given time to make up his account and pay the balance due, does not vitiate a conviction for criminal misappropriation or show that the matter is one for a Civil Court only.

***Separate offences* :-** Misappropriation of separate items of money on different dates constitutes distinct items and the facts connected with each items should be subject matter of separate inquiry.

Where money are dishonestly misappropriated and false accounts or vouchers are prepared for the purpose of screening the misappropriation, the offence ***of falsification*** *becomes part and parcel of the offence of misappropriation and the whole transaction must be practically considered as one offence consisting of criminal misappropriation according to the Mumbai High Court.*

38.4. ***Criminal breach of trust*** **:-** ***Section 405*** defines criminal breach of trust and section 406 prescribes punishment for criminal breach of trust. Under section 407, criminal breach of trust by carriers, wharfingers, warehouse keeper, etc., who have been entrusted with goods for transport or for other purposes is punishable with seven years' imprisonment and/or fine. Section 408 deals with criminal breach of trust by clerk or servant, while section 409 groups' together public servants, bankers, merchants, factors, brokers, attorneys and agents for purposes of prescribing higher punishment of ten years.

Section 405 defines criminal breach of trust as, ***whoever, being in any manner entrusted with property, or with any*** **dominion over property, dishonestly** ***misappropriates or*** **converts to his own use** ***that property, or*** **dishonestly uses** ***or*** **dispossess of** ***that*** **property in violation of any direction of law** ***prescribing the*** **mode in which such trust is to be discharged,** ***or of*** **any legal contract, express or implied,** ***which he has made touching the*** **discharge of such trust,** ***or*** **willfully suffer any other person so to do,** ***commits "criminal breach of trust"***

To constitute the offence of **criminal breach of trust**, ***there must be dishonest misappropriation by person in whom confidence is placed as to the custody or management of the funds or property, in respect of which the breach of trust is alleged. There must be an entrustment; there must be misappropriation or conversion to one's own use or use in violation of any legal direction or of any legal contract and thirdly, the misappropriation or conversion or use must be with a dishonest intention.***

Trust **:-** Section 3 of the Indian Trust Act, 1882, defines ***trust*** *an obligation annexed to the ownership of property and arising out of a confidence reposed in and accepted by the owner or declared and accepted by him for the benefit of another or of another and the owner.*

The word trust is a comprehensive expression and has been used in section 405 as covering not only the relationship of trustee and beneficiary but also that of bailer and bailee, master and servant, pledger and pledgee and all other relations which postulate the existence of a fiduciary relationship between the complainant and the accused. (J.R.D. Tata Chairman T.I. and S. Co. ltd. V. Payal kumar, 1987) Directors of a Company are not only agents but they are in some sense to some extent trustees or in the position of trustees. (R.K. Dalmiya v. DelhI Administration.(AIR 1962)

38.5. ***Criminal misappropriation and criminal breach of trust distinguished*** **:-** In a criminal misappropriation, the property comes into the offender by some causality or otherwise and he afterwards misappropriates it. In the case of criminal breach of trust, the offender is ***lawfully entrusted with the property*** and he dishonestly misappropriates the same or willfully suffers any other so to instead of discharging the trust attached to it.

38.6. ***Misfeasance, misappropriation and breach of trust distinguished*** **:-** Every breach of trust gives rise to a suit for damages, but it is only when there is evidence of a mental act, or intention of fraudulent misappropriation that the commission of any embezzlement of money becomes a penal offence punishable as a criminal breach of trust. Every offence of a criminal breach of trust involves a Civil Court, but every breach of trust in the ***mens rea****(mental Act, or indention of fraudulent misappropriation*), cannot justify a criminal prosecution.

The terms of the section are very wide. It applies to one who is in any manner entrusted with property or dominion over property and provides inter alia that if such a person dishonestly misappropriates or converts to his own use, the property entrusted to him, he commits criminal breach of trust. This part of the definition is complete in itself and has no reference to the provisions as to disposal in violation of a directive of law or of a legal contract. A necessary element of criminal breach of trust is that there should be entrustment of property to the accused. The entrustment may be in any manner.

Section 406 embraces the cases of all offences, which are not covered by sections 407, 408 and 409. Offences committed by trustees with regard to trust property and of directors of companies ***and***

committee members of co-operative societies, who do not come within the purview of section 408, are covered by this section.

38.7. *Dishonest Intention* :- To establish a charge of criminal breach of trust, the prosecution is not obliged to prove the precise mode of conversion, misappropriation or misapplication by the accused of the property entrusted to him or over which he had dominion, where the entrustment of money is admitted or proved. The principal ingredient of the offence being *dishonest misappropriation or conversion* which may not ordinarily be a matter of direct proof, entrustment of property and failure in breach of an obligation to account for the property entrusted, if proved, may, in the light of other circumstances, justifiably lead to an inference of dishonest misappropriation or conversion. Where the accused is unable or fails to account for the money or property received by him or entrusted to him or renders an explanation of his failure to account, which is untrue, an inference of misappropriation with dishonest intention may readily be made.

Dishonest intention is a necessary element for criminal offence under Section 406. Subsequent conduct in repudiating the transaction during the trial has no hearing on dishonest intention at the time of the alleged transaction (Kaushalya V/s. State AIR 1964) In case of criminal breach of trust, failure to account for the money proved to have been received by the accused or giving a false account as to its use is generally considered to be a strong circumstance against the accused. This however, is a piece of evidence pointing to dishonest intention and is not conclusive. (Puran Chandra V/s. State AIR 1966) Mental Act of fraudulent misappropriation is the essential ingredient of the offence of criminal breach of trust; the prosecution must prove the existence of the dishonest intention beyond reasonable doubt.It will not suffice for the prosecution merely to prove the circumstances which may be consistent either with the dishonest intention of the accused or the absence of such intention. Dishonest intention cannot be directly proved and has to be inferred from the conduct of the accused both before and after the date of alleged entrustment. Mere difficulty in proving is no excuse. (Amrutlal V/s. Bajaranglal, 1963 CR.L.J.)

38.8. *Entrustment* :- The word ***"entrustment"*** when used in respect of money, means that the money has been transferred to the accused under circumstances which show that notwithstanding its delivery to be accepted, the property in it continues to vest in the prosecutor and the money remains in the possession or control of the accused as a bailer and in trust for the prosecutor as bailer, to be restored to him or applied in accordance with his instructions. The terms of this section are wide enough to *include trustees of every kind, i.e.* those who are employed and receive remuneration for acting as trustees, but also by reason of some trust constituted by express deed or even by implication of law, though the office (as in the case of membership of committees of co-operative societies) may be gratuitous and they may not be receiving any remuneration for the services rendered by them.

If there is no trust, there can be no offence under the section. Thus, a person who takes a sum of money by way of loan is not entrusted with the property. However, where an officer of the society having custody of the cash balance retains large sums of money for considerable period and subsequently enters them as an advance or loan taken by him, he commits criminal breach of trust. Similarly, when a servant receives large of sums of money, which he has obtained from his employer on the false pretext that they were required to pay wages, it was held that he was guilty of criminal breach of trust although the criminal intent to misappropriate was present at the time of receipt of the money by him.

Where a public servant entrusted with money for purchasing certain articles, purchases the articles, he does not commit any offence under section 406 merely because he does not produce the supporting vouchers along with the bills for the purchase of the articles. (State of H. P. V/s. Nandlal 1983 Cr. L.J.). Where accused person not legally entitled to carry on banking business. Fail to repay the amount deposited with them by the members of the public; they are guilty of the offence of criminal breach of trust. (A. G. Abhidham V/s. State of Kerala 1987 Cr. L.J.). Where the Secretary of a Society was dealing with the cash and did not make over the cash to the President of the Society while handing

over the charge of the post, he was held guilty of misappropriating the amount and convicted under section 406 (Uday Narayan Panda V/s. State 1978 Cr. L.J.) Where entrustment of the property is proved, burden lies on the accused to account for the money/property, burden does not lie on the prosecution to prove how the accused misappropriated the property. (Uday Narayn Panda V/s. State 1978 Cr. L.J.)

The word ' entrusted' itself conveys and includes that the person handing over the property must have confidence in the person taking the property so as to create a fiduciary relationship as between them. If the property is obtained by trick or by any other unlawful means, then there cannot be any entrustment. 'Entrustment' means the handing over of the property by lawful means. Where the property is acquired by trick or ' in any other manner' by false representation to the owner thereof, offence under Section 420 is committed. Where the goods were pledged by the complainant debtor with the accused creditor as security for payment of the debt and the agreement further provided that if the debt was not paid within the stipulated period with the 15 days clear notice, and accused disposed of the goods pledged without notice to the debtor, the accused was held guilty of the offence of criminal breach of trust. (Jaswantrai Maniclal Akhney v. state of Bombay, AIT 1956)

38.9. ***Property*** **:-** As regards the meaning of the term ***"property***", it has been held that it includes the sale proceeds of the goods entrusted to the accused and also goods purchased with the money provided by the employer and entrusted to the accused for making the purchases.

The property in the section 405 includes the property, purchased with the money entrusted in view of the words " in any manner" occurring in Section 405. The offence of criminal breach of trust cannot be committed in respect of one's own property; the property must belong to another person. The word'property' is not restricted to movable property; the funds of a company do amount to property within the meaning of section 405. The section does not contemplate that the property in respect of which the offence of criminal breach of trust is committed must belong to the complainant.

38.10. ***Dominion over property*** **:**-The accused hypothecated to the complainant under a written contract, all his claims against Government in respect of work done and materials supplied to the Executive Engineer and undertook regularly to make over to the complainant all cheques drawn by the Executive Engineer in his favors and subsequently in violation of the said contract cashed two such cheques and appropriated the proceeds. It was held that the accused had committed criminal breach of trust.

Even where a person has not been entrusted with the property, comes to have a dominion over it, it can be guilty of misappropriation. In order to establish entrustment of dominion over property to an accused person, the mere existence of that person's dominion over property is not enough; it must be further shown that his dominion was the result of entrustment. Directors of a company are not trustees of the company, and any wrongful dealing by the director with the funds of the company does not amount to criminal breach of trust.

38.11. ***Hire Purchase Agreement*** **:-** One 'C' agreed to purchase a motor lorry, paying the price by installments. Meanwhile, he signed an agreement with the owner by which, describing himself as the hirer, he undertook to pay certain installments, to ensure the vehicle was hired and not to deal with it, to allow owners to recover possession in case of default and agreed that the lorry would remain the property of the owners until all the installments due were paid. It was held that when 'C', who, in spite of the agreement, sold the lorry before the installments were paid, was guilty of criminal breach of trust. In a criminal breach of trust, the property remains with the person entrusting and the person entrusted does not have any right in the property.

The second ingredient in a case of criminal breach of trust is dishonest intention. It has to be established that the accused dishonestly misappropriated or converted the property to his own use. Temporary retention of money would not by itself amount to criminal breach of trust. The mere failure

to deposit the money would not, therefore, prove dishonesty, there must be other circumstances to prove the element of dishonesty and unless the element of dishonesty is proved, the mere retention of money would not by itself constitute the offence. False explanation is sufficient to prove the element of dishonesty. The mental act of appropriation must be established, but actual expenditure of the money is not the only proof. Mere retention of goods by a person without misappropriation does not constitute criminal breach of trust.

38.12. ***Willful omission to account.*** **:-** If a person receives money, which he is bound to account for, and does not to do so, he commits the offence although no precise time can be fixed at which it was his duty to pay the money. Where an employee fails to render accounts and to deliver up the money realized by him in spite of repeated demands, he uses the property entrusted to him in violation to the legal contract made by him with his master and is guilty of an offence under section 408.

As already stated, it is not necessary or possible in every case of criminal breach of trust to prove in what precise manner, the money was spent or appropriated by the accused, because under the law even "temporary retention" is an offence provided it is dishonest. The essential thing to be proved in such cases is whether the accused was actuated by dishonest intention or not. The failure to account for the money proved to have been received by the accused or giving a false account as to its use is generally considered a strong circumstance against him. (Queen Empress vs. Kellie) The mental act or intent to deprive the master of his property is the gist of the offence. If a servant, immediately on receiving a sum for his master enters a smaller sum, he may be considered to be embezzling the difference at the time he makes the entry. It will make no difference, that he received other sums for his Master the same day, and in paying those and the smaller sum to his master together he might have given his master every piece of money or notes he received at the time he made the false entry. It is not necessary to prove that any particular sum or sums were an amount forming the balance of a large number of receipts and payments; this was held to be sufficient.

38.13. ***Willfully suffers any other person*** **:-** The second part of section 405 says that whoever willfully suffers any other person "to misappropriate or convert any property commits criminal breach of trust.""Willfully suffering" makes a man liable. "Willful" means deliberate or intentional and not accidental or by inadvertence. Where a person willfully suffers to misappropriate the money entrusted to him, he commits the offence of criminal breach of trust under section 405 in as much as if he himself had misappropriated it. His plea that he did so under the instructions of his superiors can afford him no protection.

38.14. ***Evidence*** **:-** *T*o make out a case of criminal breach of trust, which is the commonest offence relating to the funds of a co-operative society, it has to be established that not only has the accused retained the money, but that he has disposed of the same in some way other than that in which he was bound to apply it and that he did so dishonestly. The mere fact that the accused did not at once apply the money to the purpose for which it was intended does not amount to criminal breach of trust. There must be some dishonest use of money to constitute the office. Although mere retention of money does not necessarily raise a presumption of dishonest misappropriation to one's own use, dishonest misappropriation may sometimes be inferred from the circumstances without due evidence. Thus, when cash is drawn for making small disbursements such as payment of wages of staff, when a very large amount is held as cash on hand, in utter disregard to the provisions of the byelaws of the society, a presumption can be made that the cash on hand has been misappropriated. Establishing that false entries have been made can be lead to the inference that the accused attempted to suppress all traces of his embezzlement by manipulation of the accounts, or evidence of the financial circumstances of the accused will have led to the inference which would render probable a case of misappropriation.

38.15. ***Section 408 of IPC :- Criminal breach of trust by clerk or servant*** – Clerk- In modern usage, the term would mean a writer in an office, public or private, for keeping accounts or entering minutes.

38.16. ***Servant, Master and servant*** **:-** A relation whereby a person calls in the assistance of other where his own skill and labour are not sufficient to carry out his own business or purpose.

Bring the accused within the purview of section 408, it will have to be proved

[1] That accused was the clerk or servant of the person reposing trust;

[2] That he was in such capacity entrusted with the money or property or entrusted with dominion over it

[3] That he committed criminal branch of trust in respect of such money or property. Actual conversion need not be proved. A mental act, of fraudulent appropriations will, however, have be proved.

38.17. ***Violation of legal contract*** **:-** If a person taking goods on approval under an agreement that the property therein was to pass on approval only, he exercised his option to take them and paid cash in full for certain articles and in part for others, the trust continues till the option is exercised and cash payment made and he commits criminal breach of trust, if he sells them without such payment.

The manager of a bank received G. P. notes from a customer as security for an overdraft granted to him. Before the overdraft was cleared, the Manger returned the promissory notes without showing them as returned in the books of the bank, which continued to show that they were still deposited with it. The customer having got back his G. P. Notes re-pledged them with another banker. It was held that the Manager was guilty of criminal breach of trust and the constituent of the abetment thereof.

Where the secretary of a Co-operative society converted the money of the society in his hand to his own use or expended the same for purpose other than those of the society, and falsified account books to cover up his embezzlements, the secretary was guilty of offences under Sections 408 and 477. (Joy Shankar V. Sushil Kumar 1969 cr. J.) Where the accused, Secretary of a cooperative Society was entrusted with the amount, gave that amount to the president of the society and purchased wheat for another member of the society. The president did not return the amount, the member also did not paid for the wheat, the accused dishonestly misappropriated and willfully suffered these two persons to convert to their own use the property of the society, was guilty of criminal breach of trust. (Kundanlal v/s. state 1976 Cr. J.) Where the accused representing himself as manager of a Gram Sahakari Samiti collected loan amount from the subscribers of the Samiti, did not deposit the collected amount in bank, he was held guilty of offence under the section. The president and Secretary of a Co-operative Society are not public servants and when they commit embezzlement, section 408 applies to them. When a Secretary of a Co-operative Society entrusted with the surplus funds of the society, utilises the same for his own purpose, he is guilty of misappropriation of funds. Where the Secretary of a Co-operative Society returned a certain amount of the society, a direction by him to accountant of the society to make a wrong cross entry was only susceptible of the inference that he wanted to misappropriate the amount. (Kantilal v. State of Gujrat AAIR 1974) Mere entry in books of account unsupported by any oral evidence cannot prove entrustment.

38.18. ***Section 409*** **of IPC** ***-This section clubs together public servants, bankers, merchants' factors, brokers, and attorneys*** **:-** The word "banker" in this section has not been used in the technical sense of the Banking Regulation Act, but any person or firm doing the customer business of banking, is a banker for purposes of this section. Merchant is a person who traffics in goods in remote countries, i.e. an importer or exporter and in the ordinary sense also anyone engaged in the purchase and sale of goods. Factor is an agent to sell goods, for a commission. Broker is an agent employed to make bargains and contracts between other persons in matters of trade, commerce and navigation. A factor is entrusted with the disposal of the property while a broker is employed to contract about it without being in possession of goods. Attorney is one who is appointed by another to do something in his absence and who has authority to act, in place of the person by whom he is delegated.

To establish a charge of criminal breach of trust the prosecution is not obliged to prove the precise mode of conversion, misappropriation or misapplication by the accused of the property entrusted to him or over which he has dominion. The principal ingredient of the offence being dishonest misappropriation or conversion which may not ordinarily be a matter of direct proof, entrustment of property and failure in breach of an obligation to account for the property entrusted if proved, my, justifiably lead to inference of dishonest misappropriation.

To justify conviction under Section 409, the prosecution must prove factum of entrustment and factum of misappropriation. Merely an audit report of inconclusive nature cannot form the basis of conviction.

Office bearers of a society are not public servants within the meaning of Section 21 of the Indian Penal Code, and they cannot be prosecuted under section 409 of the Indian penal code. (Hanumant Patil Vs. State of Maharashtra, 1993(2) Bom. C.R. 286 and state of Maharashtra Vs. Laljit Shah, 1994 Mah L.J.)

38.19. ***Cheating*** **:-** Section 415 defines cheating. This is a very wide section and deals with almost all the aspects of cheating. A dishonest concealment of fact is also deception within the meaning of the section. Unlike in other offences, in the case of cheating, the offender obtains not only possession of the property, but also sustains property in it. Cheating, criminal breach of trust and criminal misappropriation are all distinct offences. ***Cheating differs from the last two offences in the fact that the cheat takes possession of the property by deception. There is wrongful gain or loss in both the cases and there is inducement to deliver the property.***

38.20. ***Deceiving*** **:-** means causing to believe what is false or misleading as to a matter of fact leading to error. *It is not sufficient to prove that a false representation has been made, but it is further necessary to prove that the misrepresentation was false to the knowledge of the accused,and was made in order to deceive the complainant.* It is not necessary that the false pretence should be made in express words; it can be inferred from all the circumstances attending the obtaining of the property or conduct of the person. If a person obtains goods on credit promising to pay for them on a particular day, knowing that it was impossible for him to pay, or draws cheques knowing that the bank balance was insufficient and the cheque would not be honored, it would amount to cheating.

Under section 417, punishment for cheating is one year. *Cheating with knowledge that wrongful loss may ensue to person whose interest the offender is bound to protect invites higher punishment under section 418.* This section applies to cases of cheating by guardians, trustees, solicitors, agents, managers of Hindu Joint families, directors and managers of joint stock companies, and of co-operative societies, in fraud of the members or shareholders. It is the abuse of trust that is met with a more safer punishment. Presenting a false balance sheet by the directors and managers of the bank to induce depositors to renew their deposits which they would not have otherwise done or putting a false balance sheet in material respects, before the share holders or members which they knew to be false and likely to mislead the public as to the condition of the bank and concealed its true condition, would constitute offences under this section and the directors and managers will be held liable for punishment.

38.21. ***Wrongful loss and gain*** **:-** the Section 23 of the Indian penal Code defines "Wrongful loss" as the loss by unlawful means of property to which the person losing it is legally entitled. It further defines that a person is said to lose wrongfully when such person is wrongfully kept out of any property, as well as when such person is wrongfully deprived of property.

This section also defines wrongful gain, as "Wrongful gain" is a gain by unlawful means of property to which the person gaining is not legally entitled. A person is said to gain wrongfully when such person retains wrongfully, as well as when such persons acquires wrongfully.

A person can be said to have dishonest intention if in taking the property it is his intention to cause gain, by unlawful means, of the property to which the person so gaining is not legally entitled or to cause loss, by wrongful means, of property to the person so losing is legally entitled. The gain or

loss need not be a total acquisition or a total deprivation, but it is enough if it is a temporary retention of property by the person wrongfully gaining or a temporary keeping out of property from the person legally entitled. Wrongful gain includes wrongful retention and wrongful loss includes being kept out of the property as well as being wrongfully deprived of property.

38.22. *Dishonestly* :- The section 24 of the Indian penal code defines it as, " whoever does anything with the intention of causing wrongful gain to one person or wrongful loss to another person, is said to do that thing "dishonestly".

Dishonest intention has got to be proved. A dishonest intention may be presumed only if an unlawful act is done or if lawful act is done by unlawful means.

38.23. *Cheating* :- *Section 420 of IPC,* which deals with ***cheating and dishonestly inducing delivery of property***, is an important section and quite a number of offences in Co-operative societies come within the purview of this section. Simple cheating is punishable under section 417, but when there is delivery or destruction of any valuable security, resulting from the act, of the person deceiving, this section comes into operation. *For conviction under this section, it must be proved that the complainant parted with his property, Acting on a representation, which was false to the knowledge of the accused and that the accused had a dishonest intention from the outset.* Where a person whose duty it was to report the current rates in the market by arrangement with persons in the market reported rates higher than those really current, and in consequence of which higher rates were paid to the sellers, than they were entitled, it was held that he was guilty of offence under this section. Assisting to obtain larger advances against a consignment sent by rail, which was made to show a higher quantity by tampering with the railway receipts, has been held to be an offence under this section.

In a case where the accused executed a hypothecation bond in respect of property, representing that the property belonged to him and there were no encumbrances on the property, and succeeded in getting money from the complainant but in fact the property did not belong to the accused, a fact which was in the knowledge of the accused from the very beginning, the accused is guilty under section 420.

When the accused by making fraudulent representations obtained loan from the Bank, they were held guilty of the offence of cheating. Where the accused Manager of the bank passed a certain cheque which resulted in loss to the bank, the accused was negligent in the sense that he had not observed that the specimen signature card of the drawer had not been authenticated by any bank official and the drawer had not been introduced by anyone, the accused was negligent in the performance of his duty, but was not guilty, of cheating.

Section 423 deals with dishonest or fraudulent execution of deeds of transfer containing false statement of consideration. Under this section, dishonest execution of a Benami deed is punishable. Where the consideration for the sale of immovable property was with the consent of the purchaser exaggerated in a deed of sale in order to defeat the claim of the presenter, it was held that the purchaser was guilty of this offence.

Section 424 deals with dishonest or fraudulent removal or concealment of property. This section covers cases, which do not come within the purview of sections 421 and 422. ***It contemplates such concealment or removal of property from the place where it is deposited as can be considered fraudulent. It also covers dishonest or fraudulent release of any demand or claim to which the offender is entitled.***

38.24. *Forgery.* :- Forgery is defined in section 463 as making of a false document or false electronic record or part of a document or electronic record.The next section, section 464, deals with the making of a false document or electronic record. It will be seen that the definition of forgery given in the Code is not as simple or clear as the definition of forgery in common law. *Forgery as is commonly understood means fraudulent making or alteration of a writing to the prejudice of another man's right.*

The simple making of a false document would not amount to forgery as defined in the section.

What amounts to making of a false document is explained in section 464, to constitute the offence of forgery under section 463, the following ingredients are necessary :-

1) The making of a false document or false electronic record or part of it;

2) Such making should be with intent to-

a) Cause damage or injury to public or / and person; or

b) To support any claim or title; or

c) To induce any person to part with any property; or

d) To cause any person to enter into any express or implied contract; or

e) To commit fraud or that fraud may be committed.

The essential ingredients of Section 464 are a) that fraudulently signing, making, executing, making seal on, transmitting any electronic record or part of any electronic record, affixing any digital signature or any electronic record, making any mark which denotes the execution of the document or authenticating any digital signature. A document or a part of a document, electronic record or digital signature with an intention of causing it to be believed that such document or part of a document electronic record or digital signature was signed,sealed, executed, transmitted or affixed by another or under his authority.

(b) Making such a document with an intention to commit fraud or that fraud may be committed.

Secondly, if any person without lawful authority, dishonestly or fraudulently, by cancellation or otherwise, alters a document or an electronic record in any material part thereof, after it has been made, executed or affixed with digital signature either by himself or by any other person, whether such person be living or dead at the time of such alteration;

And thirdly, if any person, causes any person to sign, seal, execute or alter a document or an electronic record or to affix his digital signature on any electronic record knowing that such person by reason of unsoundness of mind or intoxication cannot, or that by reason of deception practiced upon him, he does not know the contents of the document or electronic record or the nature of the alteration, commits forgery under section 464.

38.25. *Fraudulently* :- Section 25 defines " fraudulently" as, a person is said to do a thing fraudulently if he does that thing with intent to defraud, but not otherwise.

The expression 'defraud' involves two elements, namely, deceit and injury to the person deceived. Injury is something other than economic loss that is, deprivation of property, whether movable or immovable, or of money and it will include any harm whatever caused to any person, mind, reputation, or such other. It is a non-economic or non-pecuniary loss.

38.26. *Document* :- A writing is a document. However, it is not necessary that in every case a document should be in writing or contain the signature or facsimile of any person. It includes what is done by way of printing.

Section 29 of Indian Penal code defines document as; it denotes any matter expressed or described upon any substance by means of letter, figures or marks, or by more than one of those means intended to be used, or which may be used, as evidence of that matter.

The Evidence Act also defines document in section 3 as; "Document means any matter expressed or described upon any substance by means of letter, figures or marks, or by more than one of those means, intended to be used, or which may be used, for the purpose of recording that matter. As per illustration given under the section it includes;

a) A Writing is a document.

b) Words printed, lithographed or photographed are documents.

c) A map or plan is a document.

d) An inscription on a metal plate or stone is a document.

e) A caricature is document.

Section 470 defines ***a forged document or electronic record as a false document or electronic record made wholly or in part by forgery*** and section 471 lays down that whoever fraudulently or dishonestly uses as genuine, any document, or electronic record, which he knows or has reason to believe, to be a forged document or electronic record, shall be punished in the same manner as if he had forged such document or electronic record. What is required to be proved is-

1) Fraudulent or dishonest use of a document or electronic record, as genuine; and
2) Knowledge or belief on the part of the person that the document or electronic record is a forged one.

38.27. ***Forgery of valuable securities :- Section 467*** deals with ***forgery of valuable securities***, wills, etc. An extremely severe punishment, *viz.*, imprisonment for life, imprisonment for 10 years and fine, has been prescribed for the forgery of the following types of documents: -

1) A document which purports to be a valuable security;
2) A will;
3) An authority to adopt a son;
4) A document which purports to give authority to any person-
   i. To make or transfer any valuable security, or
   ii. To receive the principal or interest or dividends thereon, or
5) To receive or deliver any money, moveable property or valuable security:
6) Any document purporting to be-
   i. An acquaintance or receipt acknowledging the payment of money,
   ii. An acquaintance or receipt for a delivery of any moveable property or valuable security.

38.28. ***Forgery for Cheating :- Section 468*** prescribes punishment for ***forgery for purpose of cheating***.

Having possession of a forged document or electronic record, knowing it to be forged, and intending to use it as a genuine document constitutes an offence under section *477-A*- This section, which deals with *falsification of accounts and making of false entries in books is a very important section.* The section deals with two distinct offences: -

1) Falsification of accounts; and

2) Making or abetting the making of false entry or omitting or altering or abetting omission or alteration of an entry.

This section makes falsification of accounts punishable although there is no evidence to prove misappropriation, of any specific sum or on any particular occasion. The section requires the falsification of accounts with intent to defraud and does not require any deprivation of any property. In an old case decided by the Madras High Court, the officers of a co-operative store, persons who made false entries in the accounts, were held guilty under this section even though no one lost eventually by such false entries.

To establish a charge under this section, the following essentials will have to be fulfilled :-

1) The person coming within its purview must be a clerk, officer or servant or Acting in the capacity of clerk, officer or servant;

2) He must willfully and with intent to defraud-

   a. Destroy, alter, mutilate or falsify any book, electronic record, paper, and writing, valuable security or account which-

b. Belong to or be in possession of his employer; or

c. Has been received by him for, or on behalf of his employer; or

3) Make or abet the making of any false entries, or omit or alter or abet the omission or alteration of any material particular from or in, any such book, electronic record, paper, writing, valuable security or accounts.

38.29. ***Offence by Clerk or servant*** **:-** The ***words "Acting in the capacity of a clerk or servant"*** are very wide terms and included a person who undertakes to perform and does perform the duties of a clerk or servant, whether in fact, he is a clerk or servant or not, and although he is under no obligation to perform such duties, and receives no remuneration. The Chairman or a committee member of a society, who writes the cashbook and other books of accounts, or issues receipts, although these are no part of his duties, comes within the purview of this section, since he has undertaken to do these duties and has done them. A person who voluntarily performs the duties of a clerk, officer or servant and falsifies the accounts also commits offence under this section. (Abdul Aziz vs. Emperor 1953). It has to be noted that the falsification can only be committed in respect of books of the employer. The Cashier's Diary, Rough Cashbook or Counter Cashbook maintained by the cashier in a bank belongs to the employer as it is maintained in the ordinary course of business and the Cashier cannot claim it as his own or in any way belonging to him.

38.30. ***Willfully and with intent to destroy, etc***, **:-** Willfully means that the Act is done deliberately and intentionally, not by accident or inadvertence, but so that the mind of the person who does the Act, goes with it. Even if the intention with which the false entries are made is to conceal fraudulent or dishonest Act, previously committed, the intention will be to defraud (Emperor vs. Ragho Ram (AIR 1933). Making a false document with a view to preventing persons already defrauded from ascertaining that misappropriation has been committed and thus enabling the persons who had committed the misappropriations to retain the wrongful gains which they had secured, amounts to the commission of a fraud and brings the case within the purview of this section. The issuing of a false statutory report of a company calculated to deceive the public and intended to induce them to invest their money in the company, which they would not otherwise have invested, is an act, done with intent to defraud. Promoters of bogus Co-operative housing societies, who offer residential flats, shop office premises or garages on attractive terms and given assurances of loan facilities, knowing that neither Government nor the Housing Finance Society have agreed to lend, can be hauled up under the provisions of this section.

It has been held that where alterations have been made not with any intent to defraud, but merely to comply with the requirements of departmental rules, no offence is committed. It has also to be noted that the alteration should be in the handwriting of the accused in order to convict him.

38.31. ***Falsification*** **:-** The expression "falsification" applies to the preparation of an entirely new document containing false information is correctly described as a false document and the act of preparing such document is called falsification of the document.

38.32. ***Accounts*** **:-** The offence is completed when accounts are falsified with intention to defraud. An alteration in the accounts made after embezzlement will come within this section, if it is part of the scheme to deprive another of his money. But the alteration of accounts without intention to commit fraud is not an offence under this section. Making false entries in books of accounts of a society by a person in order to conceal fraudulent or bogus transactions falls within the purview of this section and deprivation of property either actual or intended is not a necessary ingredient to defraud as contemplated in this section. The secretary of a Co-operative society, who has misappropriated a large cash balance, in order to conceal the misappropriation, makes a bogus entry debiting the loan account of a member and forges his signature on the loan bond, commits an offence not only under section 408, but also under section 477-A. If the intention with which a false document is made is to conceal a fraudulent or dishonest Act, which had been previously committed, the intention cannot be other than intention to defraud. The concealment of an already committed fraud is a fraud.

38.33. ***Electronic Record*** **:-** Section 29 A of the Indian penal code defines the electronic records, as definition given in the clause (1) of sub-section (1) of the section 2 of the Information Technology Act, 2000. The definition is explained in chapter describing InformationTechnology Act, provisions.

38.34. ***Fabricating false evidence*** **:** ***Section192 of IPC*** **:-** Section also deals with a similar offence, viz., ***fabricating false evidence,*** but with a different intention. *This section refers to the making of any false entry in any book or record* or electronic record, *or making any document* or electronic record, *containing a false statement, intending that such false entry or false statement may appear in evidence in a judicial proceeding or in a proceeding taken by law before a public servant as such or before any arbitrator and that such false entry or false statement so appearing in evidence may cause any person, who, in such proceeding, is to form an opinion upon the evidence, to entertain an erroneous opinion touching any point material to the result of such proceeding.* Auditors and officers appointed under section 83 and 88 of the Maharashtra Co-operative Societies Act have been declared to be public servants. Accordingly proceedings before these officers are proceedings before public servants and as such Act specified above done by office-bearers and employees of co-operative societies come within the purview of this section. Thus, entries intentionally made to reduce the cash balance such as fictitious debits, bogus advances, benami loans etc. would come within the purview of this section. ***Intention is the gist of the offence of fabricating false evidence***. The false evidence must be material to the case. As soon as the evidence is fabricated or false statement made, the offence is committed. It is not necessary that such evidence is actually used. However, the fabricated evidence must be admissible evidence.

38.35. ***Acts done by several persons: Section 34 of IPC*** **:-** Many times, offences are committed by two or more persons acting jointly. Several persons may come together and commit an offence. In such cases, it may be difficult to distinguish between the acts, of individual members of a party or to prove exactly what part was taken by each of them in furtherance of the common intention of all. Section 34 *deals with acts, done by several persons in furtherance of the common intention of all, each of such persons is liable for that Act, in the same manner as if it was done by him alone*. The section embodies the principle that if two or more persons intentionally do a thing jointly, it is just the same if each of them had done it individually. However, before a person can be held liable for an Act, done by another, the section requires that it should be established that, firstly, *there was a common intention* in the sense of a *pre-arranged plan*; secondly *the person sought to be held liable had participated in some manner in the Act,* constituting the offence. Both common intention and participation have to be present before the section can apply.

38.36. ***Criminal Conspiracy*** **:-** Acting on a common intention also constitutes criminal conspiracy and is the subject matter of section ***120-***B. To constitute criminal conspiracy, it is necessary to prove-

That there was an agreement between two or more persons-

1) For doing an illegal Act, or;

2) For doing by illegal means an Act, or which may not itself be illegal.

However, no agreement except an agreement to commit an offence shall amount to criminal conspiracy unless some act, besides the agreement is done by one or more parties to such agreement in pursuance thereof. It is immaterial whether the illegal act is the ultimate object of such agreement, or is merely incidental to that object.

The gist of the offence is the bare engagement and association to commit an illegal act, or offence.

Section 34 and section 120-A contain similar provisions. There is not much substantial difference between criminal conspiracy defined in section 120-A and acting on common intention as contemplated in section 34.

———

CHAPTER No. 39

SPECIAL REPORT (Report Writing)

39.1. ***Need for submission of Special Report*** **:-** As per Section 81 (5B), if the auditor finds that there are apparent instances of financial irregularities resulting into losses to the society caused by any member of committee or officer of society or by any other person, then he shall make special report and submit it to the Registrar along with audit report. Failure to file special report would amount to negligence in the duties of auditor and he shall be liable for disqualification for appointment as an auditor, or any other action as the Registrar thinks fit.

39.2. ***Contents of the Specific Report*** **:-** The ***Specific*** report submitted by the auditor should specify clearly the persons who is responsible for misappropriation or fraud, the amount so misappropriated, place of crime, period of crime, capacity in which the person is responsible, legal statue of the case, Actions taken by the auditor for giving explanations or submitting information and justifications for natural justice, replies received from the responsible persons, reason for not acceptance of the replies, documents collected and there relationship, modus operendius of the culprit, evidence collected etc. These points are explained in the forgoing paragraphs.

1) ***Introductory :-*** This is dealt with the name of the society audited, period of audit, submission date of audit report, the designation of the auditing officer, authorisation for audit such as order appointingby the Society or by the Registrar.
2) ***Responsible persons with brief summary :-*** Here the person who is responsible, and the capacity of his being dominion on property, such as Chairman, Secretary, Treasurer, Cashier, Managing Director etc. with the authority given him byelaws, his appointment, delegation of power by specific order or byelaws, duties and responsibilities of the officer should be stated. The modus operendius should be stated in brief with the amount of misappropriation.
3) ***Modus operendius:modus operendius means the method adopted by the culprit to misappropriate the property of the society :-*** It should be given in detail, how the person has misappropriated, amount appropriated in each way, whether any falsification or fabrication in record is made, nature of falsification, overwriting, using the false document as genuine or else, all theses matters should be explained here.
4) ***Explanations and collection of evidence :-*** The auditor has to collect the evidence for proving the misappropriation and also, obtain explanations from the persons who are responsible for the misappropriation. The notices given, and the explanation obtained by the concern persons, there commitment or refusal to charges, the auditors opinion regards agreeing or disagreeing the explanations should be stated here.
5) ***Conclusions :-*** here the auditor should state the opinion obtained from the district Government pleader, wherever required, auditors prima face opinion about the responsibilities of the persons and amount thereof, should be explained and ask for permission to lodge the case with the police authorities.
6) ***Proof and evidences :-*** The auditor should enclose all the evidences he has collected, explanations obtained, confirmations obtained, statements if any taken from the members, officers, or others, abstracts of records such as cashbook, personal ledger, bank pass book, resolutions, orders etc., opinion of District Government Pleader, wherever required, should be enclosed as per serial of modus operendius.
7) ***Legal opinion :-*** When the auditor observes prima face that there is misappropriation in the society,the auditor,if required, is to obtain the legal opinion from the District Government Pleader through the Registrar about the legalness of the case, whether the case is fit for prosecution in the court of law, and the persons responsible would be prosecuted successfully. As per amendment in Section 81, there is a necessity of permission from the Registrar, hence the legal opinion shall be obtained through the Registrar.

8) ***Fixing of Responsibility :-*** the person who is responsible for the misappropriation is required to be stated in the audit report and special report against whom the prosecution is required. While fixing responsibility it should be noted that the misappropriation constitutes when, the accused person misappropriates moveable property belonging to the society, for his own use, dishonestly. The criminal breach of trust constitutes, when the accused is entrusted with property or has dominion over property, misappropriates or converts it for his own use or disposed of it, in violation of any direction of law in which the society has trust that he will discharge his duty. Thus, it means that, there should be property with the accused, and he has converted it for his own use, or he has disposed itof. And doing so he must be entrusted with the property. Therefore it is necessary for the auditor to confirm that, the accused is entrusted with property by written order, or by oral instructions. His duties have been fixed by the society, for discharging it, and being a employee, officer, etc. he has trust of the society. It is necessary for the auditor that, the person responsible has been entrusted by the order, or by virtue of Act, rules or Byelaws he has dominion on the property, and is able to misappropriate the property.

9) ***Fixing of Amount :-*** The property, which has been misappropriated, must be in the monetary term, or should be converted into monetary term to prove the amount that has been misappropriated. The auditor considering modes of the misappropriation should fix the amount.

39.3. ***Lodging of Complaint*** **:-** After obtaining the authorisation from the higher authorities, the auditor has to lodge the complaint with police authorities, in which jurisdiction the society falls, or where the crime has taken place. Auditors should have to give first information report to the police authorities. This report should contain the name of the auditor, his designation, authority given to him, the contains and modes of misappropriation, audit report, documents or evidences collected by him, persons who are responsible to the misappropriation, amount, etc. He has also to help the police authorities for seizer of record of the society, which is required for the further investigation. In case, the police authorities have refused to lodge the complaint for one or another reason, the auditor can submit his FIR to the higher authorities in written, and request them to lodge the complaint with the concerned police station.

39.4. ***First Information Report (FIR)*** **:-**

1) Section 154 and section 155 of the criminal procedure code 1973 provides for registering the first information report with the police authorities for cognizable and non cognizable cases. auditors have to lodge complaint by way of first information report for misappropriation, frauds, breach of trust etc., as per Indian penel code.

2) Cognizable sections under IPC are Section- 405 criminal breach of trust; Section 408 criminal breach of trust by a clerk or servent; 416 cheating by personation; section 468 forgery for the purpose of cheating, other sections are non cognizable under which the auditor has to lodge the complaint, by way of FIR.

3) Section 154 provides that, every information relating to the commission of a cognizable offence, if given orally to an officer in charge of the police station, shall be reduced to writing by him or under thedirection , and be read over to the informant, and signed by the person giving information. A copy of such report should be handed over to the informant free of cost.

In case , the police authority refuses to record the information, the agrived person may send the substance of the such information in writing and by post to Superitendent of Police concerned, who if satisfied , shall either investigate himself or direct an investigation to be made by any police officer subordinate to him.

4) As per section 155 no police officer shall investigate a non cognizable case without the order of Magistrate .Where a case relates to two or more offecnes of which at least one is cognizable , the case shall be deemed to be a cognizable case, notwithstanding that the other offences are non-cognizable.

39.5. ***care to be taken while writing first information report*** **:-**

1) The first information report shall be clear and definite in character.
2) An F. I. R. is not intended to be a very detailed document and is meant to be given only the substance of the allegations made.
3) F.I.R should be lodged as soon as the permission from the Registrar is obtained for lodging it.
4) Names of the accused should be mentioned in the F.I.R.
5) Information given in F.I.R. shall be on facts observed by the auditor during the course of his audit, and are mentioned in the audit report.

39.6. ***Follow up of the case*** **:-** The duty of the auditor does not end with lodging the complaint with the police; but he has to follow the case uptill the chargesheet is submitted to the court. Whenever the case comes to hearing he has to give witness, whenever the court call for it. After deciding the case, he should collect the judgment, and carefully study it if the accused is acquitted, so that he should improve the mistakes in future.

39.7. ***Care to be taken*** **:-** While submitting thespecific report, the auditor should take care to verify the items of misappropriation or frauds very carefully, the intention behind the Act, the requirements of legal provisions are complied with. He should collect sufficient evidence, with necessary authentication. Obtain the legal opinion where ever necessary to safeguard him.

———

CHAPTER No. 40

FOLLOW-UP AUDIT - RECTIFICATION OF ERRORS POINTED OUT IN AUDIT

40.1. ***Legal provisions*** **:-** As we have seen, co-operative audit is not merely critical, but curative. The duties of the auditor of a co-operative society do not end merely by pointing out errors and irregularities noticed by him, but he has also to suggest ways for avoidance of their repetition. It is, therefore, necessary that the society followup the suggestions made by the auditor and takes due steps to remedy the defects pointed out by him in his audit memo.

Section 82 of the Maharashtra Co-operative Societies Act, requires every society to explain to the Registrar, within three months of the receipt of the audit report in 'O' Form, the defects or irregularities pointed out by the auditor and take steps to rectify the defects, remedy the irregularities and report to the Registrar the action taken by it thereon. The Registrar may ``also make an order directing the society or its officers to take such action as may be specified in the order to remedy the defects within the time specified therein.

Since the federal society to which the society is affiliated is also interested in its development and improvement, the section requires that where a society is a member of a federal society, an order under section 82 shall be issued after consulting the federal society. Federal society shall communicate its opinion to the Registrar within a period of 45 days from the date of receipt of communication, failing which it shall be presumed that such federal society has no objection to the proposed action by the Registrar. If the committee of the society fails to submit the audit rectification report to the Registrar and to Annual General Body Meeting, all members of committee shall be deemed to have committed offence under Section 146 and will be liable for penalty as provided in Section 147.

It shall be the responsibility of the auditor concerned to offer his remarks on the rectification report of society item wise, till entire rectification is made by society and its report submitted to the Registrar.

The Registrar or the person authorized by him shall scrutinize the audit rectification report and inform the society within six months from the date of receipt thereof.

Sub-Section (4) of section 87 provides that if a society fails to rectify the defects disclosed in the course of or as a result of audit under section 81, or fails to rectify the defects as directed by the Registrar, the Registrar may himself take steps to have the defects rectified and may recover the cost from the officer or officers of the society, who, in his opinion, has or have failed to rectify the defects.

Sub-Section (1) of section 79 also empowers the Registrar to ask the society, among other things, to submit to him such statements and returns as he may require from time to time; and the officer or officers of the society shall be bound to comply with his orders within the period specified therein. Sub-section (2) further provides that where any society is required to take any action under this Act, the Rules or the bye-laws or to comply with in order made under the foregoing sub-section (i.e. sub-section (1) of section 79 quoted above) and such action is not taken within the time provided in this Act, the Rules or the bye-laws, or the order as the case may be, or (b) where no time limit is so provided within such time, having regard to the nature and extent of the action to be taken, as the Registrar may specify by notice in writing, the Registrar may himself, or through a person authorized by him, take such action at the expense of the society; and such expense shall be recoverable from the society as if it were an arrears of land revenue.

40.2. ***Action to be taken by the District Deputy Registrars and the Divisional Joint Registrars*****:-** The importance of follow-up of audit requires no emphasis. It hardly needs to be pointed out that ***unless prompt action is taken to remove the defects noticed in audit, audit would lose much of its efficacy.*** It should, therefore, be impressed on the societies that the defects pointed out by the auditors are to be promptly rectified and the suggestions made by them implemented as early as possible. The

societies should also be told to avoid their recurrence. As such, vague and non-committal replies, such as "Noted", "Necessary action will be taken in due course", "will be placed before the Committee", etc., should not be accepted. The society should have taken definite action to rectify the irregularity and offered satisfactory explanation. It has to be noted that the responsibility of the District Deputy Registrars and the Divisional Joint Registrars does not end merely by calling attention of the society to the points contained in the audit memos. Section 82 of the Maharashtra Co-operative Societies Act empowers the District Deputy Registrars and the Divisional Joint Registrars to issue directives to the societies and their office-bearers and compel them to take specific Action to rectify the irregularities within a specific time. It is, therefore, necessary that the audit memos of all societies received by them are carefully reviewed and necessary action taken thereon. It has been noticed that a number of frauds and embezzlements could have been avoided. In cases of serious irregularities, frauds and misappropriations, auditors have been asked to submit special reports. Where frauds and embezzlements have been reported, the Deputy Registrars and the Divisional Joint Registrars should take immediate action and institute prosecution against the culprits. In some cases, action under provisions of section 88 will have to be taken. Wherever necessary, a further report or additional information may be called for from the auditors. As regards launching of criminal cases, instructions issued by the Registrar and Government should be strictly followed.

The Administrative Officers have also been armed with adequate powers to deal with defaulting societies, which pay no attention to the irregularities pointed out by the auditors. Wherever necessary, proceedings should be instituted under section 146 of the Maharashtra Co-operative Societies Act. Where serious irregularities have been reported, inquiry under section 83 may have to be ordered and the defaulting office-bearers made to pay the cost of inquiry. In extreme cases, action to supersede the committee under provisions of section 78 may also have to be taken. The financing Agency may also have to be asked to stop credit to the society or recall the loan sanctioned to it, unless the society agrees to take necessary Action to mend its ways. Where, however, no serious irregularities have been reported and the societies have taken due steps to rectify the defects pointed out, no review may be necessary. However, in all cases, where serious irregularities have been reported, or the societies have not been attending to the suggestions of the auditors, the administrative officers should review the audit memos, and the audit rectification reports and communicate their observations to the societies concerned.

———

CHAPTER No. 41

REMUNERATION OF AUDITOR

41.1. ***Historical retrospect*** **:-** The rates are revised for various types of societies by the Registrar as mentioned below. Section 81 (f) states that, "Remuneration of auditor shall be borne by society and shall be at such rates as may be prescribed". Considering this Rule 74 reads as follows :- "Remuneration of auditor shall be borne of society and shall be at such rates as may be notified by Government:. Considering this legal provision, Government of Maharashtra has vide its notification dated 29/10/2014 issued revised structure of audit fee for all types of societies which is applicable from Financial Year 2014-15. Before this rates of audit fees were decided by the Commisioner for Co-operation and Registrar for Co-operative Societies, Maharashtra State, Pune vide circular dated 15/05/1992. Previously audit of some bigger societies was carried out by departmental auditors on current and concurrent basis like MSC Bank, DCC Bank, Marketing federation, etc. Audit fee of these societies was decided on the basis of pay, travelling allowance and dearness allowance of the departmental auditors who were carrying out current and concurrent audit. After amendment in Co-operative Societies Act in 2013, system of current and concurrent audit is dispensed with. Therefore, the rates of audit fees of these societies are also decided by above Government notification. The Government has issued notification regarding audit remuneration on 29/10/2014.

———

CHAPTER No. 42

FLYING SQUAD

42.1. ***Introduction*** **:-** Under Government Resolution, Agriculture and Co-operation Department, No. WPC-2770-9830-C-5, dated 21st May 1971, five flying squads for surprise check of cases of misappropriations, frauds and corruption in co-operative societies, one for each Division of the State and a special one for forest labourers' societies only have been established in the State. It has been observed that in spite of statutory audit once a year and introduction of the scheme for continuous and concurrent audit of certain types of societies, cases of frauds and misappropriations continue to occur and it was felt necessary to introduce more stringent measures to check the occurrence of frauds, misappropriations and corruption in co-operative societies. Accordingly, flying squads of audit, one for each division headed by a senior Special Auditor in Class I, with first grade auditor and other subordinate staff to assist him have been appointed. The headquarters of the four flying squads have been located at the Divisional Headquarters of the Division and they work under the direct control of the Divisional Joint Registrar, who will be responsible for ensuring effective working of the scheme. An additional flying squad headed by a Special Auditor, Class I, and assisted by a Range Forest Officer and other assistants has been appointed with headquarters at Poona and is attached to the office of the Commissioner for Co-operation and Registrar, Co-operative Societies, M. S. Poona.

42.2. ***Duties and functions*** **:-** The duties and functions of the divisional flying squads have been enumerated in Annexure I appended to the above mentioned Government Resolution and have been stated below-

(1) To pay surprise visits to co-operative societies for detection of frauds, misappropriation, corruption and such other malpractices whenever such cases are reported or brought to the notice of the Departmental Officers, without previous intimation, either oral or written.

(2) To pay visits to important and big institutions, in the normal course for checking cash, stocks, securities and other assets and to ascertain whether any serious irregularities are being committed by the societies in the course of their business.

(3) To scrutinize special reports and inquiry reports of societies in which frauds, misappropriations, etc., have been committed or suspected and where further investigation or collection of additional evidence is considered necessary.

(4) To help the police authorities in follow-up of cases of complicated nature, requiring specialized knowledge of accountancy and co-operative law.

(5) To arrange for seizing of records and account books of societies where frauds, misappropriations, etc., have been committed, and possibilities of removal or destruction exist.

(6) To issue instructions to office-bearers and employees of societies on the spot with a view to preventing occurrence of frauds, misappropriation of funds, etc.

(7) To take test audits or re-audits of societies wherever necessary.

42.3. ***Powers of the Special Auditor, Class I (Flying Squad***). **:-** Besides the powers under sections, 79,80,81 and 82 of the Maharashtra Co-operative Societies Act and Rules, the Special Auditor, Class, I heading the flying squad will have power to summon other relevant registers and books, cash securities, stocks and other property of the societies during the course of surprise check or investigation of complaints of misappropriations, frauds, corruption, etc.

42.4. ***Report by flying squad*** **:-** The reports are issued by the flying squad on misappropriation but the courts do not consider frauds as evidence, because of these reports not being audit reports. Considering this difficulty clause (b) to subsection (3) under section 81 is amended, and as per this clause the report of the flying squall shall be deemed to be an audit report for purpose of taking further action, if necessary.

Under this clause, the Registrar is empowered to depute Flying Squad to a society or societies for examination of books, records, accounts, and such other papers and for verification of cash balance.

42.5. ***Work to be done by staff working in the Divisional Squads*** **:-**

(i) The Registrar in his circular No. ADM-GEN-MSC, dated 6th August 1971, and No. ADM-GEN-MSC-F.S., dated 14th December 1971, has issued detailed instructions regarding duties required to attend all meetings of District Deputy Registrars called by the Divisional Joint Registrar. In the monthly meetings of the District Deputy Registrars, the work done by the flying squad will be reviewed. They would also be given regular monthly programs of work to be attended to by them.

(ii) As already stated, the flying squads function under the direct control of the Divisional Joint Registrar. The Special Auditors in-charge of the squads hold their officers in the office of the Divisional Joint Registrar.

(iii) The flying squads should be very prompt in taking action as contemplated by the Government Registrar. It is necessary for the members of the flying squad to read newspapers regularly and take cognizance of reported cases of frauds, misappropriation of funds and other malpractices without waiting for orders from the Divisional Joint Registrar or any other authority.

(iv) Since the squads have to attend to large number of cases of reported frauds, misappropriations, etc., they should not be burdened with any other inquiries or other routine work which is expected to be attended to by the audit staff or the normal filed staff working in the offices of the District Deputy Registrars and the Divisional Joint Registrars. Only very complicated cases requiring special knowledge of accounts and auditing should be reported to the Special Auditor in-charge of the squad for further investigation, if necessary. Test audit of societies should be given to them only in exceptional cases.

(v) Complains made orally before the officers are not ordinarily entertained unless the persons making them are responsible persons and the Divisional Joint Registrars are satisfied from the facts placed before them that a *prima facie case* exists to justify ordering further investigations. Many times, anonymous applications are received by the officers making allegations against management of certain societies. Such applications may also be considered, provided facts furnished therein are adequate for carrying out investigations.

(vi) The Special Auditors working in the squad are expected to see that the Deputy Registrars and the Class I and Class II Special Auditors take due Action on the special reports regarding frauds and misappropriations, submitted to them by the members of the audit staff. They should maintain a register of such reports and keep a continuous watch over the progress of disposal of such reports.

(vii) It will be one of the duties of the Special Auditors and Auditors of the Flying squad to pay regular and also surprise visits to important institutions in the normal course of their work for checking cash, stocks, securities and other assets and to ascertain whether any serious irregularities are being committed by the societies in the course of their business. During such visits, the Special Auditors and Auditors of the Squad should see that the management is taking due Action on the audit rectification reports and inspection reports of the offices concerned. The District Deputy Registrars should collect independently through their regular staff information of societies, which are keeping heavy cash balances on hand without any reason. They should see that the management of such societies takes quick Action to pay back such heavy cash balances in the Bank, etc. If some of the societies are not following the instructions issued by the District Deputy Registrars and Divisional Joint Registrars, they should take Action against the office bears concerned with help of

the regular audit and administrative staff. The services of the Special Auditors for squad can be utilized by the Divisional Joint Registrars to co-ordinate and review the steps taken by the various District Deputy Registers in this respect. In bigger institutions like the Sugar Factories, Spinning Mills, etc., it is not necessary for the staff working in the squad to verify cash balances, security balances, etc., only in special cases, this may be done. They should generally see that the suggestions made by the concerned regular Special Auditors regarding stocks, stores, securities, etc., are carried out by the management concerned. In other types of societies, the said staff should verify physically cash securities, stocks, etc.

(viii) It will be one of the duties of the Special Auditors and Auditors working in the squad to issue instructions regarding defects or irregularities noticed by them to the office-bearers and employees of co-operative societies on the spot, with a view to prevent frauds, misappropriations, etc. they should discuss such matters personally with the management before letters are addressed to them.

(ix) The Special Auditor, Flying Squad, and the staff attached to his office should actively assist the police in their investigations of crimes by rendering appropriate advice on matters concerning accounts and co-operative law and administration of co-operative societies. During their visits to the District Head quarters, the Special Auditor and this staff should carefully examine the cases filed with the police and ascertain the progress of their investigation. The number of cases pending in the criminal courts should also be ascertained. If there are inordinate delays in filling cases, the staff of the squad and also the regular audit staff in the District should personally discuss the matter with the police and assist them in completing their investigations and filling the cases in the court.

(x) The Divisional Joint Registrars are requested to call for monthly demi-official letters from the special Auditors and Auditors, Flying Squads separately on all the above matters in the form prescribed under circular mentioned above and submit quarterly reports regarding the same to the Commissioner and Register.

42.6. ***Work to be done by the Special Flying Squad for Forest Labourers' Societies.*****:-**The duties of the Flying Squad for various Forest Labourers' Societies are as under :-

(a) Special Auditor, Class I :-

(1) Examination of account books, propriety of expenditure on each item.

(2) To check whether tenders have been called in respect of transport involving huge expenditure.

(3) In case of doubtful vouchers, actual probe with the party concerned.

(4) In respect of expenditure on social welfare activities in coupe, whether actual expenditure has been incurred on "Mandav", Water supply, utensils, medicine, etc.

(5) In operation of coups, whether expenditure on each item is as per standard laid down.

(6) Whether wages paid are as per wage-board rates.

(7) Whether there is infringement of byelaws particular in the matter of appropriation of profits, payment of huge honorarium of Chairman or excess payment of D.A. or T.A. to members of Managing Committees.

(8) The inspection should be in the nature of investigation as to correctness, genuineness of all transactions and maintenance of account-books.

***(b) Range Forest Officer* :-**

(1) His main job will be to give technical help to Special Auditor, Class I.

(2) Whether the cutting of trees, preparation of rab, fashioning measurement of logs are proper

and according to prescribed rules.

(3) Whether the work in the coupe is being done as per schedule and within the admissible expenditure.

(4) He should also check up accounts with the help of co-operative officer and find out if any unnecessary expenditure has been incurred by the society.

(5) He should devise means of economic working of the coupe.

(6) Timely work is an essence of the forest operations, particularly for preparation of rabs and other works of plantation, etc.

(c) Co-operative Officer :-

(1) His main duty will be administrative under control of the Special Auditor, Co-operative Societies, Class I.

(2) He should inspect societies and find out any breach in byelaws, whether the society has maintained proceeding books, etc.

(3) Whether the Secretary has maintained account books and other records such as members' register, share collection from members, etc.

(4) He should, along with Range Forest Officer, pay surprise visit to coups, and if any irregularities are noticed, make detailed enquiries and find out if any officer is responsible for such a thing.

(5) His inspection and scrutiny of books should be intelligent and fault findings.

The commissioner for Co-operation and Registrar of Co-operative Societies, Maharashtra State, Pune has issued special instructions to the Special Auditor, Flying Squad, for Forest Labourers, Societies under No. FLS-FLY-Squad-Gen.-I, dated 13th March 1972. They are given practically on the lines of instructions given to the audit staff working in the Divisional Flying Squads.

However, due to work reduced at the level of forest labourers' societies, services of these officers are utilised in regular work.

———

CHAPTER No. 43

STATE LEVEL ACCOUNTS COMMITTEE

43.1. ***Introduction*** **:-** During the last few decades the co-operative movement has expanded considerably both in the credit and non-credit sphere, with the result that office-bearers and employees of co-operative institutions are required to handle large sums of money during the course of their business, a major portion of which has been provided by financing agencies, which in their turn have secured funds either directly from Government or against Government guarantee. Government has thus a very large stake in the finances of these societies. It has been observed that although the accounts of these societies are regularly audited by the auditors of the Department and audit reports are sent to the societies, no action is taken by the societies to rectify the defects and irregularities pointed out to them by the auditors, with the result that the same types of irregularities continue to be committed by the office-bearers year after year and action against such irregularities is also not taken as promptly as is expected in all cases. In order to ensure that all irregularities pointed out by the auditors are duly rectified and due action is taken to avoid their recurrence, it was felt necessary to constitute a high level committees consisting of non-officials and officials at the State Level on the lines of the Public Accounts Committee of the Legislature. Accordingly, Government has constituted a committee consisting of non-official Chairman and two other non-officials members and the Joint Register, Co-operative Societies (Audit) as Member-Secretary, under Government Resolution in Agriculture and Co-operative Department No. WPC. 2770/8717/C-5, dated the 30th January 1971. Subsequently, under Government Resolution, Agriculture and Co-operative Department No. WPC. 2770-8717-C-5, dated the 15th July 1971, the Commissioner for Co-operation and Registrar of Co-operative Societies, or his nominee, who should be the functional Joint Registrar concerned with the working of the society whose reports are under scrutiny, has also been appointed on the committee. The Chairman was authorized to invite the Director of Sugar to the Committee meetings.

43.2. ***Functions*** **:-** The following are the functions of the committee : -

(a) To scrutinize the audit reports of the co-operative societies.

(b) To suggest ways and means of rectifying various irregularities pointed out in the audit reports.

(c) To watch the follow-up action taken on the audit reports and on its review and recommendations made from time to time.

(d) To advise the Registrar, as is considered necessary, or scrutiny of the audit reports or the special reports or on any other information called for from the societies.

43.3. ***Scope of the functions*** **:-**The audit reports and special reports of all societies with a paid-up share capital of rupees five lakhs and above shall be placed before the committee for scrutiny by its secretary.

43.4. ***Powers of the Committee*** **:-** The following are the powers of the Committee :-

(a) To call for information required from any society whose audit or special report are being examined or reviewed and it should be obligatory on the part of the society to furnish the required information.

(b) To advise the Registrar for taking such action against the office-bearers of the society concerned, as it may consider necessary and the Registrar shall act on such advice. If he has reason to differ from the advice or directive, he shall refer the matter of Government for orders.

(c) To give directions as deemed fit to such societies, which the latter shall comply with.

(d) To call upon the concerned societies to depute their representatives to appear before it and to explain the discrepancies or to put forth the viewpoints of the society in the context of the audit memos, or the special reports of the society.

43.5. ***Procedure*** **:-**The Member-Secretary calls for audit memos, and special reports of societies, which come within the scope of review by the committee from the auditors concerned. These special reports and audit memos are scrutinized by him. Important irregularities from the audit memos, and special reports and observations thereon are communicated to the societies with a request to comply with them. The compliance reports are called for from the societies concerned. These compliance reports along with observations communicated to the societies are placed for consideration before the meetings of the committee. Before its meetingsthe Committee invites the Chairman and/or Vice-Chairman of the societies concerned for personal discussion. The Managing Directors, Managers, Secretaries and other officers of the Co-operative institutions concerned are allowed to accompany their Chairmen/Vice-Chairman for personal discussions. Before these persons appear before the Committee, they rectify many irregularities and carry out suggestions made by the audit staff. As soon as audit memos are received by the societies, they start rectifying the various irregularities. By the time they are again informed to rectify certain irregularities by the committee, some more irregularities are rectified. The uncertified items only are discussed in the committee meetings. Many times, assurances are given to comply with the remaining objections or to rectify irregularities and carry out important suggestions made by the audit staff. The viewpoints of the office-bearers of the societies are taken into consideration during discussions. The circumstances under which the audit objections have been raised and why they need to be complied with by them is also explained to them. After discussions are held in the meetings, some of the audit paragraphs communicated to the societies are dropped because they are already rectified or firm assurances for rectification are given for them. The uncertified items, which in the opinion of the committee need to be complied immediately, are again informed to the societies concerned for their compliance with copies to the Divisional Joint Registrars and District Deputy Registrars. They are requested to pursue the matter. These officers are also requested to take action on certain audit points under the provisions of the Co-operative Societies Act and Rules and also under other acts if it is seen that replies given by the office-bearers are not satisfactory and action needs to be taken against them. The Commissioner and Registrar and officers working under him are supposed to carry out the suggestions made by the Committee. If they disagree, the matter is referred to Government for issue of necessary instructions in the matter. The general attitude of non-officials and officials of the societies is to rectify objections and carry out suggestions as far as possible before they appear before the Committee meeting. They also give firm assurances regarding objections, which could not be rectified so far. The office-bearers of the society have now started paying adequate attention to rectify audit objections mentioned in the audit memos. This practice of calling the office-bearers of societies to the meetings has helped the committee to know their difficulties in rectifying certain irregularities and implementing the suggestions made by the audit staff. The response from the non-officials of the co-operative institutions is quite encouraging and an impression has been created that there is some authority to which they will have to explain. Good atmosphere has been created throughout the State. The office-bearers in most of the cases are found to be alive to their responsibilities and have assured the committee the irregularities will not be repeated in future.

43.6. ***Instructions to audit staff*** **:-** Instructions have already been issued to the auditors directing them to submit copies of audit memos and special reports of societies coming within the jurisdiction of the Accounts committee to the Joint Registrar, Co-operative societies (Audit) who is the Member-Secretary of the Committee. They should also obtain an extra copy of the Audit Rectification Report from the society and forward it to the Joint Registrar (Audit) along with their remarks. They should take particular care to ensure that the audit memos are complete in all respects and all irregularities noticed by them during the course of their audit have been duly mentioned in their reports. The drafting of their reports should receive particular attention bearing in mind that they would be reviewed by a high level committee.

———

VOLUME No. II

Co-operative Societies Act and Allied Laws

CO-OPERATIVE AUDIT MANUAL

VOLUME No. II

CO-OPERATIVE SOCIETIES ACT AND ALLIED LAWS

A) IMPORTANT PROVISIONS OF THE MAHARASHTRA CO-OPERATIVE SOCIETIES ACT, 1960 AND MAHARASHTRA CO-OPERATIVE SOCIETIES RULES, 1961, AFFECTING AUDIT OF CO-OPERATIVE SOCIETIES.

CHAPTER No. 1

1.1 Important Provisions of the Act and the Rules made there under :-

The audit staff members auditing the accounts of the co-operative societies will have to study very carefully the entire provision of the Maharashtra Co-operative Societies Act and Rules made there under. For their guidance, important provisions of the said Act and Rules made thereunder relating to their audits are discussed below: -

Sr.No.	Sec./Rule	Explanation	Role of auditor
1	S-10 R-5 (3) S-13 , 14 R-12	Registration certificate and amendments to byelaws	Auditor should verify 1) The registration certificate as evidence of registration. 2) The approved byelaws with the latest amendment.
2	S-37 R-31	Registered address of the society	Auditor to verify the amended byelaws for change of registered address.
3	S-22 R-19	Membership - Qualifications specified in the byelaws for membership of the society should be seen. It should be seen that all members, promoters as well others admitted to membership after registration of the society are duly qualified to become members of the society. The persons who are eligible to become members are 1) individual (who is competent to contract under the Indian contract act.) 2) Firm, company or any body corporate, 3) Society registered under Societies Registration Act. 4) Society registered under M.C.S. Act 5) State or Central Government. 6) Local authority such as Municipality or corporation, Zilla Parishad, etc. 7) Public trust registered under law for the registration of such trust. It means that, the unregistered trust cannot be member of the society, or a society which is not registered under M.C.S. Act should not be member of the Cooperative society. This condition of registration also applies to the firms, which include sole proprietorship, and Partnership firms subject to the law in force for these kinds of firms and company registered	Auditor to verify the conditions are fulfilled, and also classification of members

Sr.No.	Sec./Rule	Explanation	Role of auditor
		under the Companies Act,2013. The other conditions are specified in the Section 22 and Rule 19 of the Act. Rule 19 specifies conditions that, 1) the member should apply for membership, 2) the application should be approved by the committee, 3) he should fulfill the conditions of Act, rules and byelaws, 4) the body corporate should enclose the resolutions of their committee for applying for membership.	
4	S-26, R-38 R-32 R-33	**Duties and Rights of the Members and register of members :-** Section 26 is replaced in the amendment as 26(1) which provides Rights and duties of the members, which results in classification of members as active and non-active members. The section provides that, no member shall exercise the rights, until he has made such payment to the society in respect of membership, or acquired such interest in the society, as may be prescribed and specified under the byelaws of the society, from time to time. It further provides that, in case of increase in minimum contribution of member in share capital to exercise right of membership, the society shall give a due notice of demand to the members and give reasonable period to comply with. This provides an opportunity to the society to increase its share capital in due course of time, which is required to enable them to comply with the prudential norms regarding capital adequacy. Sub-section (2) of this Section also provides regarding duties of the members as:- (a) to attend at least one general body meeting within a period of five consecutive years: and (b) to utilize minimum level of services at least once in a period of five consecutive years as specified in the bye-laws of the society. There is one exception to the rule for attending the general body meeting. The member's absence can be condoned by the general body meeting of the society, but it requires that the member should communicate his absence to the society for the general body meeting, otherwise his absence will not be condoned. The register of members should be maintained in form I as per Rule 32 and list of members in form J1 and J2 as per Rule 33. This section also requires that copies of the Act, Rules and byelaws of the society should be kept open for inspection of member.	Auditor should verify 1) whether the committee has properly classified the members into Active and Non-active members as per the provisions made in the byelaws. 2) Whether the society has maintained the register of members in form I. 3) Whether the list of members in form J-1 and form J-2 has been maintained. 4) Whether the list of Non-active members is published on notice board and communicated to the member within 30 days of close of financial year. 5) Whether intimated to the Non-active members in form W. 6) Whether arrangements made by the society for the inspection of members, copy of Act, Rules, Byelaws and Register of members. Any violation of the above should be reported in Part B of his audit report.

Sr.No.	Sec./Rule	Explanation	Role of auditor
5	S-26(2)	**Classification of members:-** Provisions under sub-section (2) of the section 26 classifies the members into two category, one active and another as non-active member. The conditions laid for the non active member that a member who does not attend at least one meeting of general body and does not utilize minimum level of services at least once in a period of five consecutive years, as specified in the bye-laws, shall be classified as non- active member. The society has to communicate this decision to the concerned member within 30 days from the close of financial year. The member so classified who fulfills the eligibility criteria as provided, will be entitled to be reclassified as an active member. The non-active member, if he does not fulfill the criteria after his classification as non-active member in the next five years shall be liable for expulsion under section 35 of the Act. He is also not entitled to exercise the voting right, being non active member. Thus, it is clear that the member who fulfills the criteria shall be treated as active member.	
6	S-28	Limit for share holding - No individual member other than Government or, with the permission of Government, Zilla Parishad or Panchayat Samiti, can hold shares of the society, exceeding Rs. 20,000 or have interest exceeding one-fifth of the total share capital of the society. However, Government, have enhanced the limits for some kind of societies.	The auditor to verify from the list of share holding whether the share holding has exceeded the prescribed limit. 2) Whether the certain class of societies where the limit has been exceeded beyond Rs.20,000/- and the same should be verified and any violation should be reported.
7	S-29 R-23, 24	Share Transfers - Restrictions on transfers and procedures for transfers of shares and refund of share capital during any one-year specified in the section and Rules should be noted. Rule 23 casts the responsibility of share valuation for purpose of refunding to the members who have resigned on the auditor. The method of valuation is prescribed in sub-rule (1) in clause (ii) as- the amount of valuation shall be arrived at by dividing net worth by its number of shares. Under sub-rule 3 of the rule 23, the explanation has been given for arriving at the net worth. In these rules, the net worth means the figure arrived at after including paid up share capital and the amount	1) The auditor should verify whether the valuation of shares has been done as per Rule 23 which should be based on last audited balance sheet for the purpose of refund of share capital. 2) The auditor should verify the share transfer register and the refund of share capital during the audit period. 3) The auditor should report any violation thereof in Part

Sr.No.	Sec./Rule	Explanation	Role of auditor
		of reserves (Reserve fund, unutilized building fund, dividend equalization fund, carried forward balance of net profit, any other fund which is not marked specifically for any liability) and deducting therefrom accumulated loss, the short fall in provisions. For banking societies the guidelines of Reserve bank of India or National Bank as the case may be, shall apply. Thus, for the Urban banks guidelines of Reserve bank of India and cooperative credit structure societies guidelines of National Bank shall apply, and for all other societies, provision of valuation of share shall apply. The method of calculation and other explanatory notes are given in part I of this manual.	A of his audit report and fix the responsibility on the persons who are responsible for such violation.
8	S-43 R-35 R-36 R-37 R-38 R-39	**Borrowing, Advances and limits thereon :** ***Restrictions on Acceptance of deposits and borrowing*** **:- Under Rule 35,**Borrowing limit for all types of societies other than those specified in Rules 36 and 37 is ten times the paid-up share capital and accumulated reserve fund and building fund minus accumulated losses. Deposits in excess of this limit may be accepted with the permission of the Registrar subject to the condition that the excess amount of deposit accepted or borrowed shall be invested in Government securities which shall be deposited with the District Central Co-operative Bank in case of urban banks and societies and with the Maharashtra Co-operative Bank in case of central banks. While calculating total liabilities, amounts borrowed against security of agricultural produce or other goods have to be excluded. Central co-operative banks, urban banks, producers' societies can borrow up to twelve times their paid-up share capital plus reserve fund plus building fund minus accumulated losses. Under Rule 36 the Maharashtra Co-operative Bank can borrow up to fifteen times and land development banks can borrow up to twenty times respectively. Rule 36 provides Maharashtra State Coop. bank shall incur liability not exceeding fifteen times of its paid up share capital, and all reserves minus accumulated losses, actual bad debts , if any and overdue interest, subject to the guidelines of Reserve Bank of India and National bank.	1) The auditor should verify the borrowing limit applicable to the concerned society as per the Rules. 2) If such limit has been exceeded, whether necessary permission has been obtained from the Registrar in case of government aided societies and in other cases at Annual General Meeting. 3) If the society has accepted the liability exceeding the limit, whether such excess amount has been invested as per the provisions of the Act. 4) Any violation of the above should be reported in Part A of his audit report and a Special report also made.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		Rule 37 provides Maharashtra Agricultural and Rural Development Coop. bank shall incur liability not exceeding twenty times of its paid up share capital, and all reserves minus accumulated losses subject to the guidelines of Reserve Bank of India and National bank.	
9	S-43(2): R-40	The Registrar has been empowered to prescribe the extent and conditions for receiving deposits and loans from any creditor other than the central bank, in respect of any society or class of societies, to whom financial assistance from the Government, in the form of share capital, loan, subsidy or guarantee is provided. Other societies are required to frame their own borrowing limits in their byelaws, and have to communicate the same to the Registrar, for information. Cooperative credit structure societies have to adopt own policy, subject to the guidelines of Reserve Bank of India and National bank. The auditor has to report if the limits are exceeded and on the position of exceeded borrowings and its investments. ***Rule 46-A*** further lays down that no society shall borrow loans from non-members including banking companies, commercial banks unless specially authorized by the Registrar, subject to such conditions as may be imposed by him to enable the lender to refer any dispute to the Cooperative Court under Section 91. ***Rule 38*** provides that societies with unlimited liability should fix at the General body meeting, the maximum limit for accepting deposits and borrowing from non-members, subject to the sanction of the Registrar, who may reduce the limit for reasons to be communicated by him. ***Rule 39*** (1) lays down that the byelaws must specify the authorized share capital, value of each share, installments in which the full value of the share has to be paid and also the rights and liabilities attaching to each class of shares.	1) The auditor should verify the borrowing limit applicable to the concerned society as per the Rules. 2) If such limit has been exceeded whether necessary permission has been obtained from the Registrar in case of government aided societies and in other cases at the Annual General Meeting. 3) If the society has accepted the liability exceeding the limit whether such excess amount has been invested as per the provisions of the Act. 4) Any violation of the above should be reported in Part A of his audit report and a Special report also made.
10	S-44 A:	***Limit on interest in certain cases*** **:-** Section 44A provides that notwithstanding anything contained in any agreement or any law for the time being in force, a society (including a Cooperative Bank and a Cooperative Agricultural and Rural Development bank) shall not for any loan (including rehabilitation loan, but excluding long term loan for irrigation or agricultural	The auditor should verify about the provision of Section 44 A and see that none of the borrowers are charged interest in excess of principal. Any violation should be reported in Part A of his audit report and a special report also submitted to the Registrar.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		development purpose or loan exceeding rupees ten thousand for non agricultural or commercial purposes) for a period not exceeding 15 years, whether the loan was given before or is given after the commencement of Maharashtra Cooperative societies Act (Second amendment) Act 1985, recover, in any manner whatsoever, on account of interest, a sum greater than the amount of the principal of the loan.	
11	S-45 R-42(6)	***10. Restrictions on transactions with non-members-Section 45. Rule 42(6)*** lays down that, save as provided in this Act, the transactions of a society with persons other than members, shall be subject to such restrictions, if any, as may be prescribed. Sub-rule (6) of Rule 42 lays down that no society shall carry on transactions on credit or sanction trade credit to its members or to non-members, except with the general directions that may be issued by the Registrar in that behalf. ***Rule 46-b***, which imposes restrictions on credit sales to non-members, lays down that, *where the bye-laws of a society permit credit sales, such sales may be made to traders and other non-members, provided that the person to whom such sales are made, gives an undertaking to the society, that any dispute arising out of the transactions shall be referred to the Cooperative Court for decision under Section 91*	The auditor should verify that every person having credit transactions with the society shall be the member of society. In case of Urban credit society, deposit shall be accepted from the members only. The auditor should verify the same and any violation should be reported in Part B of the audit report.
12	R-45 (A)	***Limits against loans, against fixed deposits :-*** Although sub-section (1) of Section 44 prohibits loans to non-members, sub-section (2) permits loans to a depositor on the security of his deposit. Rule 45-A lays down limits for such loans (i.e. loans against fixed deposits). The rule lays down that when a society makes a loan to a depositor on the security of his fixed deposit with the society, the amount ***shall not exceed 90 per cent*** of the deposit amount and the period for which the loan is granted, shall not extend beyond the date of maturity of the fixed deposit. Sub-rule (2) of Rule 45-*A further provides that if the depositor does not repay the loan within the period for which it is granted, the fixed deposit amount may be adjusted towards the repayment of the loan amount and interest thereon and only the balance, if any, shall be paid by the society to the depositor on the date of maturity*.	The auditor should verify the loan granted against the fixed deposit is not in excess of 90% as on the date of disbursement. On the date of maturity, the loan must be adjusted against the deposit, if not repaid. Any violation should be reported in Part B of audit report.

Sr.No.	Sec./Rule	Explanation	Role of auditor
9	S-44 (3)	***Restrictions on loans and advances by co-operative societies*** **:-** Under this section, Government and the Registrar have been given wide powers for regulating the lending policies of co-operative societies not only to ensure safety of their funds, but also for proper utilization of such funds, in furtherance of their objects and keeping them within the loan making limits. It further provides that the co-operative credit structure is required to adopt policy for this in conformity with guidelines of the Reserve bank of India or National bank. Under sub-section (1) of section 44, loans are to be made to members only. ***Shares of the society cannot be accepted as security for any loan to a member. Non-members cannot be accepted as sureties for loans. Under provision to this section, although inter-lending between societies is prohibited,the registrar may permit such inter-lendings***, Loans may also be given to a non-member depositor against the security of his deposit subject to the restrictions laid down in Rule 45-A. Under sub-section (3) of section 44, State Government has power to prohibit, restrict or regulate grant of loans by societies on the security of any property. The provision under the Section also empowers the Registrar to regulate further, the extent, conditions and manner of making loans, with the prior approval of the Apex Bank. **Rule 42** gives wide powers to the Registrar to regulate grant of loans by societies. Sub-rule (5) provides that the Registrar, with the approval of the Apex Bank, may lay down the quantum of loans, and the period of repayment both in refund of total advances to members and societies as also against different types of securities. Under ***sub-rule (7) of Rule 42***, the Registrar has been empowered to lay down the procedure for receiving application, assessing credit limits, making enquiries in respect of production programme for which the loan is required etc. and grant of loans by Central Banks to their affiliated societies and by societies to their members. He may also impose additional conditions to ensure proper utilization of loans and sale of agricultural produce through specified co-operative organizations, before any finance is granted.	The auditor should verify the lending policy and that the same is as per the provisions of the Act, Rules and the various guidelines issued by the Registrar, RBI and Nabard regarding exposure norms, unsecured loans, objects of the society etc. Any violation should be reported in Part A of audit report. Auditor should get direct confirmation on sample basis from unsecured borrowers and borrowers with exceeded limits so as to verify whether there is any misutilisation or fraud, it should be reported in Part A of audit report and special or specific report should be submitted to the Registrar.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		Under sub-rule (1), the Registrar may prescribe margins to be maintained in respect of various types of loans and advances against moveable and immovable property, with reference to different commodities, securities or classes of societies. Under ***sub-rule (2),*** the Registrar may lay down ***maximum borrowing limits by way of cash credit at specified multiples of owned funds of the society***. Under sub-rule (3), the Registrar has been empowered to issue directives to lending institutions to ensure that adequate finance is made available for all creditworthy and production-worthy purposes. Sub-rule (6) empowers the Registrar to issue general directions regulating credit transactions of co-operative societies and grant of trade credit of their members and non-members. Under sub-rule (8), the Registrar may, by general or special order, prohibit or regulate grant of loans by the central bank to a society where he considers it neither in the interest of the society nor in the interest of the co-operative movement. He can thus keep check undesirable or unsound loan polices adopted by financing agencies. **Rule 43-** Under ***sub-rule (1) of Rule 43***, every borrowing member of society is required to hold shares of the society in proportion to the amount of the loan applied for by him as may be specified in the bylaws of the society. However, as laid down in sub-section (1) of section 44, shares held by him cannot be offered as security for the loan. Under section 46, the society has a charge and right of set-off upon the share or interest in the capital and on the deposit held by a member, past member or deceased member for the dues of the society. ***The society can also provide in its bylaws forfeiting the shares held by an expelled member***. Under ***sub-rule (2) of rule 43***, the Registrar has been empowered to lay down standards for maximum limits to be granted to members for loans and repayment of loan by members. The Registrar has issued a number of order in	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		exercise of the powers vesting in him under provisions of ***Rules 42 and 43***. These have been specified in appropriate places,and the auditor should carefully study that. Sub-rule ***(2) of Rule 43*** also provides that loans in excess of the individual limits specified in the byelaws can only be made with the sanction of the central bank or federal society. However, where the amount of the loan exceeds twice the limit specified in the byelaws, sanction of the registering authority has also to be obtained. **Rule 45** lays down restrictions on borrowing from more than one credit society by members who are members of more than one society dispensing credit. The rule lays down that every person, who is a member of more than one resource society (other than of Cooperative Agriculture and Rural multipurpose Development Bank, or a central bank or a federalsociety) dispensing credit shall, if he has not already made, make a declaration in from **'K'** that he will borrow only from one such society to be mentioned in the declaration and shall send a copy of such declaration duly attested to all societies of which he is or has become a member. The auditor should verify from the documents available at the society whether any member has borrowed from more than one credit dispensing society and comments in his audit report. Sub-rule (2) Rule 45 empowers the Registrar to remove a defaulting member [i.e. a member who does not comply with the provisions of this rule 45(1)] from the membership of any or all such societies. The Registrar has also been empowered to exempt any person from the operation of this Rule. **Rule 46** deals with the manner of recalling of loan, where the loan has been misapplied or there has been a breach of any of the conditions for grant of such loan. Sub-rule (2) empowers the Registrar to direct society to recall a loan sanctioned by it after such inquiries he may deem necessary and after giving show cause notice to the society.	

Sr.No.	Sec./Rule	Explanation	Role of auditor
	S-48	***Declarations by members of agricultural credit societies*:-**Section 48 and ***Rule 48(1)*-**Under section 48 and Rule 48 (1) every member of an agricultural credit society is required to furnish a "declaration" in from **"L"** prescribed under Rule 48, creating a charge on the lands held by him or his interest in the land cultivated by him as a tenant, for the outstanding dues of the society. A register of "Declaration" obtained from members is required to be maintained in form **"M"** under Rule 48 (2). The charge created under this section is required to be entered in the revenue records of the society (village record-of rights Forms 7 and 12) and continues to be in force until the person creating the charge ceases to be a member of the society. The society, with the approval of the Central Bank, may release part of the land from the charge with due regard to the security available to the balance of the loan outstanding. Sub section (e) of the Section 48 provides that declaration made may be varied with the consent of the society. No alienation of the lands on which charge has been created can be made until the whole of the loan with interest thereon has been repaid. For the purpose of section 48 Government has specified central financing agencies, which advance crop loans to farming societies and to gram swaraj societies in its notification No. GNC and RDD No. CSL.1061/ 3643(1) Corp G dated 28th February 1961. ***Section 48 (A)***The loan disbursed for the purpose of agriculture or for purposes mentioned in Section 111 by the Agricultural and Rural Development Bank, and when agriculture produce is tendered by him in Agriculture Produce Market committee for sale, the loan disbursed should be deducted in proportionate to the sale amount from the sale amount by the purchaser and required to submit the proceeds to the society, for recovery of loan. The percentage of recovery is mentioned in Section 48 A for sale of sugarcane at 100%; for sale of cotton at 60 %; and for other 40% of the sale amount.	Auditor should verify 1) Asset Register with declaration at primary agricultural credit society level 2) Report the discrepancies with regard to shortfall in value of mortgaged asset which should be twice the loans sanctioned in his audit report in Part B.
14	S-49	***Deduction from salary to meet dues of society*:-** A member of a society may execute an agreement authorizing his employer to deduct from his	Auditor should verify 1) whether the society has obtained required

Sr.No.	Sec./Rule	Explanation	Role of auditor
		salary / wages, payable by him to the society. On execution of such an agreement, the employer will be responsible to deduct from the salary or wages payable to his employee and pay to the society, the dues of the society, as communicated by it. The society will, however, have to send its requisition in writing. Sub-section (2) of Section 49 reads as follows: - ***"On receipt of a copy of such agreement (agreement contemplated in sub section {1}), the employer shall, if so required by the society by a requisition in writing, and so long as the total amount shown in the copy of the agreement as payable to the society has been deducted and paid, make the deduction in accordance with the agreement, and pay the amount so deducted to the society, as if it were a part of the wages payable by him as required under the Payment of Wages Act, 1936, on the day on which he makes the payment."*** If after receipt of the requisition of the society, the employer fails to deduct the amount or remit to the society, the whole of the amount deducted by him, the employer will be personally liable for payment of the dues of the society and the dues can be recovered from him as arrears of land revenue and will have priority as if they were wages in arrears. Under clause (b) of section 146, it will be an offence if any employer and any director, manger, secretary or other officer or agent acting on behalf of such employer, without any sufficient cause fails to pay a cooperative society amount deducted by him from his employee within a period of fourteen days from the date on which such deduction is made. As he fails to comply with the above provisions, his offence is punishable under Section 147 (b) of the Act. Provisions of Section 49, however, will not apply to railways, mines and oil refineries. However, the Government of India has issued special orders directing disbursing officers of such bodies to deduct dues of the societies formed by their employees, from their salaries or wages. Notifications or special orders issued by Government should be seen.	authorization for salary deduction as per agreement between employee member and society. 2) The auditor should report any violation in Part B of the audit report.

Sr.No.	Sec./Rule	Explanation	Role of auditor
15	S-64	***Property and funds of societies* :-** Chapter VI of the Act, which deals with the property and funds of societies, requires to be very carefully studied by the auditors. It is the duty of the auditors to see that the *funds contributed by members and by the State and those created out of profits remain intact.* ***Section 64 of the Act lays down that no part of the funds other than the dividend and bonus equalization funds or the net profits of the society shall be paid by way of bonus or dividend or otherwise distributed among its members.A member, however, may be paid remuneration, on such scales as may be laid down in the byelaws, for any service rendered to him by the society.*** ***The auditors of joint stock companies are held responsible for distribution of dividend out of the funds. (The West Minister Road construction Co. Ltd. 1932)***	The auditor should verify with reference to Section 64 and 65 that 1) No part of the funds other than the dividend and bonus equalization funds or the net profit of the society shall be paid by way of bonus or dividend or otherwise distributed among its members. 2) The net profit calculated is correct and proper as per accounting principles and applicable accounting standards and as per the provisions of the Act, Rules, byelaws and notifications. 3) Any amount paid to the members as remuneration for the services rendered should be provided in the byelaws and necessary resolution should be passed. Any violation thereof should be quantified and reported by the auditor in Part A of audit report and a Special Report sent to the Registrar.
	R-52	***18. Bonus Equalization Fund* :-** Sub-rule (1) provides for societies to create out of their profits a Bonus Equalization fund for payment of bonus to persons other than its paid employees who are not its members. As regards payment of bonus to paid employees, it is a charge on the net profits and has to be provided for before arriving at the amount of the net profits. Under clause (4) of Section 2 of Payment of Bonus Act, 1965, "Bonus" means payment made in cash or kind out of the profits of a society to a member or to a person who is not a member on the basis of his contribution (including any contribution in the form of labour or service) to the business of the society, and in the case of a farming society, on the basis of both such contribution and also the value or income, or, as the case may be, the area of the lands of the members brought together for joint cultivation, as may be decided by the society, but does not include any sum paid or payable as	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		bonus to any employee of the society under the Payment of Bonus Act, 1965. It has to be noted that the Bonus Equalization Fund has to be created out of the net profits and is not a charge on the profits unlike the Dividend Equalization Fund, contribution to which has already been provided for under section 65(i). Sub-rule (2) lays down that the Bonus Equalization Fund created under sub-rule (1) shall be utilized only for payment of bonus as per provisions of the bye-laws.	
	R-52	***19. Dividend Equalization Fund* :-** Sub-rule (3) provides for the creation of the Dividend Equalization Fund, out of the net profits. As regards annual contributions to be made to this fund out of the net profits, it has been laid down that contribution in any one year shall not ***exceed two percent of the net profits.*** Also, contribution to this fund should cease when the amount of the fund amounts to ***nine percent of the paid-up share capital***. Drawings for this fund are permitted only when the society is unable to maintain uniform rate of dividend it has been paying during the last five years or more. Sub rule (4) provides that no society shall declare a dividend at a rate exceeding that recommended by its committee.	
16	S-65 R-49 (A)	***Arriving at net profit* :- *Section 65***, and Rule 49 (A) deals with the manner in which the net profits are to be calculated. Interest overdue, *i.e.,* interest accrued and accruing in accounts, which are overdue, cannot be taken to profits. In other words, ***only interest, which has been actually realized and interest accrued and accruing in accounts in which no part of the principal is overdue, can be taken to profits***. If such overdue interest is included in the profits, necessary provision will have to be made. Provision for overdue interest is either deducted from the total amount of interest taken to profits or shown on the liability side under the heading ***"Sundry Creditors and Provision."*** The Rule further lays down that the following deductions shall be made before arriving at the figure of net profits :-i) all interest accrued and accruing on amount of overdue loans(excepting overdue amount of loans against fixed deposit, gold, etc.)	The auditor to verify that 1) the net profit arrived is as per Section 65 and Rule 49(A). 2) The net profit distributed as dividend during the year for the previous year was done only after considering the qualification with respect to net profit, by the earlier auditor in his report Any violation should be quantified as per Rule 69 (3) and report accordingly with qualification. This should be given in Part A of the audit report and a special report submitted to the Registrar.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		(ii) Establishment charges (iii) Interest payable on loans and deposits (iv) Audit fees or supervision fees (v) Working expenses including repairs and maintenance, rent and taxes; (vi) Deprecation; (vii) Bonus payable to employees under the Payment of Bonus Act, 1965 (viii) Provision for payment of income-tax; (ix) Provision for amount to be earmarked to contribution to the cooperative education and training fees. (x) Provision for election fund for payment of election expenses (xi) Provision for Bad and doubtful Debt Fund; (xii) Provision for Share Capital Redemption Fund; (xiii) Provision for Investment Fluctuation Fund; (xiv) Provision for retirement benefits to employees; (xv) Provision for any other claim admissible under any other law. (xvi) Provision for amounts required for writing off bad debts and loss not adjusted against any fund created out of profits. (xii) Expenses for advertisement, propaganda and publicity relating to activities and the business of society within the limit specified by the Registrar or The State Government. Interest accrued in the preceding years, but actually recovered during the year, *i.e.*, the portion of overdue interest actually recovered, may be added to the net profits. The sub-section further provides that the net profits arrived at in the manner specified above, together with the amount of profits brought forward from the previous year, shall be available for appropriation. Sub rule (2) of Rule 49 (A) further provides for additional deductions from its profits as :- (a) contribution , if any, to be made to any sinking fund or guarantee fund constituted under the provisions of the Act, rules and bye-laws for ensuring due fulfillment of guarantee given by the Government; (b) Provision considered necessary for depreciation in the value of any security, bonds or shares held by the society as investment. The auditor should verify that, the society has	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		provided the depreciation on all the assets as per the Accounting Standards notified by ICAI or State Government. The provisions which are to be made as per various acts as provided in Rule 49 (A) should also be verified. ***17. Appropriation of Net Profits*** **:-** The manner in which the net profits are to be appropriated has been laid down in sub-section (2) of section 65. However, Rule 51 lays down that the following further deductions shall be made from the net profits before they are available for appropriation under sub-section (2) of Rule 49 A- (i) Contribution to be made of any sinking fund or guarantee fund constituted under the provisions of the Act, Rules or bye-laws of the society to ensure due fulfillment of any guarantee given by Government in respect of loans raised by the society. (ii) Provision considered necessary for depreciation in the value of any security, bonds or shares, held by the society as part of its investments; (iii) Provision required to be made for the redemption of any share capital contributed by Government of a federal society. Items (ii) and (iii) of the above have already been specified in Rule 49 A (1) and only the first item, *viz*., contribution to the guarantee fund has to be provided for before arriving at the figure of net profits. It will be seen from the sub-section that not only the mode of calculation of net profits has been prescribed, but the sub-section also provides for the manner for appropriating the net profits inasmuch as a number of deductions to be made under the sub-section cannot be strictly charged to profits, but properly from an appropriation of the net profits. Quite a number of provisions required to be made and a few other amounts to be compulsorily deducted are not admissible under the Income-tax Act and The profit and Loss Account will have be recast for purposes of filling in the Income-Tax Return. Sub-section (2) of Section 65 provides that the net profits calculated in the manner laid down above {in sub section (1)} may be appropriated to the reserve fund or any other fund, the payment of dividend to members on their shares, to the payment of bonus on the basis of support received	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		from members and persons who are not members to its business, to payment of honoraria and towards any other purpose which may be specified in the rules or byelaws. The other purposes for which profits can be appropriated have been specified in Rule 50(1). They are education and enlightenment of the members of the society as also any co-operative of charitable purpose including relief to the poor, education, medical relief and advancement of any other general public utility, provided that the ***expenditure on such items does not exceed 10 per cent of the net profits***. Section 65 further lays down that no part of the profits shall be appropriated except with the approval of the annual general meeting and in conformity with the Act, Rules and Byelaws. Provisions of the Act and the Rules have already been explained above. The auditor will have to study carefully the relevant byelaws of the society, which specify the manner of appropriation of the net profits. ***In particular, it should be seen that appropriations are made towards the creation and maintenance of only such funds as are permitted to be created and maintained under the provisions of the Act, Rules and Byelaws of the society. If the society has created other fund, which is not provided for under the Act, Rules and Byelaws of the society, the auditor should raise his objection to it.*** ***12. Creation and Maintenance of the Bonus and Dividend Equalization Funds.*** - Bonus Equalization Fund Rule 52 provides for the creation of the Bonus Equalization Fund and the Dividend Equalization Fund.	
	S-66	***20. Reserve fund*:-** It provides for the maintenance of the statutory reserve fund. Sub-section (1) lays down that every society, which does, or can derive a profit shall maintain a reserve fund. Thus, all societies, expect those which do not undertake any business activities and do not earn profits, are required to maintain a reserve fund. Sub-section (2) lays down that, every society shall ***carry at least one-fourth of the net profits each year to the reserve fund***. The Section, however, empowers the Register, having regard to the financial position of any society or class of societies, to fix the contribution to be made to	The auditor should verify that 1) The appropriation of profit is calculated after considering qualifications raised by the auditor for the correctness of the net profit. 2) If the society has appropriated less than 25% of the net profit, necessary permission is obtained by the society from the Registrar. Any violation / discrepancies thereof should be reported in Part B of audit report.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		the reserve ***fund at a lower rate, but not lower than one-tenth of the net profits*** of the society or societies. The sub-section further provides that the reserve fund may be used in the business of the society or may, subject to the provisions of section 70, be invested, in any other mode than the sub section (a) permitted by the rules ,or by general or special order in that behalf by the State Government. The state Government by notifications stated under below permitted societies to contribute the reserve fund for the purpose mentioned below under Section 66(2). Sub-rule (1) of Rule 54, however, requires that the reserve fund shall be separately invested in the modes given below. (c) In the debentures issued by the apex Co-operative Agricultural and Rural M.P. Development Bank, or in Government loans, or (d) In any immovable property the Registrar by a general or special order. It further provides that in case of a society whose reserve fund is equal to or more than its paid-up share capital, such society may invest that portion of the reserve fund which is in excess of its paid-up share capital, or a portion thereof, in its business decided by general body meeting with prior approval of the Registrar. *In the case of Central Banks or State Co-operative Banks, the registrar may authorise such banks to invest fifty per cent of their reserve fund in their business*. Sub-rule (2) of rule 54 further lays down that no society whose reserve fund has been separately invested or deposited shall draw upon, pledge or otherwise employ such fund except with the prior sanction of the Registrar. *The requirements of this rule would be met if the society earmarks specific securities purchased or held by it as representing investment of the reserve fund. There should be a resolution of the Board or the Committee specifying the securities, which have been so earmarked.* Under sub-rule (3) of Rule 54, Bonus Equalization Fund Bonus Equalization Fund co-partnership housing societies are permitted to utilize their reserve fund for maintenance, repair and renewal of the buildings of the society. Under sub-rule (4) of Rule 54, processing	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		societies are permitted to utilize their reserve funds for the acquisition, purchase or construction of land, building or machinery and development of lands, building, and machinery as decided in the General body meeting with prior approval of the registrar. Section 70 provides investment in District Central Cooperative Banks and State Cooperative Banks having 'A' audit class for the last 3consecutive years.In case where no bank is eligible under this criterion, sub rule provides that the society may invest its funds in a mode permitted by the State Government or the Registrar authorised by the State Government in this behalf.	
	S-67	***Restriction on dividend :-*** Section 67 restricts the society from paying dividend to its members at a rate exceeding 15 percent except with prior sanction of the Registrar. It thus means that the societies whichwant to pay dividend at more than 15 % are required to obtain permission from the Registrar. This section further provides that, the primary agricultural credit Co-operative society shall pay dividend to its members as per guidelines issued by the Registrar, in accordance with criteria specified by the National bank. The National bank has also specified certain criteria for the District Central Banks and State Co-operative Bank. The Reserve Bank of India has also restricted payment of dividend in case of Urban Banks who are not fulfilling the terms and conditions of prudential norms, they have to take prior permission from the Reserve Bank of India	Auditor should verify that 1) the dividend has not been distributed more than 15% of the capital 2) if the dividend is paid more than 15% of the capital, prior permission from the Registrar is obtained. Any violation should be reported in Part A of audit report with quantification.
	S-68 S-24 R-20 (B)	***22. Contribution to Education Fund-Section 68:-*** Under Section 68, Sub section 3 provides for recovery of the arrears of education fund contribution as arrears of land revenue, and after the receipt from the federal society, the registrar should grant certificate for recovery of the amount due as arrears of land revenue after making such inquiry as he deems fit. However, as per amendments in constitution and accordingly in Act, the above Sub section (1) to (3) ceases to be in force, and only arrears of education fund are required to be collected by the federal society as per sub section (4) and (5) of the Act.	Auditor should verify that, 1) Adequate provision for education and training fund has been made for the training of members, employees and committee members. 2) Whether training has been imparted as per Act and Rule. Any violation should be reported in Part B of audit report.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		***23. Co-operative education and training fund*:-** Sub section (3) of the Section provides that, every society shall contribute towards the education and training fund of the state federal societies or state apex training institutes, notified under sub section (1) of the section 24(A), at such rates as may be prescribed, and different rates may be prescribed for different societies or classes of societies.	
	S-69	***Charity Fund* :-** It deals with contribution to public purpose and creation and maintenance of the charity fund by societies. The section lays down that- (i) Contributions to the charity fund shall be made only after transferring necessary amounts to the statutory reserve fund. (ii) Contribution to the fund in any year shall ***not exceed 20 per cent*** of the net profits for the year. (iii) Payments from out of the charity fund shall be made only with the approval of the State Federal Society, (iv) Contributions shall be made only for : - (a) Any Co-operative purpose, or (b) Any charitable purpose within the meaning of section 2 of the Charitable Endowments Act, 1890, or (c) Any other public purpose. (v) There is no restriction on the amount to be paid. The entire amount or only part of the amount can be paid. Under Section 2 of the Charitable Endowments Act, charitable purpose includes relief to the poor, education, medical relief and advancement of any other public utility.	Auditor should verify that 1) The charity fund is created out of net profit by way of appropriation and not by charging to the profit and loss account. 2) Prior permission of the federal society is obtained for utilization of charity fund. Any violation with respect to creation or utilization, should be reported in Part B of audit report.
	S-70	***Investment of funds* :-** Section 70 deals with the different modes in which a society may invest its funds which are as follows. (a) In a District Central Co-operative Bank or the State Cooperative Bank, having been awarded at least"A" audit class in for the last three consecutive years; (b) In any of the securities specified in section 20 of the Indian Trust Act, 1882; (c) In the shares or security bonds, or debentures, issued by any other society with limited liability and having the same classification to which it belongs;	Auditor should verify that 1) whether the investment has been done by the society as per the provisions of Section 70 and notification therof. 2) in case of co-operative banks, the same should be done as per the RBI/Nabard circular. Any violation with respect to investment, should be reported in Part A of audit report submitted to the Registrar.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		(d) In any other mode permitted by the Rules, or by general or special order of the State Government. Where there is no bank eligible as referred to in clause (a) of Section 70, the society is permitted to invest its funds in a mode permitted by the State Government or the Registrar as authorised by the State Government in this behalf as per sub-rule (6) of the Rule 55. Government of Maharashtra has issued a notification number CCR/1113/P.K.1301 dated 05/12/2013 permitting co-operative society to invest its fund where there is no District Central Co-operative Bank having 'A' audit class in for the last 3 consecutive years in that district with Regional Rural Bank, Nationalized bank and Urban co-operative banks having A audit class in last 3 consecutive years.	
	R-54	***investment of Reserve fund :-*** (e) To the extent of Paid up share capital, Reserve fund shall be invested as per modes prescribed in Section 70. The society may invest its Reserve fund which is in excess of its Paid up share capital in its business as decided by General Body Meeting with prior permission of the Registrar. The cooperative credit structure entity shall invest its funds subject to guidelines as may be issued, from time to time by Reserve bank of India. For newly registered society, it should open its accounts in Urban Co-operative banks having 'A' audit class for the last 3 consecutive years, Nationalised banks and Regional Rural banks subject to the condition that there is no District Central Co-operative Bank in A audit class for the last 3 consecutive years as per above referred notification. As per Rule 54, the Reserve fund shall be invested in addition to the modes specified in Section 70, in one or more modes specified as follows :- 1) Debentures issued by Apex bank or Government loans. 2) any immovable property, 3) in case of society with the object of housing on co-partnership basis, the reserve fund may be for expenditure on maintenance, repairs and renewal of building, 4) in case of processing society, the reserve fund may be utilized in the acquisition, purchase of land or construction of building,	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		No society shall draw upon, pledge or otherwise employ such funds except with the sanction of the Registrar previously obtained in writing. Under clause (c) of section 146, if a committee of a society or member thereof or an officer fails to invest funds or the society in the manner described in Section 70, he commits an offence and under clause (c) of section 147, is liable to a fine which may extend to rupees five thousand.	
	R-55	***Investment of other surplus funds*** **:-** Under Rule 55(1), a society is permitted to invest its funds (other than the reserve fund) in any of the modes specified in section 70, when such funds are not utilized for the business of the society. **Explanation :-** Section 70 deals with investment of funds. A society can always invest its funds in activities which it is permitted to undertake under provisions of its byelaws. What the section contemplates is investment of surplus funds, *i.e.*, funds that are not immediately required for purposes of its business. Under 55(1), business of the society includes investment in immovable property with prior sanction of the Registrar. Rule 55 (2) empowers the Registrar, in case of any society or class of societies, to specify by a special or general order, the maximum amounts to be invested in any class of classes. Every society which has invested an amount not less than 10% of its working capital in securities shall be required to constitute an investment fluctuation fund. ***Investment for collaboration*** **:-** Sub rule (5) of the rule 55 provides for investing funds for collaboration as per sub-section (1) of Section 20A, if it is necessary to invest the funds of the society or societies in such collaboration.	
	R-51	***Constitution of Investment Fluctuation Fund*** **:-** Under Clause (ii) of Rules 51 provision is considered necessary for depreciation in the value of any security, bonds or shares held by the society as part of investments has to be deducted before	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		arriving at the figure of its net profits. Contributions to the Investment Fluctuation Fund is required to be made by every society, which has invested more than then Ten percent of its working capital in securities.Contributions to the investment Fluctuation fund are to be charged to profits under this rule, Rule 55 (3) also empowers the Registrar to direct the society that a specified percent of the net profits every year shall be credited to the Investment Fluctuation Fund until, in his opinion, the amount of the fund is adequate to cover anticipated losses arising out of the disposal of the securities.	
	S-71	***Employees' Provident Fund-Section 71* :-** Section 71 and Rule 56 deal with the maintenance and investment of provident fund for employees. The section permits a society to establish provident fund for its employees and also to make contributions to that fund. However, the amount of the fund cannot be utilized in the business of the society, but has to be invested as provided in Section 70. Every society, which has established a provident fund for its employees, is required to frame regulations with the previous approval of the General body meeting, for the maintenance and utilization of the provident fund for its employees. Among other matters, the regulations must provide for the following: - (i) Amount (not exceeding ten percent of the employees' salary) of contribution to be deducted from the employees' salary. (ii) The rate of contribution (not exceeding the annual contribution made by the employee) to be made by the society: (iii) Advances, which may be made against the security of the provident fund; (iv) Refund of employees' contribution and contribution made by the society; (v) Mode of investment of the provident fund and payment of interest thereon. Sub-section (2) of Section 71 and rule 56 , however, provides that notwithstanding anything contained in sub-section (1) above, a provident fund established by a society to which the Employees' provident Fund and miscellaneous Provisions Act, 1952, is applicable, shall be	The auditor should verify 1) Applicability and compliance of provisions of the EPF Act 1952. 2) Whether PF has been correctly deducted from salary and the same along with employer's contribution has been paid to the fund within stipulated time.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		governed by that act (*i.e.* by the Provident Fund and miscellaneous Provisions Act and not by this section).	
	S-71	***Utilization funds not for personal Use* :-** Section 71 (A) prohibits incurring of expenditure on defraying the costs of any proceedings filed or taken by or against any officer of the society in his personal capacity under sections 78, 78A, or 96. These sections deal with removal of committee members, expenditure incurred for disputes in Co-operative Court like fees and expenses payable to Court, and Disputes relating expenses towards Election of managing committee respectively.	Under Section 81 (2) (vi) auditor has to verify whether the society has charged any personal expenses to revenue account. Section 71 A, deals with personal expenses, hence the auditor should see that such expenditure is carefully verified and reported in his report accordingly.
	S-73	**Management of societies** ***Management of societies-Section 73. -Duties* :-** Section 73 deals with the constitution of the managing committee, its power and functions. The section lays down that the management of the society shall vest in the committee constituted in accordance with the Act, Rules and byelaws of the society. The committee shall exercise such powers and perform such duties as may be conferred or imposed respectively by this Act, the Rules and the byelaws. Powers to be exercised and duties to be performed under the various provisions of the Act and the Rules. The various provisions of Act, and Rules as explained herein should be carefully studied. 1) Amendment in byelaws 2) Accepting and sanctioning application for membership, resignations of membership, expulsion, etc. 3) Taking decisions regarding amalgamation, reorganization, reconstruction, partnership, and collaboration of societies, for smooth conduct of business. 4) Transfer of shares. 5) Making available to members the books and records open for inspection. 6) Taking decision for borrowing, fixing its limits. 7) Making loan policy, disbursement, and sanction thereof, recovery of loans, and action for recovery.	The auditor should verify 1) The minutes of the committee and sub committees, decisions taken at the meeting, and their correctness according to the Act, Rules and Byelaws. 2) Any financial impact of such Act or Omission is to be reported separately. 3) Whether statutory returns were filed by the society.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		8) Transacting day-to-day business, with the help of the officers appointed by the society. Taking policy decisions for the activities undertaken by the society. 9) Conducting meeting, Annual General Body Meeting, Special General Body Meeting, appointing sub committees, reviewing the decisions of sub committees. 10) Proper utilisation of funds and its investments. 11) Sanctioning of financial statements, their review, budgets and monitoring the budgetary provisions, and submission of required returns as provided in sub section (2) (2A) and (4) of the Section 75 in form "X". 12) Conducting elections on due dates, and managing the societies affairs as per byelaws, communicating probable dates of election of committee to the State Co-operative election authority, as required. 13) Submitting audit rectification reports, and other reports of financial agencies and from Co-operative department. 14) Dealing with all types of disputes arises while conducting the business of society. 15) All other duties specified in the Act, rules and byelaws of the society. The byelaws also contain specific provisions relating to the constitution of the committee, the powers to be exercised by it and the duties entrusted to it. The committee generally exercises all powers except those, which have been especially reserved for itself by the general body or denied to the general body by law. ***It is to be noted that ultra vires acts of the committee are not binding upon the society, if the byelaws define its powers and duties exactly. Byelaws of the society should, therefore, be gone through carefully.***	
	S-74	***Qualifications of the Officers of the society*:-** Although section 74 lays down that the qualifications for the appointment of the secretary, accountant or any other officer shall be as may be prescribed, no rule has so far been framed laying down specific qualification for appointment to these posts.	The auditor should verify that, CEO, MD, Admin Head of the society by whatever name should possess a qualification and experience as per "Fit and Proper Criteria" as specified by RBI in case of bank and in case of other societies as specified by the Registrar.

Sr.No.	Sec./Rule	Explanation	Role of auditor
	S-73	***Joint and Several Responsibility of Directors :*** The sub section (1) (AB) of the section 73 provides that the members of the committee are jointly and severally responsible for the decisions taken by the committee during its term relating to the business of the society. However, they will not be responsible if the losses incurred by the society or on account of any natural calamities, accident or any circumstances beyond the control of such members. Before fixing any liability, the Registrar should inspect the records of the society, and decide if the losses are due to the acts or omissions on the part of the committee members or otherwise as stated above. The sub section further provide that the member who does not agree with any of the resolution or decision of the committee may express his dissenting opinion which should be recorded in proceedings of the meeting and if he so desires may also communicate in writing his dissenting note to the Registrar within 15 days from the date of said resolution of decision or from the date of confirmation of the said resolution or decision. He shall not be held responsible for the decisions embodied in the said resolution or such acts or omissions committed by the committee of that society as per the said resolution. Also those members will also not be held responsible who were absent when such decisions were taken and who subsequently dissented to the resolution at the time of their confirmation.	The auditor should verify that, any loss caused to the society due to decision taken or omission on the part of the board, which is detrimental to the society, shall be submitted to the Registrar by way of Special Report considering the provisions of Section 81 (5B) read with Section 88.
	S-73	***Reservation and restrictions for the committee memberships*** **:-** Under various sections of the Act, reservations are mandated, which include scheduled castes, scheduled tribes, other backward classes, denoted tribes, nomadic tribes, women as per section 73 B. In these categories, three seats are reserved and any vacancy from the concerned category shall be filled with the same category by way of nomination or election as the case may be.	
	S-73	***Disqualification for holding offices*** **:-**Section 73F lays down that a member whose near relative is dealing in goods for purchase of which loans are given by a society is not eligible to be on its committee. Rules 57 and 58 specify further disqualification for holding officers in societies. Under Sub-rule (1) of Rule 57, no officer of a society shall have any direct or indirect interest	The auditor should examine whether there are any acts or omission on the part of committee members which constitutes disqualification. Any of such violations should be reported in Part B of audit report.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		otherwise than as such officer: - (a) In any contract made with or by the society, or (b) In any property sold or purchased by the society; or (c) In any other transaction of the society except as a depositor or borrower of the society or occupant of residential accommodation provided by the society to its employees. Sub-rule (2) lays down that no officer of a society shall purchase directly or indirectly, any property of a member of the society sold for the recovery of his dues to the society. Sub-rule (1) of section 73CA lays down further disqualification for membership of the committee. No person shall be eligible for appointment, nomination, co-option or election as a member of the committee of a society if. - (a) He is in default of any society; which includes- 1) Default in repayment of the crop loan on due date. 2) In case of term loan defaults, the payment of any instalment of the loan granted to him, 3) In case of any society (a) A member who has taken anamat or advance; or (b) A member who has purchased any goods or commodities on credit or availed himself of any services from the society for which charges are payable and fails to repay the full amount of such Anamat or advance or pay the price of goods or commodities or charges for such service, after receipt of notice of demand by him from the concerned society or within thirty days from the date of withdrawal of Anamat or advance by him or from the date of delivery of goods to him or availing of services by him, whichever is earlier. (c) In case of non agricultural credit societies, a member who defaults in the payment of any instalment of the loan granted, 4) Sub section (e) of section 73CA: (i) In the case of housing societies, a member who defaults in the payment of dues to the society within three months from the date of service of notice in writing served by post under certificate of posting demanding the payment of dues.	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		(ii) He is in the opinion of the Registrar, persistently and deliberately committing breach of the co-operative discipline with reference to liking up of credit with co-operative marketing or co-operative processing, or (iii) He has been held responsible under Section 79 or 88 or has been held responsible for payment of cost of inquiry under section 85, or (iv) He has incurred any disqualification under this act or the rules made there under; or (v) Carries on business of the kind carried on by the society either in his name or in the name of any member of his family, or he or any member of his family as a partner in a firm, or a director in a company which carries on business of the kind carried on by the society; or (vi) Is a salaried employee of any society (other than a society of employees themselves) or holds any office of profit under any society, except when he holds or is appointed to the office of the Managing Director or any other office declared by the state Government by general or special order not to disqualify its holder or is entitled to be or is selected or elected to any reserved seat on the committee of a society under section 73 (BB). (vii) He has more than two children, after the date of commencement of this provision *i.e.*, after 7.9.2001. For the purpose of this clause (v) of the sub section (e) of section 73CA, the family includes, wife, husband, father, mother, brother, sister, son, daughter, son-in-law, or daughter-in-law (as explained in sub section (2) of section 75) . (viii) if he is guilty of any offence under section 146 and has been convicted under section 147 or; (ix) he has been convicted with imprisonment of not less than one year for an offence under the provision of any law for the time being in force. Sub- section (f) of section 73CA provides disqualifications for District Central Co-operative and State Co-operative Bank as: (i) A person who is elected on the board of District Central Bank from other the primary agricultural Co-operative society, if the society has failed to pay dues of Bank within 90 days.	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		(ii) A person who is representing from primary agricultural credit society and he is defaulter in primary agricultural society. Sub section 3 and 4 provides that the member who is disqualified due to reasons stated in clauses (i) to (ix) of the sub section (A1) of section 73CA becomes eligible to be re-nominated, re-co-opted, or re-elected as member of the committee as soon as such disqualification ceases to exist.	
	S-72	***General Meetings-Section 72***. -Section 72 lays down that the final authority of every society shall vest in the general body of members in general meeting, summoned in such a manner as may be specified in the byelaws. Byelaws of societies contain specific provisions regarding convening general meeting (both annual and special) and business transacted, these should be noted. Rule 59 prescribes the procedures to be followed at the first general meetings of the society. Rule 60 lays down the procedure for calling general body meeting within the period as specified in sub-section (1) of the section 75, it means it must be called prior to 30th of September every year. The manner in which business of the meeting is to be transacted. Notice of every meetings has to be sent not only to all members of the society, but also to the Registrar and if the audit memo is to be considered to the auditor appointed under section 81 also. The business transacted in the annual general body meeting is specified in sub-sections (2), (2A) and (4) of Section 75 as specified in form "X". Under sub-rule (2), no general meeting can be held or proceeded with unless the number of active members sufficient to form a quorum as specified in the byelaws is present. Provisions regarding adjournment of meetings and holding of adjourned meeting should also be noted (sub-rule 10).	
	S-75	***Annual General body Meeting***. -Sub-section (1) of Section 75 lays down that every society shall hold its annual general meeting within six months after the close of financial year. There will not be any extension granted to hold the annual general body meeting. The society is required to get its accounts audited within four months after the close of financial year. Under rule 61, every society is required to	The auditor should verify that 1) the minutes of the board of directors so as to ensure that, the annual financial statements have been adopted by the board before 15th May of the next financial year. 2) whether annual general body meeting is held within

Sr.No.	Sec./Rule	Explanation	Role of auditor
		prepare its annual statements of accounts within forty-five days of the close of the co-operative year, which is 31st March, in case of all societies. The annual accounts of all societies are, therefore, required to be prepared before 15th May of every year. If the society does not call its meeting within the prescribed period, the Registrar has been empowered to call the meeting himself or authorize any person to call the meeting and recover the expenses from the society or from the defaulting officers of the society. Under rule 61, the following are the annual statements of accounts to be prepared by the society, copies of which are required to be sent to the auditor appointed by the society, within fifteen days from their preparation. (i) Statement showing receipts and disbursements during the previous co-operative year. (ii) The profit and loss account for the year; (iii) The balance sheet as at the close of the year. The rule further lays down that these statements shall be open for inspection by any member of the society. Sub-section (2) of section 75 lays down that at every annual general body meeting of the society, the committee shall lay before the society the following statements. - (i) A statement showing the details of the loans (if any) given to any of the members of the committee or any member of the family, including a society or firm or company of which such member or members of his family is a member, partner or director, the details of repayment of loan made during the preceding year and the outstanding and overdue of that year. Family includes as explained in explanation 1 of this sub section- wife, husband, father, mother, brother, sister, son, daughter, son-in-law, or daughter-in-law of any committee member. (ii) Annual report of its activities; (iii) plan for disposal of surplus; (iv) list of amendments of the byelaws of the society, if any; (v) declaration regarding date and conduct of its election of its committee, when due; (vi) audit report of the preceding financial year; (vii) rectification report of earlier audit;	time limit and also verify the register of attendance of members is kept by society and is properly closed, sealed and signed by Secretary/ Manger/Managing Director.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		(viii) annual budget for the next year; (ix) any other information required by the Registrar in pursuance of any of the provisions of the Act and rules; and (x) such other business will be transacted as may be laid down in the bye-laws and of which due notice has been given. Under rule 62, the balance sheet and the profit and loss account are required to be in form "N". In the case of a society not carrying a business for profit, an income and expenditure statement instead of the profit and loss account is to be placed before the annual general body meeting.	
	S-75	***Appointment of auditor*** **:-** Sub-section 2A of the section 75 provides that, the society shall appoint auditor or auditing firm from the panel approved by the State Government in this behalf in the annual general body meeting having such minimum qualification and experience as laid down in section 81 for current financial year. The auditor shall not be appointed for more than three consecutive years by the annual general body meeting of the same society. ***Contents of the Annual Report***. -Under sub-section (3) of section 75, the following matters are required to be dealt with in the annual report of the committee: - (a) The state of the society's affairs; (b) The amounts proposed to be carried to the reserve fund; (c) The committee's recommendations regarding amounts to be paid by way of dividends, bonus or honoraria to honorary workers. (d) Any changes which have occurred during the year in the nature of the society's business. The committee's report is required to be signed by the Chairman or any other officer authorized to sign on behalf of the committee. Sub-section (4) lays down the business to be transacted at the annual general meetings. The section states at every annual general meeting, the balance sheet, the profit and loss account, the audit memorandum of preceding financial year,	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		submitted by the auditor appointed under section 81, rectification report of earlier audit and the committee's report shall be laid for adoption and such other business will be transacted as may be laid down in the byelaws and of which due notice has been given. It will thus be seen that in addition to the items specified in the bye-laws and of which due notice has been given (*i.e.* which have been included in the agenda for the meeting) can be considered at the annual general meeting. Sub-section (5). -Penal provisions for non-compliance of the above provisions. If default is made, in calling a general meeting within the period, or as the case may be, within the extended period or in complying with the provisions of sub-sections (2) (2A), (3) or (4), the Registrar may declare any officer or member of the committee whose duty it was to call the meeting or to comply with the above provisions, disqualified for being elected and for being an officer or member of the committee for five years. If the officer is a servant of the society, he may impose a fine not exceeding Rs. 5000.	
	S-76	Section 76 contains provisions regarding convening of special general body meetings. Under clause (ii) of sub-section (1), the Registrar may direct a society to call a special general meeting. Under sub-section (3), if the society fails to call the meeting, the Registrar may himself call the meeting and take action against the defaulting committee or officer.	
	S-79	***Accounts of Co-operative Societies-Section 79***-This section is of special importance to auditors. Under the section, the Registrar has been empowered to direct any society or class of societies to keep proper accounts, in such form, including electronic or any other form, as may be prescribed, with respect to- (i) All sums of money received and expended by the society and matters in respect of which receipts and expenditure take place. (ii) Sales and purchases of goods by the society, and	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		(iii) The assets and liabilities of the society. Rule 65 further lays down that every society shall keep certain essential account books specified in the rule. Sub-section (1) of Section 79 further empowers the Registrar to direct any society (i) to furnish such statements and returns and (ii) to produce such record as he may require from time to time. Sub section (1A) of section 79 provides specific returns to be submitted by the society, which includes: a) annual report of its activities; b) its audited statements of accounts; c) plans for disposal of surplus funds as approved by the general body meeting of the society; d) list of amendments to the bye-laws of the society, if may; e) declaration regarding date of holding of its general body meeting and conduct of elections when due; f) any other information required by the Registrar in pursuance of any of the provisions of the Act. Sub section (1B) of section 79 further requires the society to submit the name of the auditor or auditing firm appointed in annual general body meeting with his written consent, within one month from the date of annual general body meeting. Rule 67 enforces the society to furnish the returns in "Y" form and electronic form to Registrar within specified period. It will thus be seen that the Section empowers the Registrar not only to direct any society or class of societies to maintain necessary account books and registers and produce them whenever required by him (*viz*., for the purpose of audit under Section 81, inquiry and inspection under section 83 and 84 and to the Examining Officer authorized by the Registrar under section 88), but also to furnish to him such statements and returns as he may require. The provisions have been further amplified in rule 67.	The auditor should verify that, statutory returns required under Section 79 (1A) and (1B) have been filed with the Registrar within time limit
	S-79	***Powers of the Registrar*** : Sub-section (2) of Section 79 deals with the powers of the Registrar to enforce performance of obligations. Where any	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		society is required to take any action under this Act, the rules or the byelaws, or to comply with an order made under sub-section (1) of Section 79 and such action is not taken within the time specified in the Act, Rules or byelaws or the order of the Registrar and where no time has been specified for compliance notice in writing specifying the period within which action should be taken by the society. Where no action is taken by the society, the Registrar may himself or through any person authorized by him, take such action at the expense of the society and recover the expenses from the society as arrears of land revenue. Sub-rule (2) of Rule 67, prescribes the procedure for enforcement of these provisions. Under sub-section (3), the Registrar has further been empowered to hold responsible opportunity of being heard, may order them not only to reimburse the society the expenses paid to the State Government as a result of their failure to take action, but further to pay to the society an amount not exceeding Rs. 100 as may be ordered by him, for each day until the Registrar's directions are carried out. Sub section (4) provides for scrutinizing the returns submitted by society by him or by person authorised by him, and take further action thereon, if required.	
	S-79 A	***Government's powers to give directions-Section 79 A***. –This section, which has been newly added, gives powers to Government to give directions where public interests are affected. Whereas the previous section, section 79, empowers the Registrar to direct societies to, maintain proper accounts, to produce books and accounts and furnish statements and returns to him, this section (Section 79-A) empowers the State Government to give directions in regard to the management of the society and conduct of its affairs. ***The Section States-*** (1) If the State Government, on receipt of a report from the Registrar or otherwise, is satisfied that in the public interest or for the purpose of securing proper implementation of co-operative production and other development programs approved or undertaken by Government, or to secure the proper management of the business of	

Sr.No.	Sec./Rule	Explanation	Role of auditor
		the society generally, or for preventing the affairs of the society being conducted in a manner detrimental to the interest of the member or of the depositors or the creditors thereof, it is necessary to issue directions to any class of societies generally or to any society or societies in particular, the State Government may issue directions to them, from time to time and all societies concerned as the case may be, shall be bound to comply with direction. (2) The State Government may modify or cancel any directions under sub-section (1) and in modifying or canceling such directions may impose such directions as it may deem fit. Under section 78 & 78A, the Registrar has been given power to supersede, remove or suspend the entire committee or one or more members under circumstances specified in the section.	
	S-80	***Power to seize records, and procedure thereof etc.-Section 80*** gives powers to the Registrar to seize records and property of the society where he is satisfied that they are likely to be suppressed, tampered with or destroyed, or the funds and property of a society are likely to be misappropriated or misapplied. The procedure for seizing the records has also been specified in sub-section 2 of the Section 80, wherein it is explained that, "on receipt of an application under sub-section(1) the Magistrate shall forthwith consider such application and, if satisfied that immediate action is required, shall authorise any police officer, not below the rank of a sub-inspector, to enter and search any place where the records and property are kept or likely to be kept, and to seize them and hand over possession thereof to the Registrar or the person authorised by him, as the case may be." In Sub section 3 of Section 80, it is provided that if the Registrar or an officer not below the rank of District Deputy Registrar is satisfied that immediate action is required to be taken, or the Executive Magistrate having jurisdiction is not likely to be available at the head quarters for a consecutive period of three days, or the books and record of a society are in immediate danger of being tampered with or funds and property of society are in immediate danger of being mis-appropriated or misapplied , the Registrar or the said officer may, notwithstanding anything	If situation warrants, the auditor should follow the procedure laid down in Section 80 and Rule 68.

Sr.No.	Sec./Rule	Explanation	Role of auditor
		contained in sub section (1) and (2) make an order to seize such books, record or funds of the society either himself or through an officer authorized by him in this behalf, and for that purpose the Registrar or the said officer or the officer so authorized may, after reasonable notice, at any reasonable time enter and search without warrant any premises where he believes such books, records or funds to be and inspect and seize such books, records or funds and deliver them to the Registrar after acknowledging the receipt for the same. He may for, the purpose of execution of the said order, request the officer-in-charge of the nearest police station to give him necessary assistance and such police officer shall thereupon provide him such assistance.	
	R-68	Rule 68: A liquidator, administrator , auditor appointed under section 81 , officers conducting inquiry under section 83 or inspection under Section 84 or authorized officer under Section 88, may apply to the Executive Magistrate for seizing and taking possession of records and property of the society when frauds are suspected, or conditions mentioned in Sub-section (1) arise after obtaining previous permission from the Registrar shall follow the procedure laid down in section 80 of the Act.	

However, Government, by under mentioned notifications have enhanced the limits for some kind of societies, by various notifications as detailed below.

Sr. No	Notification No.	Applicable to the societies	Applicable to the members	Maximum amount specified for holding.
1	GN. A and C D., CSK 1069/201-C-4, Dated 30th July, 1969.	Sugar factories,	Local authorities, or Co-operative societies	1,00,000
2	GN. A and C D., CSK 1069/201-C-4, Dated 30th July, 1969.	Sugar factories,	For others	50,000
3	GN. A and C D., 1368/26188-C-2, Dated 1st August, 1970.	Co-operative Agricultural processing societies,	Zilla Parishad	1,00,000
4	GN. A and C D., CSM 1172/15591-C-7, Dated 14th August, 1974	Societies established for maintenance of hospitals	Firms, Companies and other body corporate	1,00,000

Sr. No	Notification No.	Applicable to the societies	Applicable to the members	Maximum amount specified for holding.
5	GN. A and C D., SAM 1174/21611 C-9, Dated 27 th August, 1974.	Spinning Mills	State Government undertakings	10,00,000
	G.N.C. And T.D.No. CSL1193/CR65/ 15-C Dated 20th August, 1993	Spinning Mills	Firms, Companies and other body corporate	2,00,000
			Others	50,000
6	GN. A and C D., CSK 1075/5198-C-13, Dated 28th October, 1975.	Sugar factories,	Maharashtra State farming corporation	10,00,000
7	GN. A and C D., PLM 1075/16790-C-3, Dated 29th October, 1975	Power loom Industrial Societies in Aurangabad Division	Marathwada Development Corporation	2,00,000
8	GN. IFC 1078/58638-CR-834/-9-C, Dated 19th July, 1979	Industrial Estates	All classes of members	1,00,000
		Urban Credit society & Salary earners' society	All classes of members	2,00,000
9	RBI Circular No.UBD/PCB/6 dated 01/07/2014	Urban Bank	All classes of members	1/5 of paid up share capital of Bank

The State Government by notifications stated below permitted the societies to contribute from the reserve fund for the purpose mentioned below under section 66(2).

Sr.. No	Notification No.	Class of societies	Purpose for which contributed	Limit prescribed
1	GNC and R D D No. CSL.1562/ 54874-J Dated 20.11.1962	All types of societies	National Defense fund	10 % of reserve fund
2	CSL-2793/ CR-88/ 15-C 1993 .	All types of societies	Chief Minister's Relief fund for earthquake in latur and Osmanabad District.	10 % of reserve fund

CHAPTER No. 2

AUDIT AND AUDITORS

2.1. ***Audit and Auditors.*** **:-** Rule 69(1) &Section 81, sub-section (1) lays down that the society shall cause its accounts to be audited at least once in each financial year and also cause it to be completed within a period of four months from the close of financial year to which such accounts relate by auditor or auditing firm from a panel prepared by the Registrar and approved by the State Government.

The society shall appoint such auditor in its General body meeting as provided in sub-section (2A) of the section 75 and lay such audit report before the annual general body meeting. The audit report of apex society shall also be laid before both Houses of the State Legislature in such a manner as may be prescribed.

This sub-section further provides that, the Registrar is satisfied that the society has failed to intimate and file the return as provided by sub-section (2A) of section 75 and sub-section 79 (1B) of the section, by order for the reasons to be recorded in writing, cause to be audited accounts of any such societies, by an auditor from the panel of auditors approved by the State Government.

The sub-section further provides that the auditor shall not be appointed by the society for more than three consecutive years. The auditor shall not accept audit of more than 20 societies, excluding societies having paid up share capital of less than rupees one lakh, in a financial year.

It is also further provided that, the committee of the society is required to prepare and get accounts audited within four months of the closure of the financial year.

2.2. ***Types of audit included in audit*** **:-** Explanation under sub rule 1 of the rule 69, include the audit as annual audit, test audit, cost or performance audit, special audit and re-audit. Thus it means that the provisions for audit of Co-operative societies are applicable to all these types of audit.

2.3. ***Qualifications of the auditor*** **:-** Qualifications of auditors, who are empanelled and shall audit the accounts of the Co-operative societies, is explained under explanation (a) to (d) of the section 1 of the section 81. Working knowledge of Marathi language, fair knowledge of functioning of society and experience of audit of Co-operative societies (except partnership firm of chartered accountants), as may be prescribed is essential qualification apart from educational qualification for this.

2.4. ***Remuneration of the auditor*** **:-** Clause (f) of Sub section-1 of Section 81 defines that the remuneration of the auditor shall be borne by the society and it shall be at such rate as may be prescribed.

2.5. ***Rate of audit fees*** **:-** Rule 74 provides for rate of audit fees. The State Government has prescribed rates of remuneration of auditors *vide* Government Resolution No. SGY/2012/MMS-17/P.K.36/14S Dated 29/10/2014. All the conditions mentioned in the Annexure A of the notification shall be followed by the auditor while accepting the remuneration.

2.6. ***Suggestions to the society regarding appointment of auditor*** **:-** Society appointing the auditor or auditing firm is required to take care of following points, prior to the Annual General Body Meeting in which auditor will be appointed :

1) The auditor or auditing firm must be from the panel maintained by Registrar and approved by the State Government.
2) The auditor or auditing firm so appointed has not accepted statutory audits of more than 20 societies having paid up capital more than Rs. 1 lakh, in that financial year.
3) The Class of auditor or auditing firm to be appointed is eligible to audit that class of society as per Rule 69.
4) Auditor's consent to accept the audit, must be obtained within time limit.
5) The appointment letter to auditor shall specify the period of audit, audit scope as per the Act, probable date of commencement of audit and submission of audit report, remuneration for audit and other legal provisions to be complied by him. The appointment letter shall accompany the resolution of Annual General Body Meeting for appointment of auditor.

———

CHAPTER No.3

AUDIT REPORT

3.1. ***Contents of the audit report*** :- Clause (e) of the Sub-section 1 of Section 81 provides that contents of the audit report shall include;

i) All particular of the defects or the irregularities observed in audit and in case of financial irregularities and misappropriation or embezzlement of funds or fraud, the auditor or the auditing firm shall investigate and report the *modus operandi*, the entrustment and amount involved.

ii) accounting irregularities and their implication on the financial statement to be indicated in detail in the report with the corresponding effect on the profit and loss;

iii) the functioning of the committee and sub-committees of the societies be checked and if any irregularities or violation are observed or reported, duly fixing the responsibilities for such irregularities or violations.

3.2. ***Certification and Opinion of the auditor*** **:-** Sub Rule 3 of the Rule 69 further provides regarding audit report that :-

a) The auditor shall submit audit memorandum in respect of Co-operative Banks in form N-1 and for other than Banks in form N-2.

b) The memorandum shall be with regards to the accounts, balance sheet and profit and loss accounts or statement of Income and expenditure examined by him as on the date and for the period up to which the accounts have been audited, and shall state whether in his opinion and to the best of his information, and according to the explanation given to him, accounting policies adopted by the society are as per accounting standards laid down by the State Government or the Institute of Chartered Accountants of India as the case may be, and the said accounts give all information required by the Act in the manner so required and give true and fair view, -

i) in case of the balance sheet, the state of society's affairs as at the end of the financial year or any other 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 or loss for the financial year or the period covered by the audit, as the case may be.

While certifying the profit or loss of the society, Auditor shall quantify the effect of shortfall in various provisions, like Non Performing Asset, overdue interest, depreciation and any other provision relating to expenses over profit or loss and state clearly that, after considering effect of all provisions whether there is profit or loss to the society.

3.3. ***Other opinions*** **:-** The sub rule (4) of the rule 69 also required to state in audit memorandum regarding-

i) whether the auditor had obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit;

ii) whether in his opinion proper books of accounts, as required by the act, the rules and the byelaws of the society have been kept by the society so far as it appears from the examination of these books;

iii) whether the balance sheet and profit and loss account examined by him are in agreement with books of account and returns of the society and give true and fair view of state of affairs.

iv) whether the accounting standards adopted by the society are consistent with, those laid down by the State Government or the Institute of Chartered Accountants of India, as the case may be, and has no adverse effect on the accounts and financial status of the society.

v) Sub rule 5 of Rule 69 states that if the auditor found that matters referred to in Sub rule (4) are answered in negative or with a qualification, the audit memorandum shall specify the reasons for the answer.

3.4. *Schedules to be annexed* :- Sub rule 6 states that, the audit memorandum shall contain schedules with full particulars of:-

i) all transactions which appear to be contrary to the provisions of the act, the rule or the bylaws of the society;
ii) all sums which ought to have been but have not been brought into account by the society;
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 appear to the auditor to be bad or doubtful debt; and
v) any other matters specified by the Registrar in this behalf.

The Registrar has specified the forms of these schedules. The said schedules are required to accompany the audit memorandum and form part of the audit memorandum.

The Registrar has also specified schedules for Government Assistance for share capital, loans and grant in aid. All the said forms of schedules are annexed in Volume I of Audit Manual.

The Registrar has also specified forms for audit, numbering 1 to 35 are now replaced in this manual for numbering 1 to 15, for various types of societies which are annexed of Audit Manual. The auditor is required to offer his comments in the appropriate forms depending upon the type of society being audited.

3.5. *Summary of audit report and objectionable nature of audit report* :- Sub rule 7 of the Rule 69 provides that the summary of audit memorandum as prepared by the auditor shall be read out in a general meeting. The audit memorandum, together with its accompaniments, shall be open to inspection by any member of the society.

The Registrar may, however, direct that any portion of the audit memorandum which appears to him to be of objectionable nature or not justified by facts shall be expunged and the portion so expunged shall not form part of the audit memorandum.

The auditor should, therefore, restrict his observations to reporting facts only and while expressing opinion, should not draw any unwarranted inferences.

3.6. *Forms of audit report* :- For purpose of audit, the auditor requires certain statements to be prepared and information to be furnished regarding the operation of the society. Sub rule 8 empowers the Registrar "from time to time{to} specify the form or forms in which the statement of accounts and information shall be prepared for audit by the society."

3.7. *Audit classification* :- As per Sub rule (9) of Rule 69, the auditor is required to award audit classification and mention in audit certificate in Form N-1 or N-2, as the case may be, on completion of his statutory audit.

The detailed explanation regarding audit classification is required to be given in Part B of audit report. The auditor is also required to mention audit classification for last 3 consecutive years in Part B of his audit report. In case of change in audit classification as compared to the previous year, auditor shall justify the change in classification in Part B of his audit report under the heading "Audit Classification".

The Classification shall be in accordance with the instruction issued by the Registrar time to time. The instructions issued regarding audit classification of various types of societies are explained in part I of Audit Manual.

While conducting the audit and preparing the audit report, the auditor is required to observe the above mentioned provisions and is expected to follow the instructions and guidelines given in Part I of the Audit Manual in respect of audit procedure, preparation of detailed audit report, classification to be awarded, opinion to be expressed, qualifications and quantification to be given, various forms and schedules to be used.

———

CHAPTER No. 4

TYPES AND SCOPE OF AUDIT

4.1. ***Scope of Statutory audit :-*** Sub-section (2) of Section 81 defines the scope of audit, it States that, the audit be carried out as per Auditing Standards notified by the State Government from time to time and shall also include examination or verification of the following items ;-

i) **Over dues** of debts, if any,
ii) The verification of cash balance and securities, valuation of assets and liabilities of the society;
iii) Loans and advances and debts made by the society on the basis of security have been properly secured and the terms on which such loans and advances are made or debts are incurred are not prejudicial to the interest of society and its members,
iv) Transactions of the society which are represented merely by book entries which are not prejudicial to the interest of the society
v) Loans and advances shown as deposits,
vi) Personal expenses have been charged to the profit and loss account,
vii) Any expenditure incurred in furtherance of objects of the society,
viii) Proper **utilization**of the financial assistance granted by Government or Government undertaking or financial institutes, for the purpose for which such assistance is granted,
ix) Carrying out its objects and obligations towards members.

4.2. ***Cost or performance audit*** :- Sub section 2A and 2B **of Section 81** provides, for Cost audit or performance audit, for any society or class of societies for ensuring management thereof in accordance with sound business principles or prudent commercial practices, ordered by the State Government in public interest or in the interest of society. The society shall cause to Cost audit or performance audit, conducted by a cost accountant who is a member of the Institute of Cost and Management Accountants of India.

4.3. ***Flying squad :-*** Sub section (3) (b) **of Section 81** empowers Registrar to depute flying squad if he has reason to believe that there exists an element of fraud, misapplication of funds, manipulation of the accounts and account of the society are likely to be tampered, with, thereby causing loss to the society, or societies for examination of books, records, accounts, and such other papers and for verification of cash balance. The report of the flying squad shall be treated as sufficient evidence for further action, if any.

This means that, the report of flying squad is sufficient and taken as evidence as per Indian evidence Act for the legal proceedings.

4.4. ***Test audit :-*** Sub section (3) (c) **of Section 81**provides that if it is brought to the notice of the Registrar, that the audit report submitted by the auditor does not disclose the true and correct picture of the accounts, the Registrar or the authorised person may carry out or cause to be carried out a test audit of accounts of such society. The test audit shall include the examination of such items as may be prescribed and specified by the Registrar in such order.

4.5. ***Re-audit :-*** Sub-section (6) of Section 81 empowers the Registrar to order re-audit on an application by a society or otherwise, that it is necessary or expedient to re-audit the accounts of a society. The sub-section further clarifies that all provisions of the Act applicable to audit, shall also apply to re-audit ordered by the Registrar. This means that, the auditor auditing re-audit have all powers, and rights that are exercised by the statutory auditor; he has also to perform all duties assigned by the Act, for the purpose of statutory auditor, which includes submission of audit report, specific report and special reports as provided in the Act.

4.6. ***Special audit :-*** If Reserve Bank of India has requested the Registrar to conduct special audit of any Co-operative Bank, then it shall be conducted and report thereof shall be submitted to the Reserve Bank of India under intimation to the Registrar along with the Special audit report.

———

CHAPTER No. 5

POWERS, DUTIES AND RIGHTS OF THE AUDITOR

5.1. ***Power to seize Records*** **:-** These are very important provisions and powers under this section as well as those under the following section *viz*., section 80, rule 68 are also available to the special auditors as under Government Notification No. ***WPC/2872/35113-C-5, Dated the 23rd August 1972***, they have been delegated to all Special Auditors in Class I and Class II in addition to the Divisional Joint Registrars and District Deputy Registrars.

5.2. ***Power to impound the books and documents*** **:-** Under sub section 5A, **of Section 81** the auditor, after satisfying himself, is required to report that the books of accounts or other documents contain any incriminatory evidence against past or present officer **or** employee of the society, and require to be impounded. The previous permission of the Registrar before impounding is necessary and the auditor has to give a receipt for the books or documents, which he has impounded.

5.3. ***Power to access records and property*** **:-** Sub-section (3) (a) of Section 81 lays down that the auditor appointed by society shall have access to all book, accounts, documents, papers, securities, cash and other properties belonging to or in the custody of, the society.

Under clause (g) of Section 146, any officer or member of a society who is in possession of information, books and records, fails to furnish such information or produce books and papers, or give assistance to a person appointed or authorised by the state Government or the Registrar under section 81, commits an offence and is punishable with a fine, which may extend to rupees five thousand.

5.4. ***Power to summon*** **:-**The Sub-section (3) (a) **of Section 81** also empowers the auditor, for the purpose of audit, with the right at all times to have access to all the books, accounts, documents, papers, securities, cash and property belonging to, or in the custody of the society, and to summon any person in possession or responsible for the custody of account books, records, cash security and other property of the society, to produce them at the headquarters of the society or any branch thereof.

5.5. ***Power to produce record and information*** **:-** The sub-section (4) **of Section 81**provides that, every person who is, or has at any time been, an officer or employee of the society, and every member, and past member of the society, shall furnish such information in regard to the transaction and working of the society as the Registrar, or the person authorised by him, may require.

Under sub-section (4) of Section 81, the auditor has been given powers to call for information from present and past members of the society, its officers and employees.

Under clause (l) of Section 146, any officer, agent or servant of a society who fails to comply with the requirements of this sub-section commits an offence and is punishable with a fine, which may extend to Rs. One Thousand. The auditor has thus power to put questions and elicit information about the transactions of the society from any present or past member, officer or employee of the society.

5.6. ***Power to investigate*** **:-** Under clause (e) of the sub-section 1 of the section 81, the auditor shall have to include defects or irregularities observed in audit and in case of financial irregularities and misappropriation or embezzlement of funds or fraud, the auditor or auditing firm shall investigate and report ***modus operandi***, the entrustment and amount involved.

Thus, while conducting the audit, if the auditor comes across any of the matters as mentioned above, he has to investigate and report ***modus operandi***, entrustment and amount involved in the frauds, misappropriation, and embezzlement of funds or financial irregularities. However the Act does not state the manner of investigation. But it should be limited to the *modus operandi,* entrustment and amount involve in the frauds. For doing this, he has to make correspondence with parties related to these, as well as with banks or any other concerned for collecting evidence, information and obtain explanations from concern parties.

5.7. ***Right to receive notice of AGBM*** **:-** The auditor appointed for the audit of society has the right to receive all notices and every communication relating to the annual general body meeting of the society and to attend such meetings and to be heard thereat, in respect of any part of the business with which he is concerned as auditor as per sub-section (5) of the Section 81 of the Act.

5.8. ***Auditor - public servant*** **:-** Under Section 161, the Registrar, his assistants exercising his powers, an official assignee under sub section (2) of section 21A, auditors appointed under Section 81, persons authorized to conduct inquiry under Section 83 or inspection under Section 84 or 89A, administrators appointed under Section 78, 78A, or clause (iii) of sub section (1) of the section 110A, authorised officer under section 88, Co-operative Court under section 91A, or the Co-operative Appellate Court under section 149 or any person empowered under section 156, and liquidator appointed under Section 103 , are all deemed to be public servants with the meaning of Section 21 of the Indian Penal Code. Disobedience of their authority such as failure to attend when summoned failure to produce books, or records or to furnish information and explanation called for etc. will be offences under the Indian Penal Code.

5.9. ***Submission of audit report*** **:-** Under sub section 5B of Section 81 and Rule 69 (3), (4) and (5), the auditor has to submit his audit report within a period of one month from its completion, and, in any case, before issuance of notice of the annual general body meeting, to the society and Registrar in such form as may be specified by the Registrar, on the accounts examined by him and on the balance sheet and profit and loss account as on the date and for the period up to which the accounts have been audited. He has to state in it, whether in his opinion, and to the best of his information and according to the explanation given to him by the society, the said accounts give all information required by or under this act, and present the true and fair view of the financial transactions of the society.

5.10. ***Certification of bad debts*** **:-** Under rule 49, all bad debts and losses are required to be certified by the auditor as irrecoverable before they can be written off against the bad debts fund. The detailed procedure of certification and writing off of bad debts is elaborated in part I of the Audit Manual.

5.11. ***Submission of specific report*** **:-** Clause (ii) of the section (5B) of section 81 casts specific duty on the auditor, that where the auditor has come to a conclusion in his audit report that a particular person is guilty of any offence relating to the accounts or any other offences, he shall file a specific report to the Registrar within a period of fifteen days from the date of submission of his audit report. The auditor concerned shall, after obtaining written permission of the Registrar, file a First Information Report of the offence. The auditor, who fails to file First Information Report, shall be liable for disqualification and his name shall be liable to be removed from the panel of auditors and he shall also be liable to any other action as the Registrar may think fit. The clause further provides that if the auditor fails to lodge First Information Report, the Registrar shall cause a First Information Report to be filed by a person authorised by him.

5.12. ***Submission of Special report*** **:-** Second proviso under clause (ii) of the section (5B) of section 81 further provides that, on conclusion of his audit, if the auditor finds that there are apparent instances of financial irregularities resulting into losses to the society caused by any member of committee or officers of the society or by any other person, then he shall prepare a Special Report and submit the same to the Registrar **along with** his audit report. Failure to file such Special Report would amount to negligence in the duties of the auditor and he shall be liable for disqualification for appointment as an auditor or any other action, as the Registrar may think fit.

5.13. ***Audit of liquidators' accounts*** **:-** Section 108 contains provisions relating to audit of societies in liquidation

1) The liquidator, shall, during his tenure of office, at such times as may be prescribed, but not less than twice each year, present to the Registrar an account in the prescribed form of his receipts and payments as liquidator. The Registrar shall cause the account to be audited

in such manner as he thinks fit; and for the purpose of audit, the liquidator shall furnish the Registrar with such vouchers and information as he or the person appointed by him, may require.

2) The Liquidator shall cause a summary of audited accounts to be prepared, and shall send a copy of such summary to every contributory.

3) The Liquidator shall pay such fees as the Registrar may direct, for the audit of the accounts and books kept by him in the manner prescribed.

4) The Liquidator shall be held liable for any irregularities which might be discovered in the course, or as a result of audit in respect of transactions subsequent to his taking over the affairs of the society, and may proceeded against the person concerned as if it were an act against which action could be taken under section 88. However, no such action shall be taken unless the irregularities have caused or are likely to cause loss to the society, and have occurred due to gross negligence or want of omission, in carrying out the duties and functions.

5.14. ***Preparation and maintenance of panel of auditors :-***

1. Forth proviso of sub section **(1) (a)** of the section 81 provides that, the Registrar shall maintain a panel of auditors and auditing firms as approved by the State Government or an authority authorised by it. Sub section (b) provides that the manner of preparation, declaration and maintenance of the panel of auditors and auditing firms by the Registrar may be prescribed.

2. The procedure of preparing panel is prescribed in clause (f) of the sub rule (1) of Rule 69 as under:

i) The Registrar shall call applications before the specified date as declared in the notice for empanelment from eligible auditors and auditing firms by a public notice to be displayed on the official website of the State Government and in any other mode, if required. Such notice shall also be published on the notice board of the office of the Registrar and District Deputy Registrar.

ii) Every applicant shall submit only one application to the office of the concerned District Deputy Registrar, where he ordinarily resides.

iii) Applications received shall be scrutinized by the Committee presided over by the District Deputy Registrar consisting of the District Special auditor of the District, representative of the Chartered Accountants of the District, representative of the Certified Auditors of the District as members and the Assistant Registrar (Administration) of the District shall function as Member Secretary of the committee.

iv) After scrutiny, the District Deputy Registrar shall submit list of eligible applicants to the Registrar **along with** their application and documents. The Registrar may scrutinize the application recommended by the District Committee.

v) Any aggrieved applicant may approach the Grievance Redressal Committee headed by the Divisional Joint Registrar, Division Joint Registrar (Audit), as member and Divisional Deputy Registrar of the Division function as Member Secretary of the said Committee, and the decision of the Committee shall be final.

vi) The Registrar shall cause to display an approved list of auditors and auditing firm's panel on the official website of the Government.

vii) The Registrar shall classify the societies and auditors for the purpose of audit in the manner given in Table "A" to "C" under the rule 69. As per this table Maharashtra State Co-operative Bank, Maharashtra State Co-operative Marketing Federation, Maharashtra State Co-operative Cotton Grover's Federation and Maharashtra Rajya Dudh Sangh (Mahananda) shall be audited only by a Chartered Account firm or a chartered accountant

or Joint Registrar categorized in "A" class. Auditors categorized in 'B' class and 'C' classes are not eligible to audit societies categorized under Table A. Under Table B, societies mentioned at Sr. No.1 Urban Co-operative Banks having deposits, and at Sr.No.2, Urban Co-operative Credit Society and Rural non-agricultural credit society having deposits 10 crores and above shall be audited by only Chartered Accountant and Special Auditor Class II categorized in 'B' Class. Auditors categorized in 'A' Class and 'B" class are also eligible to audit societies categorized under table 'C".

5.15. ***Criteria for removal of the name from panel*** **:-** Clause (g) of Sub rule 1 of Rule 69 prescribes the criteria for removal of the name of auditor or auditing firm from the panel as follows:

i) Non submission of audit report as specified in sub section (5B) of the section 81, to the society and the Registrar within the period of one month from the date of completion and, in any case, before the issuance of notice of the general body meeting;
ii) Non disclosure of the true and correct picture of accounts as specified in clause (c) of Sub-section (3) of Section 81;
iii) After giving consent for audit by the auditor or auditing firm and after issuance of order of appointment of auditor or auditing firm, audit is not completed within stipulated period as specified in Sub-section (1) of the section 81;
iv) Non-submission of specific report stating that a particular person is guilty of any offence relating to the accounts or any other offences within a period of fifteen days from the date of submission of audit report to the society and the Registrar;
v) Failure to file special report to the Registrar if any;
vi) Failure to file the First Information Report, if required thereof;
vii) Non-submission of scrutiny of audit rectification report within six months to the society;
viii) If during the test audit or re-audit of the society, it is found that the auditor or auditing firm is responsible for any commissions and omissions;
ix) If the auditor is borrower of the society and has conducted the audit of the same society without disclosing the said fact to the society;
x) If the auditor or his family member is employee or ex-employee of the concerned Co-operative society;
xi) If the auditor is an auditor or a partner of an auditing firm which is also conducting internal or concurrent audit of the concerned Co-operative society;
xii) If the auditor or his family member, as specified under explanation (I) of sub-section (2) of Section 75 of the Act, is a committee member of the concerned Co-operative society.
xiii) If the auditor has conducted audit, without appointment order issued by the society with the prior approval of general body or the Registrar, if any, as the case may be;
xiv) If the auditor is family member of an employee of the department of Co-operation.

5.16. ***Remuneration of the Auditor*** **:-** As the Registrar and the Society have to appoint auditor, and the work is also done by various auditors, including Government auditors as well as professional auditors, it is necessary to prescribe some criteria for payment of remuneration to the auditor by the Society, so that there is uniformity in the scales of remuneration. Rule 74 provides such criteria for remuneration as under :-

1) Remuneration of the auditor or auditing firm that has conducted audit of a society shall be borne by the society and shall be at such rates as may be notified by the State Government from time to time depending upon the class of societies and their financial parameters. Accordingly, the State Government has notified the rates of remuneration in its notification No. from sahkar, panan v vastrodyog vibhag, sagruyo-2012/mumns/ pra.kra. 36/ 14-s Dated 29/10/2014.

2) When an auditor or auditing firm is appointed by the Registrar on his own, remuneration of auditor or auditing firm shall be at rates as per sub-rule-1, *i.e*. notified by the State Government.

3) If the Registrar, orders re-audit of a society after recording reasons thereof, he shall specify remuneration payable to such auditors as per sub-rule 1.

4) When re-audit is requisitioned by the society or any member of society, the remuneration of auditor or auditing firm shall be as per sub-rule1. When such re-audit is requisitioned by the society or any member of the society, the remuneration of auditor or auditing firm shall be deposited by such society or member, as the case may be, with the Registrar prior to commencement of such audit ;

It further provides that, if it is found in the re-audit :-

1) that the appointed auditor has not conducted audit as per the auditing standards and

2) as per norms as notified from time to time and

3) if it is proved that he was negligent in performing audit of the society and

4) he has not detected fraud, mis-**utilization** of funds, inadequate provisioning, resulting into loss or profit to the society,

Then audit fees shall be recoverable as per sub-section (1) of 156 of the Act, from the said auditor who had conducted the audit and the same shall be refundable to the society or member demanding the reaudit, as the case may be.

The said auditor shall also be subject to action under sub clause (viii) of clause (g) of sub rule (1) of rule 69.

This proviso is not applicable to the Government Auditors.

5) When cost or performance audit of any society is ordered by the State Government as per provision of sub section (2A) of section 81, the remuneration of auditor or auditing firm shall be notified by the State Government and amount shall be deposited by the society with Registrar prior to the commencement of such audit by him;

6) For the audit of the society which is under liquidation or the society on which official assignee is appointed, under provisions of the Act, the remuneration of auditor or auditing firm appointed to conduct audit of such society shall be specified by the Registrar.

———

CHAPTER No. 6

RECTIFICATION OF DEFECTS DISCLOSED IN AUDIT

6.1. ***Rectification of defects disclosed in audit-Section 82*** **:-** On receipt of the audit memorandum from the auditor, the management of the society is required to take steps to rectify the defects reported by the auditor and implement the suggestions made by him. Section 82 requires every society to explain to the Registrar, within three months from the date of receipt of the audit memo, the defects or irregularities pointed out by the auditor and report to the Registrar, and to the annual general body meeting, the action taken by it to remedy the defects and rectify the irregularities. The section further empowers the Registrar to direct the society and its officers to take specific action to remedy the defects within the specified time. Such order is to be issued after consulting the federal society to which the society is affiliated, and the federal society has to reply on it within 45 days, otherwise the Registrar has liberty to proceed further. If, the committee of the society fails to submit the audit rectification report to the Registrar and the annual general body meeting, all the members of the committee shall be deemed to have committed an offence under section 146 (l-1) and accordingly shall be liable for penalty with fine which may extend to five thousand rupees, as provided in section 147 (l-1)

The section further provides scrutiny of the audit rectification report by the Registrar or the person authorised by him and report accordingly and inform the society about such report within six months from the date of receipt thereof.

It also provides that it shall be the responsibility of the auditor concerned to offer his remarks on the rectification report of the society, **item wise**, till entire rectification report is made by the society, and submit his report to the Registrar.

6.2. ***Submission of audit rectification report by the society***. ***Rule 73*** **:-** The Registrar has issued instructions that every society shall submit its audit rectification report in the form prescribed in rule 73 *i.e.*, in **"O"** form, within three months from the date of receipt of the audit memo by it, through the auditor who has carried out the audit. The auditor has to forward the audit memo to the Registrar or other registering authority having jurisdiction.

After considering the remarks of the auditor and the explanation of the society, the Registrar would issue directions under section 82 requiring the society to take specific action.

Sub-section (4) of section 87 lays down that where the society fails to remedy the defects disclosed in the course of or as a result of Audit under Section 81 or fails to rectify the defects as directed by the Registrar, the Registrar may himself take steps to have the defects rectified and recover the costs from the officer or officers of the society who, in his opinion, have failed to rectify the defects.

Rule 73 lays down that the rectification report to be submitted by the society in compliance of the orders issued by the Registrar shall be in form "O" accompanying the rules. The Rule further requires the society to continue to submit such reports to the Registrar and to the auditor until all the defects and irregularities are rectified to the satisfaction of the Registrar.

———

CHAPTER No.7

ENQUIRY AND INSPECTION

7.1. ***Enquiry and Inspection Section 83*** **:-** provides for inquiry by the Registrar into the constitution, working and financial condition of the society. The Registrar shall hold such inquiry-

(a) *sue moto;*

(b) On the application of onefifth of the members of the society;

(c) On the basis of Special Report under the third proviso to sub section (5B) of section 81.

The inquiry shall be held by Registrar himself or by a person dully authorised by him in writing.

Sub-section (3) (a) and (b) **of the Section 83** defines powers of the inquiry officer and provides for punishment for non-production of books and documents and refusal to answer questions. Sub-section lays down that the results of the inquiry shall be communicated to the society. Sub section (c) specifies six months' time limit to complete the inquiry, and submission of report, and in any case not later than nine months.

Sub-section 4 of the section 83 provides that, the Registrar should communicate the results of inquiry to the society.

Under Subsection 5 of Section 83, the authorized officer can be changed and another appointed or the inquiry conducted by the Registrar himself.

7.2. ***Inspection :-*** Section 84 provides for the inspection of books of an indebted society on the application of a creditor of the society, after satisfaction of the Registrar that the debt is a sum then due, and that he had demanded payment thereof and has not received satisfaction within reasonable time. Such an application has to be accompanied with necessary deposit. The Registrar communicates the result of inspection to the applicant. The Registrar can exercise these powers at his own discretion as per sub section 4 of the section, wherein Government has substantial interest by way of financial assistance, by way of share capital or otherwise.

Under sub-section (1) of Section 87, the Registrar has to bring to the notice of society defects disclosed in inquiry under section 83 or inspection under section 84. He has also been empowered to take necessary action to remedy the defects within a specified time and on the failure of the society, he may take necessary action himself and recover the cost from the defaulting officers of the society.

7.3. ***Registrar's powers to inspect working of society: Section 89 (A)*** :- The Registrar is competent to inspect, or cause to be inspected, the working of any society to ensure the following matters;

1) The provisions of the Act, rule and bye-laws of the society are being properly followed by the society;
2) The records and books of accounts are kept in proper forms;
3) Overall view is taken to ensure that the business of the society is being run on sound business principles and professional and efficient management.
4) The society is following the Co-operative principles and the directives or direction given by the State Government in accordance with the provisions of this Act and the rules made there under:
5) The returns as provided by section 79 are submitted to the Registrar regularly and properly.

Sub section 2 empowers the Registrar to access all records and books of account of the society, and summon any officer or employee who has the custody of the records or books of accounts of the society to produce them before him for the purpose of inspection under this section.

7.4. ***Assessment of damages*** **:-** Section 88 empowers the Registrar to assess damages against delinquent promoters, committee members and other officers. This is a very important section and has to be carefully studied by the auditors as the initiation and success of the action under this section depend mainly upon his report and the diligence with which he has carried out his duties. Third proviso under clause (ii) of Sub section (5B) of Section 81 casts duty to submit Special Report in this regards on the auditor.

The proceedings under this Section shall be completed by the authorised person within a period of two years from the date of issue of orders by the Registrar. The Registrar may after recording reasons there for, extend the said period for a maximum of six months.

This section is more generally known as ***"Misfeasance Section"*** and, in view of its importance, has been dealt with in detail in the next chapter of the Audit Manual.

Sub-section (3) provides that the section shall apply, notwithstanding, the act is one for which the person is criminally liable. Hence, proceedings under this section can be instituted simultaneously with criminal proceedings. It has, however, to be noted that the application of this section is limited to cases falling within a period of five years prior to the date of commencement of audit, inquiry or inspection or date of order of winding up. The section lays down a summary procedure.

7.5. ***Powers of officers to enforce attendance*** **:-** Section 89 gives powers to the person acting under Sections 83, 84 and 88 to summon and enforce attendance of any persons to give evidence or compel production of any document. Similar powers given to the auditor under section 81 (4) are available against a non-member who has dealings with the society.

Under clause (j) of the section 146, disobedience of summon is offence and punishable with a fine of Rs. Five Hundred. Clause (j) of Section 146 readsas: any person, who willfully or without any reasonable excuse, disobeys any summons, requisition or lawful written order issued under section 81, 83, 88 or any other provisions of the Act; or a committee of a society, or an officer or member thereof, willfully makes false return, or furnishes false information, or fails to maintain proper accounts.

7.6. ***Supervision over working of societies- Section 90*** provides for the constitution or recognition of a federal authority **to** supervise working of societies. Sub-section (2) provides for the assessment of supervision fees.

———

CHAPTER No. 8

OTHER MATTERS RELATED TO AUDIT

8.1. ***Payment of T. A. and D. A***. :- Section 160 B provides for, Payment of Traveling Allowance and Daily allowance to Managing Committee or Board members of Co-operative societies, for attending meeting of its committee, or for performing any other functions as such members, not a rate higher than the maximum rate prescribed in this behalf and different maximum rates may be prescribed for different societies and class of societies or for different purposes. Rule 107 A prescribes various rates for Travelling allowance and daily allowance.

8.2. ***Security to be furnished by officers and employees handling cash, etc***.:- Every officer and employee of a society, who is required to handle cash, securities or property belonging to the society, is to furnish security as prescribed under ***Rule 107-B*** of the Maharashtra Co-operative Societies Rules, 1961.

8.3. ***Cash balance on hand*** :- ***Rule 107-C*** of the Maharashtra Co-operative Societies Rules, 1961, lays down the limits of a cash balance to be handled or kept on hand by the office bearers of the Co-operative Societies.

8.4. ***Payment to be made by cheque*** :- Rule 107 D provides that all payments by or on behalf of a society or class of societies shall be made only by means of crossed cheques drawn on a bank subject to provisions of the Income Tax Act, 1961.

The remaining sections contain administrative provisions and deal with procedural matters and hence have not been dealt with here. Provisions relating to Agricultural and Rural Development Multipurpose Bank contained in Chapter VI are required to be studied carefully by auditors concerned with the bank. These have been explained in the Chapter dealing with the audit of different types of societies.

———

CHAPTER No. 9

MISFEASANCE UNDER CO-OPERATIVE LAW

9.1. ***Section 88 of the Maharashtra Co-operative Societies Act, 1960,*** which corresponds to section 50-A of the replied Mumbai Co-operative Societies, Act, 1925, empowers the Registrar to assess damages against delinquent promoters and other persons who have taken part in the management of the society and has many things common with provisions of the Companies Act, 2013, which also deals with the same subject.

Section 88 of the Maharashtra Co-operative Societies Act reads as under :-

"(1) Where in the course of, or as a result of an audit under section 81 or an inquiry under section 83 or an inspection under section 84, or in the winding up a society, the Registrar is satisfied on the basis of the report made by the auditor or the person authorized to make inquiry under section 83 or the person authorized to inspect the books under section 84 or the liquidator under section 105 or otherwise that any persons who has taken any part in the organization or management of the society or any deceased, or past or present officer of the society has, within a period of five years prior to the date of commencement of such audit or date of order for inquiry, inspection or winding up, ***misapplied or retained or become liable or accountable for any money or property of the society or has been guilty of misfeasance or breach of trust in relation to the society***, the Registrar or a person authorized by him in that behalf ***may frame charges against such person or persons and after giving a reasonable opportunity to the persons*** concerned and in the case of a deceased persons to his representative, who inherits his estate, to answer the charge, make an order requiring him to repay or restore the money or property or any part thereof, with interest at such rate as the Registrar or the person authorized under this section may determine, or to contribute such sum to the assets of the society by way of compensation, in regard to ***the misapplication, retention, misfeasance or breach of trust,*** as he may determine."

"Provided that, proceedings under this sub-section shall be completed by the authorised person within a period of two years from the date of issue of order by the Registrar.

Provided further that, the Registrar may, after recording the reasons **therefore**, extend the said period for a maximum period of six months."

"(2) The Registrar or the person authorised under sub-section(1) in making any order under this section, may provide therein for the payment of the cost or any part thereof, as he thinks just, and he may direct that such costs or any part thereof shall be recovered from the person against whom the order has been issued."

"(3) This section shall apply, notwithstanding that the act is one for which person concerned may be criminally responsible?"

9.2. ***Stages of Action*** **:-** It will be seen that section 88 contemplates two stages, *viz*., ***an introductory stage for the Registrar to be satisfied that, on the basis of audit report under section 81 or an inquiry report under section 83 or inspection report under section 84 or report from the liquidator under section 105 or otherwise, there is prima facie case for further inquiry.***

The ***second stage is to appoint an officer authorizing him to hold the inquiry and assess the damages***. An auditor's report is enough to justify the appointment of an authorized officer. If the Registrar accepts the audit report and special report submitted by the auditor under third proviso of the sub section 5B of the section 81 and proceeds to appoint an authorized officer, the first stage is complete. Procedure for further proceedings of second stage is prescribed in the rule 72.

9.3. ***Misfeasance*** **:-** ***may be roughly described as the improper performance or non-performance of a duty imposed on a person functioning in a fiduciary capacity***, *i.e.* a promoter, director, manager or officer of a corporate body, which results in the loss of assets held in trust or misapplication of its funds. Although the section is generally known as "misfeasance" section, a perusal of the section will

make it clear that it is not merely misfeasance that is covered by the section, but many other wrongful acts have been included in the section. ***Thus, cases of misapplication, retention and accountability of money or other property of the society in addition to misfeasance and breach of trust have also been included.*** The section can also be invoked for compelling the wrongdoers to repay or restore moneys or property, which have come into their possession by virtue of the position occupied by them as defined in the section. Thus, all acts of misconduct, delinquency, breach of trust or breach of duty on the part of promoters, directors and officers which have brought about certain loss, or have resulted in the misapplication of the funds of the society or mis-**utilization** of any of its property can form subject matter of proceedings under this section. *Even where damages are unassessable either by reason of their being premature or involving complicated inquiry, the section provides a direct remedy.*

9.4. ***Misfeasance*** **:-** Regarding explanation of misfeasance, the decision is given as "The managing committee of the society had sanctioned loans contrary to the provision of the bye-laws that is beyond the maximum limits laid down under the bye-laws and even though there were old dues outstanding from the borrower. It was held that under the bye-laws, it was the duty of the managing committee to sanction loans subject to certain limits laid down in the bye-laws and if the managing committee knowingly and intentionally sanctioned loans exceeding the limits laid down in the bye-laws and especially so when the old dues were outstanding with the same borrower it would amount to an act of gross negligence of the managing committee if they sanctioned loan beyond such a limit to the person from whom old dues were outstanding. If loss was caused in such transaction, the managing committee is liable for the loss due to their act of misfeasance." *(Shanker Mahadev* V/s. *B. S. Patil 1965)*

9.5. ***Act of misfeasance*** **:-** Regarding explanation of act of misfeasance the decision is given as "If the manager or the officer of the society who was not a member of the managing committee carries out merely the resolution of the managing committee, he would not be liable for the act of misfeasance of the managing committee. He was not a party for passing the resolution. He simply executes or carries out the orders of the managing committee, which it is his duty to do so. The managing committee members were primarily responsible for the act of misfeasance in passing such resolution." (Govindsingh v. middle class C.H. Society 1966)

9.6. ***Actual loss*** **:-** Regarding criminal and civil action the decision is given as "In all cases of misapplication, retention, misfeasance or breach of trust by a person it is essential that loss to the society should be established. The question of compensation would arise only if the society has actually lost any funds for which it has to be compensated. *The possibility of loss in future will not be a proper consideration*." ***(Sohanlal v. Melghat T.C.A.S. society 1965)***

9.7. Recovery of damages **:-** ***summary mode:*** It has been held by courts both in England as well as in India that the section relating to misfeasance does not create any new right or liability but it only provides a summary mode of enforcing the rights, which could otherwise have been enforced by having recourse to ordinary law. Thus, arbitration proceedings under section 91 of the Act or proceedings in a civil court can be instituted in all cases coming within the purview of section 88. However, the summary mode of enforcing the rights or fixing up liability acts as a deterrent and provides an easy and simple and a more direct method for bringing to book all wrong doers who have tried to profit at the expense of the society.

9.8. ***Liability, Civil or criminal*** **:-** The section also provides that its provisions shall apply notwithstanding that *"the act is one for which the person concerned may be criminally responsible"*. As such proceedings under this section can be instituted simultaneously with criminal proceedings and orders can be passed independently of the results of the criminal proceedings. Even when the miscreants have been acquitted in criminal proceedings, they cannot escape liability under the section.

9.9. ***Criminal and civil Action*** **:-** Regarding criminal and civil action, the decision is given as "If the board of directors or the members thereof are lacking in honesty and integrity for which losses are caused to the society for their lapses, they can be held criminally liable and criminal proceedings can

be started against them, but besides the lack of honesty and integrity they should also exhibit certain standards of diligence and prudence which are normally expected of them in relation to their office. And for such reasonable standards of diligence and prudence if they are lacking, they can be held liable as matter of civil liability. Lack of civil and criminal liability will therefore arise from lack of reasonable diligence and prudence and lack of honesty and integrity respectively." *(G.P. Murdeshwar v. talmakiwadi C.H. Society 1963)*

9.10. ***Misfeasance ingredients* :- *In all cases of misfeasance, it will have to be clearly shown that :-***

(a) The director, member of the committee, manager or other officer of the society, against whom the complaint is made, ***had some duty to perform, influence to the property or funds of the society as a director, a member of the committee, manager or officer of the society***;

(b) ***Having such duty, he has been guilty of breach of duty or has committed breach of trust in relation to the society*;**

(c) Such ***breach of duty, breach of trust has resulted in the misapplication of the funds or property of the society or loss of its assets***;

(d) ***The society should have suffered loss as a direct result of the act or omission to act, complained of or has actually resulted in the misapplication of its funds or property.*** The loss or damage suffered by the society, which is sought to be compensated, should be ***direct and not more or less a speculative consequence of the misfeasance or negligent performance of duty on the part of miscreant***;

(e) It is also necessary that the acts of misfeasance, breach of trust, etc., should have been ***committed within a period of five years from the date of commencement of audit or date of order of the inquiry, inspection or winding up.*** No liability can be fixed in respect of acts of commission or omission, beyond a period of *five years counted back from the date of commencement of audit or date of order of inquiry*, *inspection or winding up.*

The above points will have to be considered in the light of the facts and circumstances mentioned in the report of auditor or person conducting inquiry or inspection or application submitted by the liquidator.

An important point that has to be noted in this connection is that in order to institute misfeasance proceedings both under the Companies Act and the Co-operative Societies Act, it is not necessary that the exact amount of damages claimed should have been specified in the application or the report which forms the basis for the institution of the proceedings. ***All that is necessary is that the facts on which the claim is based should be brought to the notice of the court, Registrar or other authority competent to assess damages. The amount of the damage is to be assessed not by the applicant or the officer submitting the report, but by the authority competent to deal with it, who, after reviewing the entire circumstances including circumstances specified in his defense by the person charged with the misfeasance, will fix the exact amount to be paid to the society.***

9.11. ***Persons against whom proceedings can be instituted* :-** It would be clear from section 88 that for its provisions to apply, it is necessary that the persons against whom proceedings are to be instituted must belong to one of the categories specified in the section *viz.*, ***(a) a person who has taken any part in the organization or management of the society, or (b) any deceased, past or present officer of the society.***

Promoters of Co-operative societies, who organize societies, but do not join the society or continue as members after registration of the society can be held liable under this section.

9.12. ***Officer* :-** An officer of the society as defined in clause (20) of section 2 of Maharashtra Co-operative Societies Act, 1960. An officer means ***"a person elected or appointed by a society to any***

office of such society according to its byelaws and includes any office bearer such as a chairperson, vice-chairperson, president, vice-president, managing director, manager, secretary, treasurer, member of the committee and any other person, by whatever name called, elected or appointed under this act, the rules or the bye-laws, to give directions in regard to the business of the society". It will, therefore, have to be proved that the person against whom proceedings are to be instituted comes within the ambit of the definition of an officer. It would thus be clear that the first condition that has to be fulfilled for institution of misfeasance proceedings is to prove that the persons, against whom proceedings are to be instituted, occupied a fiduciary position in relation to the society.

It has also to be proved that such a person has either misapplied, retained or accountable for any money or property of the society or has been guilty of misfeasance of breach of trust in relation to the society. In short, what is required to be proved is that the person against whom proceedings are to be instituted occupied a fiduciary position in relation to the society and has been guilty of breach of duty as officer, which has caused pecuniary loss to the society by misapplication of its assets for which he might have been sued.

9.13. ***Joint Tort-Feasers :- Acts committed jointly by more than one person***. -Acts of misappropriation can be based upon the allegation of *conspiracy between the officers*, office-bearers and other employees**, *who by common design, have acted in such a manner as to cause loss to the society.*** In such cases, even if the evidence produced may not refer to all items or any particular item, but is sufficient to establish conspiracy between any two or more person, it will not be necessary for the society to show how much out of the misappropriated amount has gone to whose pocket. In *Jagannath Pandurang Kapol Vs. SinnarTaluka Kharedi-wikrisangh* case the Maharashtra Co-operative Tribunal has held that the Manager and the Salesman failed to credit sale proceeds, it is not necessary to prove specific acts misappropriation by pinpointing particular items by particular individuals.

It the sum total of the evidence collected establishes the knowledge of the office-bearers, that proper accounts were not being kept, their connivance, particularly that of the Manager or other principle executive officer, in leaving things in a mess, or where attempts appear to have been made to create evidence for the purpose of window dressing, it will not be necessary to demand more evidence to establish conspiracy having due regard to the fact that conspiracy is always hatched in the dark and positive consideration will not be available.

Where misappropriation of the funds of the society is alleged, it is necessary to prove that the particular amount claimed from a particular individual had come into the hands of the individual and that he had failed to account for the same. In a case based upon the allegation that one or other office bearer of the society had come in charge of the fund (specific amount) and that they had failed to account for the same, it is necessary first of all to establish that, there is shortage of the amount claimed, with reference to the accounts or evidence about the sale or disposal of some of the items in stock, without crediting the sale-proceeds. After proving this, it is necessary to call for evidence to establish that the office-bearers against whom the claim is made were responsible for the sale of disposal of what articles or items of stock and of what value. *(B.C.T. Sitaram Vs. Karnaja Machhimar V. K. S. Society).*

9.14. ***Evidence to be collected*** **:-** Unlike proceedings in a Civil Court, which are mostly concerned with person's financial or property rights and **labialize** or those of a criminal type, which mostly deal with the offender's anti-moral, anti-social and anti-legal acts, misfeasance proceedings present a curious combination of both types of offences in as much as they involve determination of the financial responsibility of a person holding an office, for loss resulting from his lapses, not only from certain standards of honesty and integrity for which he may also make himself criminally liable, but also from certain accepted standards of diligence and prudence which are normally accepted in relation to his office. Regard being had to the above special nature of these proceedings, even after making due allowance for the fact that it may not always be possible to prove acts of misfeasance by direct positive

evidence, it is necessary that such proceedings should be based on a prima facie sound and substantial foundation. They cannot, therefore, be started purely on a presumption of guilt with the onus of providing innocence thrown entirely on the alleged delinquents.

9.15. ***Damages must be proved*** **:-** As already explained, a claim for damages must be based on and proved by duty cast on the alleged delinquents by committal by them of a breach of that duty and by a loss being sustained as result of the breach. The duty of a person holding any office in Co-operative Societies Act, rules and byelaws of the society, casting any specified duty or duties. In *W. P. Bonsod V/s. Pimprisyed V. K. S. society*, the Tribunal has held that if a member of a body of members is sought to be made liable on the ground of actionable negligence, it must be shown that, there were specific obligations cast upon him or them and they were guilty of committing a breach of such obligation and that, loss has resulted directly as result of such breach. However, specific duties to be performed by the members of the committee may not have been specified in the byelaws. However, it has been preceded in section 73 of the Maharashtra Co-operative Societies Act that, 'the management of every society shall vest in a committee, constituted in accordance with the provisions of this Act, the rules and byelaws, which shall exercise such powers and perform such duties to be attended to by the committee are generally mentioned in the byelaws'. An omnibus provision requiring the committee ***"to do all such acts and things as are incidental to or which the committee may think conducive to the attainment of the objects of the society or any of them"*** is also contained in the byelaws of most of the societies. Byelaws of some of the society also provide that the members of the committee shall be jointly severally responsible for making good the loss which the society may suffer on account of their negligence or omission to perform any of the duties and functions cast on them under the byelaws of the society, as also under the Co-operative Societies Act and the Rule. Considering that the Committee or the Board has been constituted for managing the affairs of the society, the members of the committee are presumed to be aware of their duties and responsibilities in regard to the management of the affairs of the society. Section 73 (1AB) provides the members of the committee shall be jointly and severally responsible for all the decisions taken by the committee during its term relating to the business of the society. The members of the committee shall be jointly and severally responsible for all the acts and omissions detrimental to the interest of the society.

The section further provides that, before fixing any responsibility mentioned above, the Registrar shall inspect the records of the society and decide as to whether the losses incurred by the society are on account of acts or omissions on the part of the members of the committee or on account of any natural calamities, accident or any circumstances beyond the control of such members.

9.16. ***Trustees*** **:-** Regard being had to the normal concept that directors are trustees and also agents of the institution in which office is held by them, their responsibility or otherwise cannot correctly be measured by the yard-stick of specific duties, if any, without due regard to the have been mentioned, powers have been obviously vested in them to enable them to direct or **responsibility to** manage the affairs of the society with certain reasonable standards of diligence and prudence normally associated with their offices. Mere absence of mention of specific duties will not absolve them (the directors) from their overall responsibility to manager the affairs of the society diligently and prudently.

It has further to be noted that nominated members do not **stand** on a different footing. They are equally responsible along with the elected directors to attend proudly to the duties attached to their offices. Normally, so far as duties and responsibilities of the managing committee are concerned, no distinction can be made between nominated and elected members of the committee and between active and passive participants in the management. If, by its conduct, the committee leaves itself open to being held guilty of misfeasance, each of the members normally shares the common guilt according to the duties and responsibilities cast on the committee as a whole. A nominated member is not, therefore, entitled to any separate consideration on the ground that he stands on a separate footing from other directors.

9.17. ***Proof of actual loss*** **:-** Section 88 only provides for contribution by delinquent promoters, etc., by way of compensation which can arise only if the society has actually lost any funds for which it is to be compensated and that claim against the delinquents cannot be based on the loss that the society is likely to suffer or may possibly incur in future. It is very clear from the decision of the Maharashtra Co-operative Tribunal that a claim against the delinquents cannot be based on the loss that the society is likely to incur, in *G. P. Murdeshwar V/s. Tamalkivadi Co-operative Housing Society*; the Tribunal has held that "contingent or expected loss cannot be made the basis for awarding compensation." Thus, in case of credit sales, the Tribunal has held that it must be established before compensation is claimed from the officer-bearers that the amount, being irrecoverable has become due for compensation. Thus, in case of credit sales, the Tribunal has held that it must be established before compensation is claimed from the officer-bears that the amount has become irrecoverable. Thus, in case of credit sales, the Tribunal has held that it must be established, before compensation is allowed, leading evidence to the effect that due efforts were made to recover the dues or that there is no possibility of the amounts being recovered at any time. In order to arm the amount to be a bad debt or loss to the society, it must be shown that it is irrecoverable and all reasonable attempts were made to recover it. Circumstances such as limitation, insolvency of the party, etc., will have to be considered. *(M.C.T. 1964 Sohanlal V/s. Melghat Agricultural Sale society).* However, it is not necessary that the amounts should have been actually written off before any claim is made.

9.18. ***Payment of dividend out of capital*** **:-** Section 64 of Maharashtra Co-operative Societies Act lays down that no part of the funds other than the dividend equalization or bonus equalization fund as may be prescribe or the net profits of a society shall be paid by way of bonus or dividend or otherwise distributed among its members.

Where there were no profits and dividends to shareholder and fees and bonuses of the directors and the manager were paid out of capital, the directors and even the auditor, who had certified the inaccurate balance sheet, were held liable *(Leeds Estate Building and Investment Co. V/s. Shepherd).*

In Re-Kensignton Cotton Mills Co., where the manager in order to bolster up the company and make it appear as a flourishing concern, whereas, in fact, it was the reverse, had deliberately exaggerated both the quantities and values of the cotton and yarn of the component mills, the directors were held liable.

In Re-London oil Storage Co. *V/s*. Seear Hasluck Co, the directors were considered to have been guilty of gross negligence in allowing large cash balance to remain in the hands of the petty cashier.

Where it is the primary duty of the managing committee itself to sanction loans, subject to the provisions of the byelaws, and the committee is proved to have acted in utter disregard not only of the byelaws, but even of ordinary consideration of produce which people should possess and apply in the management of their or other people's property, no further proof is required to hold them liable.

9.19. ***Reliance upon another person*** **:-** As regards liability of directors, it is no **defense** for a director to claim that he left the financial affairs of the company to be managed by another director or relied on the auditor. Having accepted the office of a director, he must be assumed to know the legal requirements of his office *(In re: John Fulton and Co.)* The Plea of continuous non-attendance and leaving the management to others cannot also be availed of and directors who remain absent can be held guilty of misfeasance or breach of trust, which are committed by others. *(Per Lord Hardwick's, 1942 Charitable Co-operative Vs. Sattan 2 ATK 400)*. The fact that a particular director present at the directors meetings at which wrongful acts on the part of the directors were decided upon, protested against or object to it, does not afford any protection to the director protesting or objecting from liability in misfeasance. *(Joint Stock Divisional Co-Vs. Brown 1898)* It is thus clear that not only those who have misappropriated the money, who might have come by the fund of the society or made use of the same that would be liable, but even those who may have omitted to do certain things which they were required to do so that as a result of willful and gross negligence they lay themselves open to a

charge of negligence. However having due regard to the wide scope of section 88, it will be necessary before a person is held liable, specific act of commission and omission, on the basis of which the liability is sought to be fixed, will have to be pointed out. The claim being in the nature of tort, it must be established than firstly there was a legal obligation, that there was a breach of such legal obligation and the said breach has directly resulted in the loss sought to be recovered from the officer.

As regards payments made without authority, in *S. N. Katolkar Vs. ShriKoteshawar Jungle Kamgar Sahkari* Society, the Tribunal has held that where it is shown that an amount has been paid to the right person for work done, the absence of authority or sanction alone will not make the office-bearer liable to make good the amount, for, before the claim is made, it will have to be establishment that it is a loss of the society. In all misfeasance proceedings loss must always be proved.

In *P.R.Pai V/s. Malwan Co-operative Bank*, it has been held that if the management or a board entrusted with management to act flouts the express instructions lawfully issued, and as a result of such action loss has resulted, the action can by no means be regarded as prudent or bonafide.

In order to hold an officer or a sub-committee liable for loss, entrustment must be specifically mentioned in the duties cast upon the officer or the sub-committee. Where, therefore, the wording of the resolution appointing a sub-committee does not establish entrustment of the stock of society to the sub-committee, for any shortage that may have occurred, the member of the sub-committee cannot be held liable.

As already stated, section 73 of the Maharashtra Co-operative Societies Act,1960 vests the management of the society in the managing committee or the Board of Directors. It is clear that management means honest management. The byelaws empower the committee to enter into contracts for the society and settle the terms thereof. If the members settle the term dishonestly, they will be held to have infringed the provisions of section 73 as well as the byelaws and become liable for consequential loss to the society. *(S. N. Agarwal vs. Metropolitan Co-operative Hosing Society)* section 88 is wide enough in its terms and covers all unauthorized or ultra virus acts done dishonestly by a member of the committee, and such member can be held liable to compensate the society for the loss the act had caused.

9.20. *Payment of honorarium to managing Director :-* As we have already seen, section 64 of the Maharashtra Co-operative Societies Act relates to the division of funds of the society, with a provision for payment of remuneration on such scale as may be laid down by the byelaws for any service rendered by a member to the society. It does not relate to the appropriation of the net profits of the society. It is section 65, which deals with the matter. Clause (2) of this section provides for payment of honoraria. It also provides that no part of the profits shall be appropriated except with the approval of the annual general meetings, and in conformity with the Act, Rules and the Byelaws. Byelaws relating to appropriation of profits generally provide that the balance of the net profits, remaining if any, may be appropriated towards Contingent Fund, Common Good Fund and for such other purposes as the general body may decide.

The byelaws of a co-operative society are in a way a document of incorporation of the society from which it derives its powers. As the society derives its powers from the byelaws, it cannot appoint the Managing Director in the absence of provision with regard to such appointment in the byelaws. The following observations of the Tribunal may be noted.

"The Payment of honorarium or advance referred to above is certainly in contravention of the byelaws and hence the same is illegal and invalid and the Defendant is not all entitled to the same. The receipt of such amount is in the nature misapplication of the funds, the Defendant is liable to refund the same". *(M.C.T. Laxman vs. Amalner peoples Cooperative credit Society).*

Payment of honorarium to the managing Director can be said to be regular only when (1) provision is contained in the byelaws for appointment of a Managing Director, (2) appointment of the Managing

Director has been made properly as per procedure laid down the bylaws. (3) the society has made officiate properly as per procedure laid down in the byelaws, (3) the society has made sufficient profits and after carrying necessary amounts to the statutory reserve fund and other funds, the amounts should be available for payment of honorarium. Payment of honorarium at fixed rate every month is not regular. Also, the auditors should object to payment of honorarium by societies, when they earn no profits or inadequate profits.

9.21. *Satisfaction of the Registrar* :- Section 88 is a special provision and section 91 is a generalprovision in the Maharashtra Co-operative Societies Act and the former alone would apply in cases falling within it notwithstanding the generality of the latter provision. The Registrar has the unfettered discretion to start proceedings under section 88, if the conditions laid down therein are satisfied and if he is satisfied of the delinquency of the persons concerned. *(Sundaramlyer vs. District Deputy Registrar, A. I. R. 1957 Mad. 634)*

Section 88 states that where in the course of, or as a result of an audit under section 81, or in inquiry under section 83, or an inspection under section 84, or the winding up of the society, the Registrar is satisfied on the basis of the report made by the auditor or the person authorized to make inquiry or inspections or the liquidator under section 105 or otherwise…, the Registrar may frame charges, etc. The Registrar can thus initiate action under this section on the basis of the report submitted by the auditor, inquiry officer, inspecting officer or liquidator. The words ***"or otherwise"*** also empower the Registrar to take action *sumoto,* but necessary facts will have to be brought to his notice.

9.22. *Scope of the Section* :- As regards scope of the section, as we have already seen, a large class of persons connected with a co-operative institution can be held liable for losses, provided requirements specified in the section are fulfilled. In fact, the section states *"that any persons who have taken any part in the organization or management of the society or any deceased or past or present officer of the society, has within a period of five years prior to the date of commencement of such audit or date of order for enquiry, inspection or winding up misapplied or retained or become accountable or, any money or property of the society, or has been guilty of misfeasance or breach of trust in relation to the society…"*. The section is thus wide enough to bring within its scope all persons who by their actions or omission to act have caused loss to the society.

It would, however, be necessary to determine what part each of the persons who is sought to be held liable has played in connection with each transaction. In a large number of cases, the transaction would have covered a period of years during which the managing committee might have changed, though there might be some common individuals in two or more committees. It is also possible that some of the members may have been absolutely in the dark, as to the transactions, particularly when some of the transactions may not have any sanction of the committee. No doubt ex post facto sanction might have been accorded to some of the transactions by the managing committee, but, if for this act, the committee members are to be held liable, it will be necessary to give them an opportunity to explain in what circumstances such sanction had been accorded.

In most of the societies, directors are elected not on consideration of their experience or possession by them of necessary business acumen, but on account of their influence and the esteem in which they are held by the members. It has also been argued that the question of liability of directors of a Co-operative society stands on a different footing altogether. It is not a contractual liability in any way. The directors and other office bearers are persons of status seeking to work in a public spirit and for a public cause. They also receive no remuneration except attendance fees and reimbursement of expenses incurred by them for attending committee meetings and during other work of this society. It has also been contended that they have only a moral obligation and their actions should, therefore, be judged in a generous way. These are no doubt weighty arguments and require to be considered. The talk of moral standards, however, in relation to purely business matters may not be strictly relevant, but in the context of management of the affairs of a co-operative society by honorary workers who have volunteered

to work for a public cause, it stands on a different footing. The fall from moral standards can only be by any benefit derived by such persons either directly or indirectly and it is in such cases that the question of restitution for loss on accounts of such acts would arise, where it is not suggested that the chairman and the secretary of the society have any interest in payments to such persons, the case of restitution of the loss due to the society on such account cannot fall on them if tested by the standards referred to above. *(M.C.T. Miss C. D'Cunha vs. Mumbai Suburban Housing Society.)*

9.23. ***Principle of Natural Justice*** **:-** From the above decision of the Maharashtra Co-operative tribunal, it will be seen that for proceedings to be instituted under section 88; it is essential that the principles of natural justice should be followed. Though in some cases, acts of misfeasance like acts of conspiracy are committed in the dark and direct proof may not be available, the standard of proof, even if not rigid, must be such as to convince reasonably that an act of misfeasance has been committed. *(Vadala Co-operative Housing Society vs. Jagannath.)* The auditor will, therefore, have to collect necessary evidence to prove the acts of misfeasance that have come to his notice. He will have to conduct detailed investigations so as to point out specific instances involving illegalities and infringements of byelaws and act of imprudence, which constitute acts of misfeasance. Thereafter, detailed cases will have to be made out against the several delinquents in accordance with the acts committed by them.

It at all the analogy of criminal prosecution is to be applied to proceedings under section 88, the terms "prosecutor" and "accused" can be appropriately applied, it is the auditor or the inquiry officer conducting the preliminary investigation and submitting the report which forms the basis for institution of the proceedings, who could be deemed to be the prosecutor while the officers of the society whom he holds to be delinquents could be considered as accused.

9.24. ***Procedure*** **:-** The authorized officer has to follow strictly the procedure laid down in rule 72 of the Maharashtra Co-operative Societies Rules. He should carefully go through all the material and frame proper charges against such persons as may be concerned or appear to be concerned *prima facie* and then take evidence giving every opportunity to all the parties, not only to have their say, but even to cross-examine the various persons on whose evidence he may have to rely. The persons concerned should also be given adequate opportunity of inspection of all records, which they feel would be material to their defense. *(V. S. Bhide Vs. Deputy Registrar, M. C. T.,1963.)*

9.25. ***Audit Report an evidence*** **:-** Although an audit report is enough to justify initiation of proceedings under this section, the report of the auditor is by itself no evidence unless it is properly proved and the party against whom it is sought to be relied upon has had an opportunity of cross-examining the auditor. So long as the audit report is not proved, it cannot be considered as evidence *(Evidence Act, section 45, V. D. Patil vs. Chairman, Vividha Karyakari Sahakari Society, M.C.T.).* It is one of the elementary principles that inferences of an auditor may be his opinion and no opinion can be itself be evidence unless that person is called and examined. In case of audit reports, they are conclusions drawn by auditors from certain statements of account and consequently are no better than opinions and, therefore, before relying on any of the auditor's observations, it is necessary to call the auditor and give opportunity to both the sides to question him.

9.26. ***Procedure for quasi judicial proceedings*** **:-** The High Court at Bombay has framed guidelines for functioning of Quasi Judicial Proceedings .The procedural guidelines and parameters as mentioned in para 17 and 18 of the judgment shall also be applicable to all Quasi Judicial authorities*. (Smt. Savitri Chandraksh (ParI) v. State of Maharashtra & ors. 2009(4) AII MR 194: 2009(4) Mh. L.J.)*

———

B) IMPORTANT PROVISIONS OF OTHER ACTS

It is necessary for Auditors of Co-operative Societies to have working knowledge of provisions of some of the Acts other than the Maharashtra Co-operative Societies Act, 1960. Important provisions of such other Acts which are likely to be useful to the Co-operative Auditors, are discussed below. They are required to study in detail actual provisions of the Acts concerned.

CHAPTER No. 10

THE INDIAN EVIDENCE ACT, 1872

10.1. ***Introduction*** **:-** The auditors have to lodge police complaints against the concerned persons who they come to suspect to be guilty of frauds and misappropriation during the course of their audit. Mere knowledge of Indian Penal Code and auditing practices does not serve this purpose, without knowledge of Indian Evidence Act, which requires the auditor to prove the misappropriation and frauds, while auditing. It is necessary that the auditor should be well acquainted with, how to collect and what should be nature of the evidence, to prove the cases of misappropriation and frauds.

10.2. ***Interpretations: Fact*** **:-** Under section 3 of the Act, ***Fact*** means and includes, (1) anything, state of things, or relation of things, capable of being perceived by the senses; (2) any mental condition of which any persons is conscious.

Relevant **:-** One fact is said to be relevant to another when the one is connected with the other in any of the ways referred to in the provisions of this Act relating to the relevancy of facts.

10.3. ***Evidence*** **:-** Section 3 defines evidence. It means and includes :

(1) all statements which the Court permits or requires to be made before it by witnesses, in relation to matters of fact under inquiry. Such statements are called oral evidence.

(2) all documents including electronic records produced for the inspection of the Court;

Such documents are called documentary evidence.

10.4. ***Relevancy of Facts*** **:-**

a) Cases in which statement of relevant fact by person who is dead or cannot found, etc., is relevant; Under sub section 2 of the section 32 during the course of business, when any statement was made by such person (who is dead, or who cannot be found, or who has become incapable of giving evidence, or whose attendance cannot be procured without an amount of delay or expense which under the circumstances of the case appears to the Court unreasonable,) and in particular when it consists of any entry or memorandum made by him in books kept in the ordinary course of business, or in the discharge of professional duty; or of an acknowledgment written or signed by him of the receipt of money, goods, securities or property of any kind, or of a document used in commerce written or signed by him or of the date of a letter or other document usually date, written or signed by him.

b) Entries in books of account including those maintained in an electronic form when relevant **:-** Section 34 of the Act provides that entries in the books of account, including those maintained in an electronic form, regularly kept in the course of business, are relevant whenever they refer to a matter into which the Court has to inquire, but such statements shall not alone be sufficient evidence to charge any person with liability.

c) Relevancy of entry in public record, made in performance of duty **:-** Under section 35, an entry in any public or other official book, register or recorded or an electronic record, stating a fact, in issue or relevant fact, and made by a public servant in the discharge of his official duty, or by any other person in performance of a duty, specially enjoined by the law of the country in which such book, register or record or an electronic record is kept, is itself a relevant fact.

d) ***Relevancy of statement in maps, charts and plans*** **:-** Section 36 explains that, 'a statements of facts in issue or relevant facts, made in published maps or charts generally offered for public sale, or in maps or plans made under the authority of the Central Government or any State Government, as to matters usually represented or stated in such maps, charts or plans, are themselves relevant facts.

e) ***Relevancy of statement as to fact of public nature, contained in certain acts or notifications*** **:-** Section 37 provides that 'When the Court has to form an opinion as to the existence of any fact of a public nature, any statement of it, made in a recital contained in any Act of Parliament, of the United kingdom or any Central Act, Provincial Act or a State Act or in a Government notification or notification by the Crown Representative appearing in the Official Gazette or in any printed paper purporting to be the London Gazette or the Government Gazette of any Dominion, colony or possession of His Majesty is a relevant fact.'

f) ***Relevancy of Statements as to any law contained in law books*** **:-** Section 38 provides that, 'When the Court has to form an opinion as to a law of any country, any statement of such law contained in a book purporting to be printed or published under the authority of the Government of such country and to contain any such law, and any report of a ruling of the Courts of such country contained in book purporting to be a report of such rulings, is relevant.'

10.5. ***What evidence to be given when statement forms part of a conversation, document, electronic record, book or series of letters or papers*** **:-** Section 39 provides that, 'When any statement of which evidence is given forms part of a longer statement, or of a conversation or part of an isolated document, or is contained in a document which forms part of a book, or is contained in part of electronic record or of a connected series of letters or papers, evidence shall be given of so much and no more of the statement, conversation, document, electronic record, book or series of letters or papers as the Court considers necessary in that particular case to the full understanding of the nature and effect of the statement, and of the circumstances under which it was made.'

10.6. ***Opinions of experts*** **:-** The auditors have to take experts' opinion regards legality of the case from the District Government pleader, or the handwriting experts' opinion is taken by the police authorities.

a) **Section 45 :-** Explains relevancy of these opinions in the section 45 as, 'When the Court has to form an opinion upon a point of foreign law, or of science, or art or as to identity of handwriting or finger impressions, the opinions upon that point of persons specially skilled in such foreign law, science or art, or in questions as to identity of handwriting or finger-impressions are relevant facts. Such persons are called experts.

b) **Section 45A :-** Provides regarding opinion of examiner of electronic evidence that, 'when in a proceeding, the Court has to form an opinion on any matter relating to any information transmitted or stored in any computer resource or any other electronic or digital form, the opinion of the Examiner of Electronic Evidence referred to in section 79A of the Information Technology Act, 2000 is a relevant fact.

c) The opinions of the experts are presumed to be relevant when; they support or are inconsistent with the facts, which are relevant (section 46).

d) When the Court has to form an opinion as the person by whom any document was written or signed, the opinion of any person acquainted with the handwriting of the person by whom it is supposed to be written or signed that it was or was not written or signed by the person, is a relevant fact. (Section 47).

e) ***Opinion as to electronic signature when relevant*** **:-** 'When the Court has to form an opinion as to the electronic signature of any person, the opinion of the Certifying Authority which has issued the electronic Signature Certificate is a relevant fact. (Section 47 A)

10.7. ***Oral Evidence and Documentary Evidence*** **:-** The auditors are obtaining information for the purpose of their audit in writing as well as they have to obtain information and explanations in oral also.

The auditors issues their audit memorandum on the basis of the oral and written information and explanations, it is therefore necessary to auditor to study the provisions of the act regarding oral and documentary evidences.

10.8. *Oral Evidence* :-

a) 'All facts, except the contents of documents or electronic records , may be proved by oral evidence. (section 59).

b) Section 60 provides that, 'the oral evidence in all cases whatever, should be direct, that is to say,

(1) If it refers to a fact which could be seen, it must be the evidence of a witness who says he saw it;

(2) If it refers to a fact which could be heard, it must be the evidence of a witness who says he heard it ;

(3) If it refers to a fact which could be perceived by any other sense or in any other manner, it must be the evidence of a witness who says he perceived it by that sense or in that manner;

(4) If it refers to an opinion or to the grounds on which that opinion is held, it must be the evidence of the person who holds that opinion on those grounds. The section further provides that, 'the opinions of experts expressed in any treatise commonly offered for sale, and the grounds on which such opinions are held, may be proved by the production of such treatises if the author is dead or cannot be found, or has become incapable of giving evidence, or cannot be called as a witness without an amount of delay or expense which the court regards as unreasonable;

This section further provides that, if oral evidence refers to the existence or condition of any material thing other than a document, the Court may, if it thinks fit, require the production of such material thing for its inspection.

10.9. *Documentary evidence* : *Primary evidence* :-

a) The contents of documents may be proved either by primary or secondary evidence. (section 61)

b) Section 62 explains primary evidence as, 'Primary evidence means the document itself produced for inspection of the Court, it further explains, where a document is executed in several parts, each part is primary evidence of the document'.

'Where a document is executed in counterpart, each counterpart being executed by one or some of the parties only, each counterpart is primary evidence as against the parties executing it.' It further explains that, ' Where a number of documents are all made by one uniform process, as in the case of printing, lithography or photography, each is primary evidence of the contents of the rest; but when where they are all copies of a common original, they are not primary evidence of the contents of the original.

10.10. *Secondary evidence* : *Section 63* defines ***"Secondary Evidence***" It means and includes :-

(1) **Certified** copies given under the provisions hereinafter contained;

(2) **Copies** made from the original by mechanical processes which in themselves insure the accuracy of the copy, and copies compared with such copies;

(3) **Copies** made from or compared with the original;

(4) **Counterparts** of documents as against the parties who did not execute them;

(5) **Oral** accounts of the contents of a document of a document given by some person who has himself seen it.

Secondary evidence is admitted only in the absence of primary evidence, this should be kept in mind by the auditor, as they collect attested or true copies for their evidence in criminal cases.

10.11. ***Secondary evidence applicability*** **:-** ***Section 64*** provides that the documents must be proved by primary evidence except in the cases stated in section 65 of the Act, which states that the secondary evidence may be given of the existence, condition or contents of a document in the following cases;

(a) when the original is shown or appears to be in the possession or power of the person against whom the document is sought to be proved, or of any person out of reach of, or not subject to, the process of the court, or of any person legally bound to produce it,

and when, after the notice mention in section 66, such person does not produce it;

(b) when the existence, condition or contents of the original have been proved to be admitted in writing by the person against whom it is proved or by his representative in interest;

(c) when the original has been destroyed or lost, or when the party offering evidence of its contents cannot, for any other reason not arising from his own default or neglect, produce it in reasonable time;

(d) when the original is of such a nature as not to be easily movable;

(e) when the original is a public document within the meaning of ***Section 74;***

(f) **When** the original is a document of which a certified copy is permitted by this Act, or by any other law in force in India, to be given in evidence;

(g) When the originals consist of numerous accounts or other documents, which cannot conveniently be examined, in Court, and the fact to be proved is the general result of the whole collection. The section further provides that, in cases (a), (c), and (d) any secondary evidence of the contents of the document is admissible. ; in case of (b) the written admission is admissible; in the case of (e) or (f) a certified copy of the document, but no other kind of evidence, is admissible; In case of (g) evidence may be given as to the general result of the documents by any person who has examined them, and who is skilled in the examination of such documents.

Section 66 provides that, '***Secondary evidence*** of the contents of the documents referred to in section 65, clause (a) shall not be given unless the party proposing to give such secondary evidence has previously given to the party in whose possession or power the document is, or to his attorney or pleader, such notice as the Court considers reasonable under the circumstance of the case;

This section further provides that such notice shall not be required in order to render secondary evidence admissible in any of the following cases, or in any other case in which the Court thinks fit to dispense with it –

(1) When the document to be proved is itself a notice;

(2) When, from the nature of the case, the adverse part must know that he will be required to produce it;

(3) When it appears or is proved that the adverse party has obtained possession of the original by fraud or force;

(4) When the adverse party or his agent has the original in Court;

(5) When the adverse party or his agent has admitted the loss of the document;

(6) When the person in possession of the document is out of reach of, or not subject to , the process of the Court.

10.12. Hand writing expert's opinion **:-** Auditors many times come across bogus signatures in cases of frauds and misappropriations, alleged by the members or otherwise.

a) ***Section 67*** specifically states that if a document is alleged to be signed or to have been written wholly or in part by any person, the signature or the handwriting of so much of the document as is alleged to be in that person's handwriting must be proved to be in his handwriting.

b) Section 67A provides for ***electronic signature***: Except in the case of a secure electronic signature, if the electronic signature of any subscriber is alleged to have been affixed to an electronic recorded the fact that such electronic signature is the electronic signature of the subscriber must be proved.

c) ***Verification of digital signature:*** Section 73A provides that, 'In order to ascertain whether a digital signature is that of the person by whom it purports to have been affixed, the Court may direct-

(a) **That** person or the Controller or the Certifying Authority to produce the Digital Signature certificate;

(b) **Any** other person to apply the public key listed in the Digital Certificate and verify the Digital signature purported to have been affixed by that person.

The section further explains that, for the purpose of this section, controller means the Controller appointed under sub-section (1) of the section 17 of the Information Technology Act, 2000.

10.13. ***Attestation of documents*** **:-** Section 68 provides that, 'if a document is required by law to be attested, it shall not be used as evidence until one attesting witness has been called for the purpose of proving its execution, if there be an attesting witness alive, and subject to the process of the Court capable of giving evidence. It further provides that, in case of registered document in accordance with the provisions of Indian Registration Act 1908, it shall not be necessary to call an attesting witness. The only exception is "will", which is not required to be registered compulsorily.

10.14. ***Electronic Records*** **:-**

A) ***Section 65 (A)*** provided specifically for electronic records that 'the contents of electronic records may be proved in accordance with the provisions of section 65 (B.)'

B) ***Section 65B- Admissibility of Electronic Records*** **:-** This section provides that '(1) Notwithstanding anything contained in this Act, any information contained in an electronic record which is printed on a paper, stored, recorded or copies in optical or magnetic media produced by a computer (***computer output***) shall be deemed to be also a document, if the conditions mentioned in this section are satisfied in relation to the information and computer in question and shall be admissible in any proceedings, without further proof or production f the original, as evidence of any contents of the original or of any fact stated therein of which direct evidence would be admissible.'

C) ***Conditions in regard to computer output*** :- Sub section (2) enumerates the conditions referred to above, for computer output :-

(a) The computer output containing the information was produced by the computer during the period over which the computer was used regularly to store or process information for the purposes of any activities regularly carried on over that period by the person having lawful control over the use of the computer;

(b) During the said period, information of the kind continued in the electronic record or of the kind from which the information so contained is derived was regularly fed into the computer in the ordinary course of the said activities;

(c) Throughout the material part of the said period, the computer was operating properly or, if not, then in respect of any period in which it was not operating properly or was out of operation during that part of the period was not such as to affect the electronic record or the accuracy of its contents; and

(d) The information contained in the electronic record reproduces or is derived from such information fed into the computer in the ordinary course of the said activities.

D) Sub clause (3) of the section provides that where over any period, the function of storing or processing information for the purposes of any activities regularly carried on over that period as mentioned in clause (a) of Sub-section (2) was regularly performed by computers , whether :-

(a) by a combination of computers operating over that period; or

(b) by different computers operating in succession over that period, or

(c) by different combinations of computers operating in succession over that period; or

(d) in any other manner involving the successive operation over that period, in whatever order, of one or more computers and one or more combinations of computers.

E) All the computers used for that purpose during that period shall be treated for the purposes of this section as constituting a single computer; and references in this section to a computer shall be construed accordingly.

F) Under sub-section (4) of the section, in any proceedings where it is desired to give a statement in evidence by virtue of this section, a certificate doing any of the following things, that is to say:-

(a) Identifying the electronic record containing the statement and describing the manner in which it was produced;

(b) **Giving** such particulars of any device involved in the production of that electronic record as may be appropriate for the purpose of showing that the electronic record was produced by a computer;

(c) **Dealing** with any of the matters to which the conditions mentioned in sub section (2) relate, and purporting to be signed by a person occupying a responsible official position in relation to the operation of the relevant device or the management of the relevant activities (whichever is appropriate) shall be evidence of any matter stated in the certificate; and for the purposes of this sub-section it shall be sufficient for a matter to be stated to the best of the knowledge and belief of the person stating it.

G) Sub-section 5 explains, for the purpose of this section:-

(a) information shall be taken to be supplied to a computer if it is supplied thereto in any appropriate form and whether it is so supplied directly or (with or without human intervention) by means of any appropriate equipment;

(b) whether in the course of activities carried on by any official, information is supplied with a view to its being stored or processed for the purposes of those activities by a computer operated otherwise than in the course of those activities, that information, if duly supplied to that computer, shall be taken to be supplied to it in the course of those activities;

(c) a computer output shall be taken to have been produced by a computer whether it was produced by it directly or (with or without human intervention) by means of any appropriate equipment.

This subsection further explains that, for the purpose of this section any reference to information being derived from other information shall be reference to its being derived there from by calculation, comparison or any other process.

10.15. *Public document* :- Section 74 describes the following as the public documents for the purpose of Act.

(1) Documents forming the acts as records of the acts :-

(a) of the sovereign authority;

(b) of official bodies and tribunals, and

(c) of public officers, legislative, judicial and executive, of any part of India or of the commonwealth, or of a foreign country;

(2) Public records kept in any state of private documents.

Section 75 explains all other documents other than in section 74 are private documents.

10.16. ***Certified copies of the public documents :-*** Section 76 provides the manner of issuing certified copies of public document, that he {the authorized person} shall give that person on his demand a copy of public document, on payment of the legal fees therefore, together with a certificate written at the foot of such copy that it is a true copy of such document or part thereof, as the case may be, and such certificate shall be dated and subscribed by such officer with his name and his official title, and shall be sealed, whenever such officer is authorized by law to make use of a seal; and such copies so certified shall be called certified copies.

The section further explains that, any officer who, in the ordinary course of official duty, is authorized to deliver such copies, shall be deemed to have the custody of such documents within the meaning of the section.

10.17. ***Presumptions of the document as evidence*** **:-**

Section 79 provides ***presumption as to genuineness of certified copies:*** The Court shall presume to be genuine every document purporting to be a certificate, certified copy, or other document, which is by law declared to be admissible as evidence of any particular fact and which purports to be duly certified by any officer of the Central Government or of a State Government, or by any officer in the state of Jammu and Kashmir who is duly authorised thereto by the Central Government.

It further provides that, such document is substantially in the form and purports to be executed in the manner directed by law in that behalf. The Court shall also presume that any officer by whom any such document purports to be signed or certified, held, when he signed it, the official character, which he claims in such paper.

10.18. ***Documents produced as record of evidence*** **:-** ***Section 80***: Whenever any document is produced before any Court, purporting to be a record or memorandum of the evidence, or of any part of the evidence, given by a witness in a judicial proceeding or before any officer authorised by law to take such evidence, or to be a statement or confession by any prisoner or accused person, taken in accordance with law, and purporting to be signed by any Judge, or Magistrate, or by any such officer as aforesaid, the Court shall presume – that the document is genuine; that any statement as to the circumstances under which it was taken, purporting to be made by the person signing it, are true, and that such evidence, statement or confession was duly taken.

10.19. ***Electronic agreements: Section 85 A:*** provides that the Court shall presume that every electronic record purporting to be an agreement containing the digital signatures of the parties was so concluded by affixing the digital signatures of the parties.

10.20. ***Electronic Records and electronic signatures : Section 85 B :*** Provides that,

(1) In any proceedings involving a secure electronic record, the Court shall presume unless contrary is proved, that the secure electronic record has not been altered since the specific point of time to which the secure status relates.

(2) In any proceedings, involving secure digital signature, the Court shall presume unless the contrary is proved that –

a. the secure digital signature is affixed by subscriber with the intention of signing or approving the electronic record;

b. except in the case of a secure electronic record or a secure electronic signature, nothing in this section shall create any presumption relating to authenticity and integrity of the electronic record or any electronic signature.

10.21. ***Electronic messages*** **:-** ***Section 88 A*** **:-** The Court may presume that, an electronic message forwarded by the originator through an electronic mail server to the addressee to whom the message purports to be addressed corresponds with the message as fed into his computer for transmission; but the Court shall not make any presumption, as to the person by whom such message was sent.

The section further explains that, the expressions " addressee" and "originator" shall have the same meanings respectively assigned to them in clauses (b) and (za) of sub-section (1) of section (2) of the Information Technology Act, 2000.

10.22. ***Burden of Proof: Section 101 defines burden of proof*** :– Whoever desires any Court to give judgment as to any legal right or liability dependent on the existence of facts which he asserts, must prove that those facts exist. When a person is required to prove the existence of any fact, it is said that the burden of proof lies on that person.

Under section 102 the burden of proof in a suit or proceeding lies on that person who would fail if no evidence at all were given on either side.

10.23. ***Proof as a particular fact: Section 103*** :- The burden of proof as to particular fact lies on that person who wished the Court to believe in its existence, unless it is provided by any law that the proof of that fact shall lie on any particular person .

10.24. ***Confidential communications with legal advisers*** :- No one shall be compelled to disclose to the Court any confidential communication which has taken place between him and his legal, professional advisor, unless he offers himself as witness, in which case he may be compelled to disclose any such communications as may appear to the Court necessary to be known in order to explain any evidence which he has given, but no others.

———

CHAPTER No. 11

THE INFORMATION TECHNOLOGY ACT 2000

11.1. *Objects* :- New communication systems and digital technology have made dramatic changes in commerce and business. Businesses and consumers are increasingly using computers for their commercial transactions. Many of the Banks and societies are adopting the system of Computer Accounting. To facilitate e-commerce and remove the hurdles that are in electronic commerce and electronic Governance, there are writing and signature for legal recognition. Accordingly, to fulfill this need, the Information Technology Act, 2000 has been enacted by the Central Government. As the Co-operative societies are using this modern technology, it is necessary for the auditors to study the provisions of the Act, so they can use the provisions if there are fraudulent transactions in these records.

11.2. *Definitions* :-

1. Section 2 (a) of the act defines, " access" as "with its grammatical variations and cognate expressions, means gaining entry into, instructing or communicating with the logical, arithmetical or memory function resources of a computer, computer system or computer network".

2. Section 2(b) defines 'addressee' as a person who is intended by the originator to receive the electronic record but does not include intermediary;

3. Section 2 (d) defines " affixing electronic signature" as with its grammatical variations and cognate expressions, as adoption of any methodology or procedure by a person for the purpose of authenticating an electronic record by means of electronic signature.

4. It further defines in section 2(p) the digital signature as "authentication of any electronic record by a subscriber by means of an electronic method or procedure in accordance with the provisions of section 3 of the act."

5. Section 2(i) defines "computer" as "any electronic, magnetic, optical or other high speed data processing device or system which performs logical, arithmetic and memory functions by manipulations of electronic, magnetic or optical impulses, and includes all input, output, processing, storage, computer software or communication facilities which are connected or related to the computer in a computer system or computer network".

11.3. *Authentication of electronic records* :- for legality of electronic records it is necessary to authenticate the records.

1. Sub section (1) of the section 3 provides, "Subject to the provisions of this section, any subscriber may authenticate an electronic record by affixing his digital signature".

2. Sub section (2) further provides that "the authentication of the electronic record shall be effected by the use of asymmetric crypto system and hash function, which envelop and transform the initial electronic record into another electronic record. The sub-section 2 further explains "hash function" means an algorithm mapping or translation of one sequence of bits into another, generally smaller, set known as " hash results" such that an electronic record yields the same hash result every time the algorithm is executed with the same electronic record as its input making it computationally infeasible-

(a) to derive or reconstruct the original electronic record from the has result produced by the algorithm;

(b) that two electronic records can produce the same hash result using the algorithm.

3. The sub section further clarifies that, any person by the use of a public key of the subscriber can verify the electronic record or the private key and the public key are unique to the subscriber and constitute a functioning key pair.

4. ***Electronic Signature*** **:-** Section 3-A. defines Electronic Signature as, (1) Not withstanding anything contained in section 3, but subject to the provisions of sub-section (2), a subscriber may authenticate any electronic record by such electronic signature or electronic authentication technique which-,

a) Is considered reliable; and

b) May be specified in the Second Schedule.

Sub-section (2) states that for the purposes of section 3 any electronic signature or electronic authentication technique shall be considered reliable if,

a) the signature creation data or the authentication data are, within the context in which they are used, linked to the signatory or, as the case may be, the authenticator and to no other person;

b) the signature creation data or the authentication data were, at the time of signing, under the control of the signatory or, as the case may be, the authenticator and of no other person;

c) any alteration to the electronic signature made after affixing such signature is detectable;

d) any alteration to the information made after its authentication electronic signature is detectable; and

e) it fulfils such other conditions which may be prescribed.

11.4. ***Legal recognition*** **:-** Section 4 and 5 of the Act provide for legal recognition of the electronic record and electronic signature.

1. Section 4 provides that, "where any law provides that information or any other matter shall be in writing or in the typewritten or printed form, then, notwithstanding anything contained in such law, such requirement shall be deemed to have been satisfied if such information or matter is –

(a) Rendered or made available in an electronic form; and

(b) Accessible so as to be usable for a subsequent reference."

2. Section 5 provides that, "where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be signed or bear the signature of any person then, notwithstanding anything contained in such law, such requirement shall be deemed to have been satisfied, if such information or matter is authenticated by means of electronic signature affixed in such manner as may be prescribed by the Central Government. The section further explains that, for the purposes of this section, "signed" with its grammatical variations and cognate expressions, shall, with reference to a person, mean affixing of his handwritten signature or any mark on any document and the expression "signature" shall be construed accordingly.

11.5. ***Retention of Electronic Records*** **:-** Section 7 provides for certain requirements for retention of electronic records.

1. Sub-section (1) of the section provides that, "where any law provides that documents, records or information shall be retained for any specific period then, that requirement shall be deemed to have been satisfied if such documents, records or information are retained in the electronic form, if,

(a) The information contained therein remains accessible so as to be usable for a subsequent reference;

(b) The electronic record is retained in the format in which it was originally generated, sent or received or in a format which can be demonstrated to represent accurately the information originally generated, sent or received;

(c) The details which will facilitate the identification of the origin, destination, date and time of dispatch or receipt of such electronic record are available in the electronic record. The sub section provides that this will not apply to any information, which is automatically

generated solely for the purpose of enabling an electronic record to be dispatched or received. This shall also not apply to any law, which expressly provides for the retention of documents, records or information in the form of electronic records. (Sub section 2).

2. ***Audit of documents etc. maintained in electronic form*** **:-** Section 7A provides that- Where any law for the time being in force, there is a provision for audit of documents , records or information, that provision shall also be applicable for audit of documents, records or information processed and maintained in the electronic form.

11.6. ***Security of Electronic Records*** **:-** Section 14 to 16 deals with security and security procedures for the electronic records.

1. Section 14 defines the secure electronic record as, "where any security procedure has been applied to an electronic record at a specific point of time, then such record shall be deemed to be a secure electronic record from such point of time to the time of verification."

2. Section 15 deals with the security of electronic signature- An electronic signature shall be deemed to be a secure electronic signature if- i) the signature creation data, at the time of affixing signature, was under the exclusive control of signatory and no other person; and ii) the signature creation data was stored and affixed in such exclusive manner as may be prescribed. It further explains that, in case of digital signature, the signature creation data means the private key of the subscriber.

3. Section 16 explains about the security procedure. It states that the Central Government shall, for the purposes of this Act, prescribe the security procedures and practices, having regard to commercial circumstances, nature of transactions and such other related factors, as it may consider appropriate.

11.7. ***Electronic signature certificate*** **:-** As per section 21 the person who wants to use electronic signature has to obtain license to issue electronic signature certificate from the Controller, after fulfilling the requirements, with respect to qualification, expertise, manpower, financial resources and other infrastructure facilities.

11.8. ***Offences under the Act*** **:-** Section 65 , 66 and 66-A to F deal with offences relating to tampering with computer source documents, computer related offences, sending offensive messages through communication service, dishonestly receiving stolen computer resource of communication device, identity theft, cheating by impersonation by using computer resources , violation of privacy and cyber terrorism. Section 43 provides for compensation for damage to computer, computer system, etc.

11.9. ***Application of the Act to electronic cheque and truncated cheque*** **:-** Sub section (1) of the section 81 A of the Act, states that, the provisions of this act, for the time being in force, shall apply to or in relation to, electronic cheques and truncated cheques subject to such modifications and amendments as may be necessary for carrying out the purposes of the Negotiable Instruments Act, 1881, by the Central Government in consultation with the Reserve Bank of India by notification in Official Gazette. The explanation further clarifies that, for the purpose of this Act, the expressions" electronic cheque' and "truncated cheque" shall have the same meaning as assigned to them in section 6 of the Negotiable Instruments Act.

11.10. ***Amendments to other Acts*** **:-** The Amendments to The Indian Penal Code, The Indian evidence Act, 1872, The Banker's Books Evidence Act, 1891 and Reserve Bank of India Act 1934 are made as per Sections 92 to 94 respectively and that are as per schedules attached to the Act, bearing numbers First to Fourth Schedule. The Amendments made in The Indian Penal Code and The Indian Evidence Act are explained elsewhere in the manual. The auditors should study the provisions of the Act.

11.11. ***Bankers' Books Evidence Act, 1891*** **:-** The said act is amended in sub clause (3) of section 2, which relates to the ***Banker's Books*** as "Banker's Books' include ledger, day-books, cash-books, account-books and all other books used in the ordinary business of a bank whether kept in the written form or as printouts of data stored in a floppy, disc, tape or any other form of electro-magnetic data storage device.

Sub clause (8) of section 2 is amended accordingly,***"certified copy"*** means the books of a bank,- (a) are maintained in written form, a copy of any entry in such books together with a certificate written at the foot of such copy that it is a true copy of such entry, that such entry is contained in one of the ordinary books of the bank and was made in the usual and ordinary course of business and that such book is still in the custody of the bank, and where the copy was obtained by a mechanical or other process which in itself ensured the accuracy of the copy, a further certificate to that effect, but where the book from which such copy was prepared has been destroyed in the usual course of the bank's business after the date on which the copy had been so prepared, a further certificate to that effect, each certificate being dated and subscribed by the principal accountant or manager of the bank with name and official title; and (b) consist of printouts, data stored in a floppy, disc, tape or any other electro-magnetic date storage device, a printout of such entry or a copy of such printout together with such statements certified in accordance with the provisions of section 2-A.

11.12. ***Conditions in the printout*** :- Section 2-A provides that the printout entry or a copy of printout should accompany the following:

(a) a certificate to the effect that it is a printout of such entry or a copy of such printout by the principal accountant or branch manager; and

(b) a certificate by a person in-charge of computer system containing a brief description of the computer system and the particulars of (A) the safeguards adopted by the system to ensure that data is entered or any other operation performed only by authorised persons; (B) the safeguards adopted to prevent and detect **unauthorized** change of date; (C) the safeguards available to retrieve date that is lost due to systemic failure or any other reasons; (D) the manner in which data is transferred from the system to removable media like floppies, discs, tape or other electro-magnetic data storage devices; (E) the mode of verification in order to ensure that data has been accurately transferred to such removable media; (F) the mode of identification of such date storage devices; (G) the arrangements for the storage and custody of such storage devices; (H) safeguards to prevent and detect any tampering with the system; and (I) any other factor which will vouch for the integrity and accuracy of the system.

(c) A further certificate from the person in-charge of the computer system to the effect that to the best of his knowledge and belief, such computer system operated properly at the material time, he was provided with all the relevant data and the printout in question represents correctly, or is appropriately derived from, the relevant data.

11.13. ***Guidelines for Security*** **:-** Under rule 19(2) of the Information Technology (Certifying Authorities) Rules, 2000 certain Guidelines regarding security are given in schedule II for protecting the integrity, confidentiality and availability of service; auditors should study them and see that these guidelines are adhered to by the Certifying Authority. Certifying authority under section 2(g) means, a person who has been granted a license to issue a Digital Signature Certificate under section 24 of the Act.

Contents of guidelines :- The schedule II contains guidelines on the following matters:

1) Implementation of an Information Security program;	2) Information Classification;
3) Physical and Operation Security;	4) Information management;
5) System integrity and security measures;	6) Sensitive systems protection;
7) Data Center Operations Security;	8) Data backup and Off-site Retention;
9) Audit trails and Verification;	10) Measures for handle Computer Virus;
11) Relocation of Hardware and Software;	12) Hardware and Software Maintenance;

13) Purchase and licensing of Hardware and Software;
14) System Software;
15) Documentation security;
16) Network communication security;
17) Firewalls;
18) Connectivity;
19) Network Administrator;
20) Change Management;
21) Problem Management and Reporting;
22) Emergency preparedness;
23) Contingency Recovery Equipments and Services;
24) Security Incident Reporting and Response; and
25) Disaster Recovery / Management.

CHAPTER No. 12

INDIAN PENAL CODE 1860

12.1. Related Offences : - ***The following are the offences which auditors of co-operative societies generally come across during the course of their audit*** **:-**

1) Theft-section 378;
2) Criminal misappropriation-section 403;
3) Criminal breach of trust- section 405;
4) Criminal breach of trust by clerk or servant-section 408;
5) Criminal breach of trust by public servants, bankers, etc.-section 409;
6) Cheating-section 415;
7) Cheating by trustees, directors and managers of companies, etc.; Section 420;
8) Cheating and dishonestly inducing delivery of property- Section 420;
9) Dishonest or fraudulent removal and concealment of property- Section 424;
10) Use of forged document as genuine - Section 471;
11) Forged documents or electronic records -Section 470;
12) Forgery- Section 463;
13) Making a false document - Section 464;
14) Forgery of valuable security -Section 467;
15) Forgery for purpose of cheating – Section 468;
16) Falsification of accounts- Section 477-A.

Definitions of the various offences should be carefully studied. In the following paragraphs, an attempt has been made to explain what action constitute the offences and also the nature of the evidence required to be collected to prove guilt of the wrong-doers. ***In order to constitute an offence, existence of certain essential factors will have to be proved.*** Thus, to prove an offence of theft, it will have to be proved that cash, negotiable instruments or valuables contained in the safe or strong room of the bank or society have been removed or goods have been removed from its store or go-down buy unauthorized persons. Certain offences, if committed by clerks and employees or by persons occupying positions of trust and responsibility invite more severe punishment. However, so far as auditors are concerned, it will be necessary for them to collect evidence sufficient to prove the guilt of the offenders.

12.2. ***Criminal misappropriation*** **:-** The offence most commonly met with in co-operative societies is the misappropriation of its funds. Section 403 defines misappropriation as ***"dishonest appropriation or conversion for a person's own use of movable property belonging to another".*** It also covers subsequent wrongful or fraudulent retention of property though innocently come by. The dishonest intention to appropriate the property though innocently comes by. The dishonest intention to appropriate the property of another is common both in theft and misappropriation.

12.3. ***Misapplication and misappropriation distinguished*** **:-** Where the funds of a society have been misapplied, but there was no intention to derive any personal benefit, it is misapplication of the money, though illegal will not amount to misappropriation and hence no criminal action will lie against the wrong-doers, even though loss has been occasioned to the society. Thus, for example, when loans have been advanced in excess of the limits specified in the byelaws or loans have been made to non-members or against inadequate security, no offence is committed. The remedy in such cases is to invoke the provisions of section (88) and not institute criminal proceedings. Similarly, when transactions have been entered into in a negligent manner or against the provisions of the Act, Rules or the byelaws of the society, the remedy is to institute proceedings under section (88) and claim damages.

12.4. ***Criminal Misappropriation*** **:-** A person can be held liable for criminal misappropriation, only if *he dishonestly misappropriates or converts for his own use, money, goods or other moveable property which has come into his possession*. As in the case of theft, dishonest intention to appropriate illegally is the basis for institution of criminal proceedings. To sustain a charge of misappropriations, therefore the prosecution has to prove that, *the accused deprived the complainant of his property and wrongfully misappropriated it or retained it with dishonest intention*. However, mere retention of money would not warrant a conviction unless there is evidence to prove that the accused used or retained the money dishonestly.

It is, no doubt, impossible for the prosecution to follow the money in the hands of the accused person and to prove that he spent certain specific amounts in any particular manner. The prosecution must stop when it is proved that the accused has received the money, has acknowledged the receipt of the money and has failed to pay it to his master or show it in his master's account. Where it is the duty of the accused to pay the moneys received by him, this non-payment is *prima facie* evidence that he has wrongly appropriated them for himself. Non-payment coupled with false accounts either as to the receipt of the money or its disposal is conclusive evidence.

On a charge of misappropriation, it is sufficient for the prosecution to prove that some of the money mentioned in the charge has been misappropriated by the accused even though it may be uncertain as to what is the exact amount so misappropriated. Evidence has accordingly to be led that the accused retained, misappropriated or converted for his own use, money, goods or other property of the society and that he did so dishonestly. Evidence may have to be led to establish that the accused received the money, but did not credit the amount in his cash book or pay it over to his society and was in financial difficulties at the time.

The mere fact that the accused was given time to make up his account and pay the balance due, does not vitiate a conviction for criminal misappropriation or show that the matter is one for a Civil Court only. This is explained in explanation 1 under the section as- A dishonest misappropriation for a time only is a misappropriation within the meaning of the section 403.

Explanation 2 under the section further clarifies that, a person who finds property not in the possession of any other person, and takes such property for the purpose of protecting it for, or of restoring it to, the owner, does not take or misappropriated it dishonestly, and is not guilty of an offence; but he is guilty of the offence above defined, if he appropriates it to his own use, when he know or has the means of discovering the owner, or before he has used reasonable means to discover and give notice to the owner and has kept the property a reasonable time to enable the owner to claim it.

What are reasonable means or what is a reasonable time in such case, is a question of fact. It is not necessary that the finder should know who the owner of the property is, or that any particular person is the owner of it; it is sufficient if, at the time of appropriating it, he does not believe it to be his own property, or in good faith believes that the real owner cannot found.

12.5. ***Separate offences*** **:-** Misappropriation of separate items of money on different dates constitutes distinct items and the facts connected with each items should be subject-matter of separate inquiry.

Where moneys are dishonestly misappropriated and false accounts or vouchers are prepared for the purpose of screening the misappropriation, the offence of falsification becomes part and parcel of the offence of misappropriation and the whole transaction must be practically considered as one offence consisting of criminal misappropriation according to the Bombay High Court.

12.6. *Criminal breach of trust* :-

a) Section 405 defines criminal breach of trust and section 406 prescribes punishment for criminal breach of trust. Under section 407, criminal breach of trust by carriers, harbingers, etc., who have been entrusted with goods for transport or for other purposes, is punishable with seven years' imprisonment and/or fine. Section 408 deals with criminal breach of trust by clerk or servant, while section 409 groups' together public servants, bankers, merchants, factors, brokers, attorneys and agents for purposes of prescribing higher punishment.

b) To constitute the offence of criminal breach of trust, there must be dishonest misappropriation by person in whom confidence is placed as to the custody or management of the funds or property, in respect of which the breach of trust is alleged. There must be an entrustment; there must be misappropriation or conversion to one's own use or use in violation of any legal direction or of any legal contract and thirdly, the misappropriation or conversion or use must be with a dishonest intention. Section 405 defines it as- *"Whoever, being in any manner entrusted with property, or with any dominion over property, dishonestly misappropriates or converts to his own use that property, or dishonestly uses or disposes of that property in violation of any direction of law prescribing the mode in which such trust is to be discharged or of any legal contract, express or implied, which has made touching the discharge of such trust, or willfully suffer any other person so to do, commits "Criminal breach of trust".*

c) Section 3 of the Indian Trust Act, 1882, defines 'trust' as an obligation annexed to the ownership of property and arising out of a confidence reposed in and accepted by the owner or declared and accepted by him for the benefit of another or of another and the owner.

d) ***Criminal misappropriation and criminal breach of trust distinguished* :-** In a criminal misappropriation, the property comes into the offender by some causality or otherwise and he afterwards misappropriates it. In the case of criminal breach of trust, the offender is lawfully entrusted with the property and he dishonestly misappropriates the same of wilfully suffers any other so to do instead of discharging the trust attached to it.

e) ***Misfeasance, misappropriation and breach of trust distinguished* :-** Every breach of trust gives rise to a suit for damages, but it is only when there is evidence of a mental Act, or intention of fraudulent misappropriation that the commission of any embezzlement of money becomes a penal offence punishable as a criminal breach of trust. Every offence of a criminal breach of trust involves a Civil Court, but every breach of trust in the *men's rea* (mental Act, or indention of fraudulent misappropriation), cannot justify a criminal prosecution.

The terms of the section are every wide. It applies to one who is ***in any manner entrusted with property or dominion over property*** and provides inter alias that if such a person ***dishonestly misappropriates or converts to his own use, the property entrusted*** to him, he commits criminal breach of trust. This part of the definition is complete in itself and has no reference to the provisions as to disposal in violation of a directive of law or of a legal contract. A necessary element of criminal breach of trust is that there should be ***entrustment of property*** to the accused. The entrustment may be in any manner.

A person is said to commit the offence of criminal breach of trust when being entrusted in any manner with property or with dominion over it dishonestly misappropriated the same or converts it to his own use, or dishonestly uses it or disposes it in violation of any direction of law prescribing the mode in which the trust is to carried out, or to any lawful contract made by him touching the execution of the trust or willfully suffers any person to do so. *(Vasant v State AIR 1979 SC1008)*

12.7. *Misappropriation* :- The receipt books were entrusted with the accused but he did not return the same when charge was taken from him. It was held that in the absence of evidence to establish that he dishonestly misappropriated the receipt book or converted it to his own use, the accused cannot be held guilty for the receipt book, might have been lost or mislaid- *(Sardar v State AIR 1977SC 1766).*

Where the accused already knowing that the accounts were in a mess did not care to see that the amounts were duly credited, it can only lead to the inference that he was either grossly negligent in the discharge of his duties, or that he had himself misappropriated the amounts -*(Vasant v State AIR 1979 SC1008).*

The factum of misappropriation cannot be presumed, it has to be proved by the prosecution . It is, therefore, wrong to hold that since the accused *(chowkidar* in charge of a godown open to all and sundry) has not given explanation for shortage, he must be presumed to have misappropriated- Janeswardas V State, AIR 1981 SC 1646).

12.8. Criminal breach of trust :- 1) Section 406 embraces the cases of all offences which are not covered by sections 407, 408 and 409. Offences committed by trustees with regard to trust property and of directors of companies and committee members of co-operative societies, who do not come within the purview of section 408 are covered by this section.

To establish a charge of criminal breach of trust, the prosecution is not obliged to prove the precise mode of conversion, misappropriation or misapplication by the accused of the property entrusted to him or over which he had dominion. *(Jaikrishan v State AIR 1960 SC 889)* The principal ingredient of the offence being dishonest misappropriation or conversion which may not ordinarily be a matter of direct proof, entrustment of property and failure in breach of an obligation to account for the property entrusted, if proved, may, in the light of other circumstances, justifiably lead to an inference of dishonest misappropriation or conversion. *(Bindeshwar V State AIR 1949 part 69)* Where the accused is unable or fails to account for the money or property received by him or interested to him or renders an explanation of his failure to account which is untrue, an inference of misappropriation with dishonest intention may readily be made.

12.9. *Entrustment* :- The word "entrustment" when used in respect of money means that the money has been transferred to the accused under circumstances which show that notwithstanding its delivery to be accepted, the property in it continues to vest in the prosecutor and the money remains in the possession or control of the accused as a bailer and in trust for the prosecutor as bailer, to be restored to him or applied in accordance with his instructions. The terms of this section are wide enough to include trustees of every kind, *i.e.* those who are employed and receive remuneration for acting as trustees, but also by reason of some trust constituted by express deed or even by implication of law, though the office (as in the case of membership of committees of co-operative societies) may be gratuitous and they may not be receiving any remuneration for the services rendered by them.

If there is no trust, there can be no offence under the section. Thus, a person who takes a sum of money by way of loan is not entrusted with the property. However, where an officer of the society having custody of the cash balance retains large sums of money for considerable period and subsequently enters them as an advance or loan taken by him, he commits criminal breach of trust. Similarly, when a servant receives large of sums of money, which he has obtained from his employer on the false pretext that they were required to pay wages, it was held that he was guilty of criminal breach of trust although the criminal intent to misappropriate was present at the time of receipt of the money by him.

Proof of entrustment is an essential ingredient for the offence under section 405. *(Reshanlal V State, AIR 1983 Sc 631).*As long as accused is in possession of the property to deal in a particular manner, the ownership being in another person, there is entrustment of property with the accused. *(Somnath V State AIR 1972 SC 1490).*

12.10. *Ratification* :- Where criminal breach of trust is committed by a clerk of Co-operative society, the defense that the act which was done in violation of bylaws was subsequently ratified by the members of the society is not tenable- *(Sushil V Jaysankar, AIR 1971 SC 1543)*

As regards the meaning of the term ***"property",*** it has been held that it includes the sale proceeds of the goods entrusted to the accused and also goods purchased with the moneys provided by the employer and entrusted to the accused for making the purchases.

The word property used in the section is not restricted to moveable property only when it is used without any qualification in sect. 405 or other relevant section of the Code- (*R. K. Dalmia v. Delhi Administration AIR 1962 SC 1821).*

12.11. *Dominion over property* :- The accused hypothecated to the complainant under a written contract, all his claims against Government in respect of work done and materials supplied to the Executive Engineer and undertook regularly to make over to the complainant all cheques drawn by the Executive Engineer in his favors and subsequently in violation of the said contract cashed two such cheques and appropriated the proceeds. It was held that the accused had committed criminal breach of trust.

12.12. *Hire Purchase Agreement* :- One 'C' agreed to purchase a motor lorry, paying the price by installments. Meanwhile, he signed an agreement with the owner by which describing himself as the hirer, he undertook to pay certain installments, to ensure the vehicle was hired and not to deal with it, to allow owners to recover possession in case of default and agreed that the lorry would remain the property of the owners until all the installments due were paid. It was held that when 'C', in spite of the agreement, sold the lorry before the installments were paid, he was guilty of criminal breach of trust. In a criminal breach of trust, the property remains with the person entrusting and the person entrusted does not have any right in the property.

12.13. *Dishonest intention* :- The second ingredient in a case of criminal breach of trust is ***dishonest intention***. It has to be established that the accused dishonestly misappropriated or converted to his own use the property. Temporary retention of money would not by itself amount to criminal breach of trust. The mere failure to deposit the money would not, therefore, prove dishonesty, there must be other circumstances to prove the element of dishonesty and unless the element of dishonesty is proved, the mere retention of money would not by itself constitute the offence. False explanation is sufficient to prove the element of dishonesty. The mental act of appropriation must be established, but actual expenditure of the money is not the only proof. Mere retention of goods by a person without misappropriation does not constitute criminal breach of trust.

12.14. *Willful omission to account* :- If a person receives money which he is bound to account for and does not to do so, he commits the offence although no precise time can be fixed at which it was his duty to pay the money. Where an employee fails to render accounts and to deliver up the moneys realized by him in spite of repeated demands, he uses the property entrusted to him in violation of the legal contract made by him with his master and is guilty of an offence under section 408.

12.15. *Temporary retention* :- As already stated, it is not necessary or possible in every case of criminal breach of trust to prove in what precise manner, the money was spent or appropriated by the accused, because under the law even ***"temporary retention"*** is an offence provided it is dishonest. The essential thing to be proved in such cases is whether the accused was actuated by dishonest intention or not. The failure to account for the money proved to have been received by the accused or giving a false account as to its use is generally considered a strong circumstance against him. The mental act or intent to deprive the master of his property is the gist of the offence. If a servant immediately on receiving a sum for his master enters a smaller sum, he may be considered to be embezzling the difference at the time he makes the entry. It will make no difference, though he received other sums for his Master the same day and in paying those and the smaller sum to his master together he might have

given his master every piece of money or notes he received at the time he made the false entry. It is not necessary to prove that any particular sum or sums were an amount forming the balance of a large number of receipts and payments; this was held to be sufficient.

12.16. ***Evidence*** **:–** To make out a case of criminal breach of **trust**, which is the commonest offence relating to the funds of a co-operative society, it has to be established that not only has the accused retained the money, but that he has also disposed of the same in some way other than that in which he was bound to apply it and that he did so dishonestly. The mere fact that the accused did not at once apply the money to the purpose for which it was intended does not amount to criminal breach of trust. There must be some dishonest use of money to constitute the offence. Although mere retention of money does not necessarily raise a presumption of dishonest misappropriation to one's own use, dishonest appropriation may sometimes be inferred from the circumstances without due evidence. Thus, when cash is drawn from for making small disbursements such as payment of wages of staff when a very large amount is held as cash on hand, in utter disregard to the provisions of the byelaws of the society, a presumption can be made that the cash on hand has been misappropriated. Merely establishing that false entries have been made can lead to the inference that the accused attempted to suppress all traces of his embezzlement by manipulation of the accounts, or evidence of the financial circumstances of the accused will have led to inference which would render probable a case of misappropriation.

12.17. ***Section 408 :- criminal breach of trust by clerk or servant*** **:-**

1) Clerk- In modern usages, the term would mean a writer in an office, public or private, for keeping accounts or entering minutes .

Section 408 read as- "Criminal Breach of trust by clerk or servant- Whoever, being a clerk or servant or employed as a clerk or servant, and being in any manner entrusted in such capacity with property or with any dominion over property, commits criminal breach of trust in respect of that property, shall be punished with imprisonment or liable for fine."

2) ***Servant, Master and servant*** – A relation whereby a person calls in the assistance of others where his own skill and **labor** are not sufficient to carry out his own business or purpose.

Bring the accused within the purview of section 408, it will have to be proved.

[**1**] That the accused was the clerk or servant of the person reposing trust;

[**2**] That he was in such capacity entrusted with the money or property or entrusted with dominion over it;

[**3]** That he committed criminal branch of trust in respect of such money or property. Actual conversion need not be proved. A mental Act, of fraudulent appropriations will however, have be proved.

3) ***Violation of legal contract*** **:-**Where a person taking goods on approval under an agreement that the property therein was to pass on approval, only if he exercised his option to take them and paid cash in full for certain articles and in part for others, the trust continues till the option is exercised and cash payment made and he commits criminal breach of trust, if he sells them without such payment.

The manager of a bank received G. P. notes from a customer as security for an overdraft granted to him. Before the overdraft was cleared, the Manger returned the promissory notes without showing them as returned in the books of the bank which continued to show that they were still deposited with it. The customer having got back his G. P. Notes, re-pledged them with another banker. It was held that the Manager was guilty of criminal breach of trust and the constituent of the abetment thereof.

12.18. ***Section 409*** :- Section 409 deals ***criminal breach of trust by public servant, or by banker, merchant or agent*** – " Whoever, being **in**any manner entrusted with property, or with any dominion over property in his capacity of a public servant or in the way of his business as banker, merchant, factor, broker, attorney or agent, commits criminal breach of trust in respect to that property, and shall be punished with imprisonment and be liable to fine.

This section clubs together public servants, bankers, merchant's factors, brokers, attorneys and agents. The word "banker" in this section has not been used in the technical sense of the Banking Regulation Act, but any person or firm doing the customer business of banking, is a banker for purposes of this section. Merchant is a person who traffics in goods in remote countries, i.e. an importer or exporter and in the ordinary sense also any one engaged in the purchase and sale of goods. Factor is an agent who sells goods, for a commission. Broker is an agent employ to make bargains and contracts between other persons in matters of trade, commerce and navigation. A factor is entrusted with the disposal of the property while a broker is employed to contract about it without being in possession of goods. Attorney is one who is appointed by another to do something in his absence and who has authority to act, in place and turn of the person by whom he is delegated.

12.19. *Cheating* :-

1) Section 415 of IPC defines cheating- Whoever, by deceiving any, person, fraudulently or dishonestly induces the person so deceived to deliver any property to any person, or to consent that any person shall retain any property, or intentionally induces the person so deceived to do or omit to do anything which he would not do or omit if he were not so deceived, and which act or omission causes or is likely to cause damage or harm to that person in body, mind, reputation or property, is said to "cheat".

2) This is a very wide section and deals with almost all the aspects of cheating. Explanation under this section states that, "a dishonest concealment of fact is also deception" within the meaning of the section. Unlike in other offences, in the case of cheating, the offender obtains not only possession of the property, but also sustains property in it. Cheating, criminal breach of trust and criminal misappropriation are all distinct offences. Cheating differs from the last two offences in the fact that the cheat takes possession of the property by deception. There is wrongful gain or loss in both the cases and there is inducement to deliver the property.

3) Deceiving means causing to believe what is false or misleading as to a matter of fact leading to error. It is not sufficient to prove that a false representation has been made, but it is further necessary to prove that the misrepresentation was false to the knowledge of the accused, and was made in order to deceive the complainant. It is not necessary that the false pretence should be made in express words; it can be inferred from all the circumstances attending the obtaining of the property or conduct of the person. If a person obtains goods on credit promising to pay for them on a particular day, knowing that it was impossible for him to pay, or draws cheques knowing that the bank balance was insufficient and the cheque would not be honored, it would amount to cheating.

4) Under section 417, punishment for cheating is one year. Cheating with knowledge that wrongful loss may ensue to person whose interest the offender is bound to protect invites higher punishment under section 418, which defines that, "whoever cheats with the knowledge that he is likely thereby to cause wrongful loss to a person whose interest in the transaction to which the cheating relates, he was bound, either by law, or by a legal contract, to protect, shall be punished with imprisonment or fine or both".

5) This section applies to cases of cheating by guardians, trustees, solicitors, agents, managers of Hindu Joint families, directors and managers of joint stock companies, and of co-operative societies, in fraud of the members or share holders. It is the abuse of trust that is met with a more severe punishment. Presenting a false balance sheet by the directors and managers of the bank to induce depositors to renew their deposits which they would not have otherwise done or putting a false balance sheet in material respects, before the share holders or members which they knew to be false and likely to mislead the public as to the condition of the bank and concealed its true condition, would constitute offences under this section and the directors and mangers could be held liable.

6) Section 420, which deals with cheating and dishonestly inducing delivery of property, is an important section and quite a number of offences in co-operative societies come within the purview of this section. Section 420 States that, " Whoever cheats and thereby dishonestly induces the person deceived to deliver any property to any person, or to make , alter or destroy , the whole or any part of valuable security, shall be punished with imprisonment of up to seven years and shall also be liable to fine. Simple cheating is punishable under section 417, but when there is delivery or destruction of any valuable security, resulting from the act, of the person deceiving, this section comes into operation. For conviction under this section, it must be proved that the complainant parted with his property, acting on a representation, which was false to the knowledge of the accused and that the accused had a dishonest intention from the outset. Where a person whose duty it was to report the current rates in the market by arrangement with persons in the market reported rates higher than those really current and in consequence of which higher rates were paid to the sellers, than they were entitled, it was held that he was guilty of offence under this section. Assisting to obtain larger advances against a consignment sent by rail which was made to show a higher quantity by tampering with the railway receipts has been held to be an offence under this section.

12.20. ***Dishonest or fraudulent execution of deeds*** **:-** Section 423 deals with dishonest or fraudulent execution of deeds of transfer containing false statement of consideration. The section states that, "Whoever dishonestly or fraudulently signs, executes or becomes a party to any deed or instrument which purports to transfer or subject to any charge any property, or any interest therein, and which contains any false statement relating to the consideration for such transfer or charge, or relating to the person or persons for whose use or benefit it is really intended to operate, shall be punished with imprisonment or fine or with both". Under this section, dishonest execution of a benami deed is punishable. Where the consideration for the sale of immoveable property was with the consent of the purchaser, exaggerated in a deed of sale in order to defeat the claim of the presenter, it was held that the purchaser was guilty of this offence.

12.21. ***Dishonest or fraudulent removal or concealment of property*** **:-** Section 424 deals with dishonest or fraudulent removal or concealment of property. The Section defines dishonest or fraudulently conceals or removes any property of himself or any other person, or dishonestly or fraudulently assist in the concealment or removal thereof, or dishonestly releases any demand or claim to which he is entitled. This section covers cases which do not come within the purview of sections 421 and 422. It contemplates such concealment or removal of property from the place where it is deposited as can be considered fraudulent. It also covers dishonest or fraudulent release of any demand or claim to which the offender is entitled.

12.22. ***Forgery*** **:-** Forgery is defined in section 463 as making of a false document or false electronic record and the next section, section 464, deals with the making of a false document or false electronic record. It will be seen that the definition of forgery given in the Code is not as simple or clear as the definition of Forgery in common law. Forgery as is commonly understood means fraudulent making or alteration of a writing to the prejudice of another man's right.

Section 463 defines forgery as- Whoever makes any false documents or false electronic record or part of a document or electronic record, with intent to cause damage or injury, to the public or to any person, or to support any claim or title, or to cause any person to part with property , or to enter into any express or implied contract or with intent to commit fraud or that fraud may be committed , commits forgery.

12.23. ***Making of false document or false electronic record*** **:-**The Section 464 states – A person is said to make a false document or false electronic record:-

First :- who dishonestly or fraudulently-

(a) makes, signs, seals or executes a document or part of document;

(b) makes or transmits any electronic record or part of any electronic record;

(c) affixes any electronic signature on any electronic record;

(d) makes any mark denoting the execution of a document or authenticity of the electronic signature with intention of causing it to be believed that such document or part of document, electronic record, or electronic signature was made, signed, sealed, executed, transmitted or affixed by or by the authority of a person by whom or by whose authority he knows that it was not made, signed, sealed, executed or affixed; or

Secondly :- Who, without lawful authority, dishonestly or fraudulently, by cancellation or otherwise, alters a document or an electronic record in any material part thereof, after it has been made, executed or affixed with electronic signature either by himself or by any other person. **Whether** such person be living or dead at the time of such alteration; or

Thirdly :- Who dishonestly or fraudulently causes any person to sign, seal, execute or alter a document or an electronic record or to affix his electronic signature on any electronic record knowing that such person by reason of unsoundness of mind or intoxication cannot, or that by reason of deception practiced upon him, he does not know the contents of the documents or electronic record or the nature of the alteration.

The simple making of a false document or false electronic record would not amount to forgery as defined in the section. What amounts to making of a false document or false electronic record is explained in section 464. To constitute the offence of forgery, the following ingredients are necessary:-

1) The making of a false document or false electronic record or part of it;

2) Such making should be with intent to-

a) cause damage or injury to public or **any** person; or

b) to support any claim or title; or

c) to induce any person to part with any property; or

d) to cause any person to enter into and express or implied contract; or

e) to commit fraud or that fraud may be committed.

12.24. ***Forged document*** **:-** Section 470 defines a forged document as a false document or electronic record made wholly or in part by forgery and section 471 lays down that whoever fraudulently or dishonestly uses as genuine, any document or electronic record, which he knows or has reason to believe, to be a forged document shall be punished in the same manner as if he had forged such document. What is required to be proved is-

1) Fraudulent or dishonest use of a document as genuine; and

2) Knowledge or belief on the part of the person that the document is a forged one.

12.25. ***Forgery of valuable securities, wills, etc*** **:-** Section 467 deals with forgery of valuable securities, wills, etc. An extremely **sever**punishment, viz., imprisonment for life, 10 years and fine, has been prescribed for the forgery of the following types of documents:-

1) A document which purports to be a valuable security;

2) A will;

3) An authority to adopt a son;

4) A document which purports to give authority to any person-

a) to make or transfer any valuable security, or

b) to receive the principal or interest or dividends thereon, or

5) To receive or deliver any money, moveable property or valuable security:

6) Any document purporting to be-

a) **An acquaintance** or receipt acknowledging

b) **An acquaintance** or receipt for a delivery of any moveably property or valuable security.

Section 468 prescribes punishment for forgery for purpose of cheating as a jail term of seven years and liability to fine.

12.26. *Falsification of accounts* :-

1) Having possession of a forged document knowing it to be forged and intending to use it as a genuine document constitutes an offence under section 477-A- This section, which deals with falsification of accounts and making of false entries in books is a very important section. The section deals with two distinct offences :-

a. Falsification of accounts; and

b. Making or abetting the making of false entry or omitting or altering or abetting omission or alteration of an entry.

This section makes falsification of accounts punishable although there is no evidence to prove misappropriation, of any specific sum or on any particular occasion. The section requires the falsification of accounts, electronic record, paper, writing, valuable security or account with intent to defraud and does not require any deprivation of any property. In an old case decided by the Madras High Court, the officers of a co-operative store, who made false entries in the accounts, were held guilty under this section even though no one lost eventually by such false entries.

2) ***Falsification of accounts* :-** The section defines falsification of accounts as- "Whoever , being a clerk, officer or servant, or employed or acting in the capacity of a clerk, officer, or servant, willfully, and with intent to defraud, destroys, alters, mutilates or falsifies any book, electronic record, paper, writing , valuable security or account which belongs to or is in the possession of his employee, or has been received by him for or on behalf of his employer, or willfully, and with intent to defraud, makes or abets the making of any false entry in, or omits or alters or abets the omission or alteration of any material particular from or in, any such book, electronic record, paper, writing, valuable security or account makes falsification of accounts".

3) ***To establish a charge under this section, the following essentials will have to be fulfilled* :-**

1) The person coming within its purview must be a clerk, officer or servant or acting in the capacity of clerk, officer or servant;

2) He must willfully and with intent to-

a) Defraud, destroy, alter, mutilate or falsify any book, paper, writing, valuable security or account which-

b) Belong to or is in possession of his employer; or

c) Has been received by him for or on behalf of his employer; or

d) Make or abet the making of any false entries, or omit or alter or abet the omission or alteration of any material particular from or in any such book, paper, writing, valuables security or accounts.

4) The words "acting in the capacity of a clerk or servant" are very wide terms and included a person who undertakes to perform and does perform the duties of a clerk or servant, whether in fact, he is a clerk or servant or not and although he is under no obligation to perform such duties and receives no remuneration. The Chairman or a committee member of a society, who writes the cash book and other books of accounts, or issues receipts, although these are no part of his duties, comes within the purview of this section, since he has undertaken to do these duties and has done them. It has to be noted that the falsification can only be committed in respect of books of the employer. The Cashier's Diary, Rough Cash Book or Counter Cash Book maintained by the cashier in a bank belongs to the employer as it is maintained in the ordinary course of business and the Cashier cannot claim it as his own or in any way as belonging to him.

5) ***Wilfully and with intent to destroy, etc*** **:-** 'Wilfully' means that the act is done deliberately and intentionally, not by accident or inadvertence, but so that the mind of the person who does the act, goes with it. Even if the intention with which the false entries are made is to conceal fraudulent or dishonest act, previously committed, the intention will be to defraud. Making a false document with a view to prevent persons already defrauded from ascertaining that misappropriation has been committed and thus enabling the persons who had committed the misappropriations to retain the wrongful gains which they had secured, amounts to the commission of a fraud and brings the case within the purview of this section. The issuing of a false statutory report of a company calculated to deceive the public and intended to induce them to invest their money in the company which they would not otherwise have invested is an act, done with intent to defraud. Promoters of bogus co-operative housing societies, who offer residential flats, shop office premises or garages on attractive terms and given assurances of loan facilities, knowing that neither Government nor the Housing Finance Society have agreed to lend, can be hauled up under the provisions of this section.

It has been held that where alterations have been made, not with any intent to defraud, but merely to comply with the requirements of departmental rules, no offence is committed. It has also to be noted that the alteration should be in the handwriting of the accused in order to convict him.

6) ***Falsification*** **:-** The expression "falsification" applies to the preparation of an entirely new document containing false information. Such a document is correctly described as a false document and the act of preparing such document is called falsification of the document.

7) ***Accounts*** **:-** The offence is completed when accounts are falsified with intention to defraud. An alteration in the accounts made after embezzlement will come within this section, if it is part of the scheme to deprive another of his money. *But the alteration of accounts without intention to commit fraud is not an offence under this section*. Making false entries in books of accounts of a society by a person in order to conceal fraudulent or bogus transactions falls within the purview of this section and deprivation of property either actual or intended is not a necessary ingredient to defraud as contemplated in this section. The secretary of a co-operative society, who has misappropriated a large cash balance, in order to conceal the misappropriation, makes a bogus entry debiting the loan account of a member and forges his signature on the loan bond, commits an offence not only under section 408, but also under section 477-A. If the intention with which a false document is made is to conceal a fraudulent or dishonest act, which had been previously committed, the intention cannot be other than intention to defraud. The concealment of an already committed fraud is a fraud.

12.27. ***Fabricating false evidence: Section192 of IPC*** **:-** Section also deals with a similar offence, *viz*., fabricating false evidence, but with a different intention. This section refers to the making of any false entry in any book or record or electronic record or making any document containing a false statement, intending that such false entry or false statement may appear in evidence in a judicial proceeding or in a proceeding taken by law before a public servant as such or before any arbitrator and that such false entry or false statement so appearing in evidence may cause any person, who, in such proceeding, is to form an opinion upon the evidence, to entertain an erroneous opinion touching any point material to the result of such proceeding, is said to fabricate false evidence. Auditors and officers appointed under section 83 and 88 of the Maharashtra Co-operative Societies Act have been declared to be public servants. Accordingly, proceedings before these officers are proceedings before public servants and as such acts specified above done by office-bearers and employees of co-operative societies come within the purview of this section. Thus, entries intentionally made to reduce the cash balance such as fictitious debits,**bogus** advances, **benamy loans**etc., would come within the purview of this section. Intention is the gist of the offence of fabricating false evidence. The false evidence must be material to the case. As soon as the evidence is fabricated or false statement made, the offence is committed. It is not necessary that such evidence be actually used. However, the fabricated evidence must be admissible evidence.

12.28. ***Act to be done by several persons: Section 34 of IPC*** **:-** Many times, offence is committed by two or more persons acting jointly. Several persons may come together and commit an offence. In such cases, it may be difficult to distinguish between the acts of individual members of a party, or to prove exactly what part was taken by each of them in furtherance of the common intention of all. Section 34 deals with acts done by several persons in furtherance of the common intention of all: each of such persons is liable for that act, in the same manner as if it was done by him alone. The section embodies the principle that if two or more persons intentionally do a thing jointly, it is just the same if each of them had done it individually. However, before a person can be held liable for an act done by another the section requires that it should be established that, firstly, there was a common intention in the sense of a pre-arranged plan, secondly, the person sought to be held liable had participated in some manner in the act, constituting the offence. Both common intention and participation have to be present before the section can apply.

12.29. ***Criminal conspiracy*** **:-** Acting on a common intention also constitutes criminal conspiracy and is the subject matter of section 120-A to constitute criminal conspiracy, it is necessary to prove-

That there was an agreement between two or more persons-

1) For doing an illegal act, or;

2) For doing by illegal means an act, which may not itself be illegal.

However, no agreement except an agreement to commit an offence shall amount to criminal conspiracy unless some act, besides the agreement is done by one or more parties to such agreement in pursuance thereof.

The gist of the offence is the bare engagement and association to commit an illegal Act, or offence.

Section 34 and section 120-A contains similar provisions. There is not much substantial difference between criminal conspiracy defined in section 120-A and acting on common intention as contemplated in section 34.

———

CHAPTER No. 13

THE INDIAN SALE OF GOODS ACT, 1930

13.1. ***Definitions*** **:-**

"Delivery" means voluntary transfer of possession from one person to another [section 2 (2)].

"Document of title to goods" includes a bill of ladingdock warrant, were-house keeper's certificate, wharfinger's certificate, railway receipt, multimodal transport document, warrant or order for the delivery of goods and any other document used in the ordinary course of business as proof of possession or control of goods or authorizing or purporting to **authorize**, either by endorsement or by delivery, the possessor of the document to transfer or receive goods, thereby represented. [Section 2 (4)]

"Goods" means every kind of moveable property other than actionable claims and money; and includes stock and shares, growing crops, grass and things attached to or forming part of the land, which are agreed to be severed before sale or under the contract for sale. [Section 2 (7)].

13.2. ***Sale and agreement to sell*** **:-** Section 4 defines sale contract: as a contract of sale of goods is contract whereby the seller transfers or agrees to transfer the property in goods to the buyer for a price. There may be contract of sale between one par-owner and another. This contract may be absolute or conditional. It further clarifies that where under a contract of sale the property in the goods is transferred from the seller to the buyer, the contract is called a sale, but where the transfer of the property in the goods is to take place at a future time or subject to some condition thereafter to be fulfilled, the contract is called ***an agreement to sell.*** An agreement to sell becomes a sale when the time elapses or the conditions are fulfilled subject to which the property in the goods is to be transferred.

13.3. ***Implied undertaking as to title, etc.*****:-** Under section 14, in a contract of sale, unless the circumstances of the contract are such as to show a different intention there is-

(a) An implied condition on the part of the seller that, in the case of a sale, he has the right to sell the goods and that, in the case of an agreement to sell, he will have a right to sell the goods at the time when the property is to pass;

(b) An implied warranty that the buyer shall have and enjoy quiet possession of the goods;

(c) An implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party not declared or known to the buyer before or at the time when the contract is made.

13.4. ***Sale by description*** **:-** Under section 15, where there is a contract for sale by description, there is an implied condition that the goods shall correspond with the description; and, if the same is by sample as well as by description, it is not sufficient that the bulk of the goods correspond with the sample if the goods do not also correspond with the description.

13.5. ***Sale by sample*** section 17 (2). :- In the case of a contract for sale by sample, there is an implied condition :-

(a) that the bulk of the goods shall correspond with the sample in quality;

(b) that the buyer shall have a reasonable opportunity of comparing the bulk with the sample;

(c) that the goods shall be free from any defect rendering them **un-merchantable**, which would not be apparent on reasonable examination of the sample.

13.6. ***Section 23 (2). Delivery to carrier*** **:-** Where in pursuance of the contract, the seller delivers the goods to the buyer or to a carrier or other bailey (whether named by other buyer or not) for the purpose of transmission to the buyer, and does not reserve the right of disposal, he is deemed to have unconditionally appropriated the goods under the contract. In other words, property in the goods passed to the buyer.

13.7. ***Section 24*** :- ***Goods sent on approval or "on sale or return"*****.:-** When goods are delivered to the buyer on approval or "on sale or return" or other similar terms (such as 'Jangad') the property therein passes to the buyer :-

(a) when he signifies his approval or acceptance to the seller or does any other act adopting the transaction;

(b) if he does not signify his approval or acceptance, but retains the goods without giving notice of rejection, then, if a time has been fixed for the return of the goods, on the expiration of such time, and if no time has been fixed, on the expiration of a reasonable time.

Principle of the provision: Delivery of goods on approval or " on sale or return" basis. In such a case, the property in the goods therein passes to the buyer, if he does not signify his approval or acceptance and also does not return the goods within prescribed time. (State of Maharashtra v/s Britania Biscuits Co. Ltd. 1995 SCC 72)

13.8. ***Section 25, Reservation of right of disposal*** :- (1) Where there is a contract for the sale of specific goods or where goods are subsequently appropriated to the contract, the seller may, by the terms of the contract, or appropriation, reserve the right of disposal of the goods until certain conditions are fulfilled. In such a case, notwithstanding the delivery of the goods to the buyer, or to a carrier or other **bailey** for the purpose of transmission to the buyer, the property in the goods does not pass to the buyer until the conditions imposed by the seller are fulfilled.

Under sub-section (2) where goods are shipped or delivered to a railway administration for carriage by railway and by the bill of lading or railway receipt, as the case may be, the goods are deliverable to the order of the seller or his agent, the seller is *prima facie* deemed to reserve the right of disposal. Thus, where railway receipts are made out "self", *i. e*. where the name of the consignee is shown as "self", the goods continue to be the property of seller until he has endorsed the railway receipt to the consignor. Similarly, under sub-section (3) where the railway receipt together with a hundi (bill of exchange) for the amount is sent together in one envelop, the buyer must accept the hundi before he obtains delivery of the goods. If he does not **honor** the hundi or retains it, the property in the goods does not pass to him.

Section 19,20,25 and 26: Property in goods when passes hire purchase trucks sold by Co-operative society on various conditions that payments will be made by monthly installments, document of registration to be transferred when full payments made- society reserving the right to resell the trucks by auction in case of default- purchaser making default in payments. Defendant society refused to sign papers restricting movement of local area only- plaintiffs claiming compensation for loss and also that ownership in trucks had passed to them on delivery of the trucks- the court held that when property in goods will pass depends on intention of the parties. Terms of the agreement clearly show that ownership was to pass on payment of full price. (Bhagwant Narayan Tendulkar v. Goa Cooperative marketing and Supply Federation 1998 C.R. (P.B.) (A) 735

Under section 26***, risk prima facie with passes property*** **:-** Unless otherwise agreed, the goods remain at the seller's risk, until the property therein is transferred to the buyer, but when the property therein is transferred to the buyer, the goods are at the buyer's risk, whether delivery has been made or not.

13.9. ***Defective title*** **:-** Section 27 embodies the principle that a person, whose own title onto the goods is defective, cannot pass to another a title better than his own. To this, however, the following are exceptions: -

(1) sale by mercantile agent in possession of goods, under certain conditions (section 27);

(2) sale by joint owner (section 28);

(3) sale by a person in possession of goods under avoidable contract (Section 29);

(4) sale by seller in possession after sale or buyer in possession before a sale (section 30).

In all the above cases, *bona fide* purchasers, *i. e.* purchasers, who buy without notice, are protected.

13.10. ***Under section 32, payment and delivery are concurrent conditions*** **:-** that is to say the seller shall be ready and willing to deliver the goods to the buyer in exchange for the price and the buyer shall be ready and willing to pay price in exchange for the possession of the goods.

Under section 33, delivery of goods may be made by doing anything which the parties agree shall be treated as delivery or which has the effect of putting the goods in possession of the buyer or his agent.

Under section 34, delivery of part of goods, in progress of the delivery of the whole, will amount to delivery of the whole unless there is an intention of severing it from the whole. Under section 39, delivery to a carrier or wharfinger, whether named by the buyer or not, for the purpose of transmission to the buyer or to a wharfinger for safe custody, is *prima facie* deemed to be delivery of the goods to the buyer.

13.11. ***Acceptance*** **:-** Section 42 deals with ***acceptance***; the buyer is deemed to have accepted the goods when the goods are delivered to him and he does any act in relation to them which is inconsistent with the ownership of the seller, or when, after the lapse of a reasonable time, he retains the goods without intimating the seller that he has rejected them.

13.12. ***Seller's right*** **:-** Section 46 deals with ***unpaid sellers' rights.*** The unpaid seller has by implication of law :-

(a) a lien on the goods for the price while he is in possession of them;

(b) in case of insolvency of the buyers, a right of stopping goods in transit, after he has parted with the possession of them;

(c) a right of resale subject to certain limitation.

However, under section 53, where a document of title to goods has been issued or lawfully transferred to any person as buyer or owner of the goods, and that person, takes the goods in good faith and for consideration by way of sale or pledge, the seller cannot exercise his right of lien or stoppage in transit.

13.13. ***Section 59. - Remedy for breach of warranty*****.:-** Under section 12, a breach of condition (breach of a stipulation essential to the main purpose of the contract) gives right to the buyer to repudiate the contract. However, any breach of warranty, does not entitle the buyer to reject the goods; but he may :-

(a) set up against the seller, the breach of warranty in diminution or extinction of the price;

(b) or sue the seller for damages for breach of warranty.

Under section 58, in any suit for breach of contract, to deliver specific or ascertained goods, the court may order specific performance of the contract.

———

CHAPTER No. 14

TRANSFER OF PROPERTY ACT, 1882.

14.1. ***Immovable property*** **:-** Under section 3, "immovable property" does not include standing timber, growing crops or grass.

14.2. ***Notice*** **:-** A person is said to have "notice" of a fact when he actually knows that fact, or when, but for willful abstention from any enquiry or search which he ought to have made, or gross negligence, he would have known it. In case of registered documents, a person acquiring such immovable property is deemed to have notice of such documents as from the date of registration.

14.3. ***Transfer of property*** **:-** Under Section 5, transfer of property is defined as an act by which a living person conveys property, in present or in future to one or more other living persons, or to himself and one or more other living persons; and " to transfer Property" is to perform such act. The section further explains that the living person will include a company, or association or body of individuals whether incorporated or not, but nothing herein contained shall affect any law for the time being in force relating to transfer of property to or by companies, associations or bodies of individuals.

14.4. ***Conditional transfer*** **:-** Section 25 restricts some conditional transfer of property, if an interest created on a transfer of property and dependent upon a condition fails if the fulfillment of the condition is impossible, or is forbidden bylaw, or is of such a nature that, if permitted, it would defeat the provisions of any law, or is fraudulent, or involves or implies injury to the person or property of another, or the Court regards it as immoral or opposed to public policy.

14.5. ***Rights: Section 48 - Priority of rights created by transfer*** **:-** Where a person purports to create by transfer at different times rights in or over the same immovable property and such rights cannot all exist or the exercise to their full extent together, each later created right shall, in the absence of a special contract or reservation binding the earlier transferees, be subject to the right previously created.

14.6. ***Fraudulent transfer : Section 53 deals with fraudulent transfers*** **:-** Every transfer of immovable property made with intent to defeat or delay the creditors of the transferor shall be voidable at the option of any creditor so defeated or delayed. However, sub section (2) provides that, every transfer of immovable property made without consideration with intent to defraud a subsequent transferee shall be voidable at the option of such transferee.

14.7. ***Section 53A. Part performance.*** **:-** Where any person contracts to transfer for consideration any immoveable property by writing signed by him or on his behalf from which the terms necessary to constitute the transfer can be ascertained with reasonable certainty, and the transferee has, in part performance of the contract, taken possession of the property or any part thereof, or the transferee, being already in possession, continues in possession in part performance of the contract and has done some act in furtherance of the contract, and the transferee has performed or is willing to perform his part of the contract, then, notwithstanding that where there is an instrument of transfer, that the transfer has not been completed in the manner prescribed therefore by the law for the time being in force, the transferor or any person claiming under him shall be debarred from enforcing against the transferee and persons claiming under him any right in respect of the property of which the transferee has taken or continued in possession, other than a right expressly provided by the terms of the contract: Provided that nothing in this section shall affect the rights of a transferee for consideration who has no notice of the contract or of the part performance thereof.

14.8. ***Sale-Under section 54***, :- ***"Sale is a transfer of ownership in exchange for a price paid or promised or part paid and part promised***. Only a registered instrument can make Sale of immovable property of the value of more than Rs. 100 and upward. A contract for sale of immovable property is a contract that a sale of such property shall take place on terms to be settled between the parties. Mere contract for sale does not itself create any interest in or charge on such property.

14.9. ***Mortgages*** **:-** Chapter 5, which deals with mortgages, requires to be carefully studied by the auditor. Section 58 defines "***mortgage"****as transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced by way of loan, an existing or future debt, or the performance of an engagement which may give rise to pecuniary liability*. The transferor is called the ***mortgagor***, the transferee ***mortgagee***; the principal money and interest of which payment is secured for the time being are called the ***mortgage money*** and the instrument (if any) by which the transfer is effected is called ***a mortgage deed***. In a ***Simple Mortgage***, there is no delivery of property, but the mortgagor binds himself personally to pay the mortgage money and agrees expressly or impliedly that, in the event of his failing to pay according to his contract, the mortgage shall have a right to cause the mortgaged property to be sold and the proceeds of sale to be applied, so far as may be necessary, in payment of the mortgage money.

In a ***mortgage by conditional sale*** [clause (c)], the mortgager ostensibly sells the mortgaged property on condition that on default of payment of the mortgage money, on a certain date, the sale shall become absolute, or on such payment being made, the sale shall become void or the buyer shall transfer the property to the seller. However the condition is required to be embodied in the document, which effects or purports to effect the sale.

14.10. ***English Mortgage*** **:-** Under clause (e) where the mortgagor binds himself to repay the mortgage money by a certain date, and transfers the mortgaged property absolutely to the mortgage, but subject to the proviso that he will re-transfer to the mortgagor upon payment of the mortgage money as agreed, the transaction is called an ***"English mortgage".***

14.11. ***Mortgage by deposit of title deeds*** **:-**Where a person in any of the following towns, namely Calcutta, Madras and Mumbai and in any other towns, which the State Government may by notification in the official gazette specify in this behalf, delivers to a creditor or his agent, documents of title to immovable property, with intent to create a security thereon, the transaction is called a ***mortgage by deposit of title deeds***. Such mortgages are also known as ***"equitable mortgages***". It has to be noted that so far as Maharashtra State is concerned, they can be entered into only in Mumbai, as the State Government has so far notified no other town for the purpose.

14.12. ***Registration of mortgage*** **:-** It will be seen that the ***ingredients necessary*** to create a mortgage are ***(1) transfer of interest in regard to specific immovable property and (2) the transfer must be made to secure payment of loan of money or debt (existing or future) or the performance of an agreement giving rise to a pecuniary liability.***

Although ***all mortgages are required to be registered,*** section 59 provides that a ***mortgage by way of deposit of title deeds need not be registered***.

14.13. ***Redemption of the mortgage*** **:-** under section (60) the mortgagor has a right to redeem the property at any time after the principal money has become due, on payment of mortgage-money or tender, at a proper time and place, this requires the mortgage-

(a) to deliver to the mortgagor the mortgage-deed and all documents relating to the mortgaged property which are in the possession or power of the mortgagee,

(b) in case of possession of mortgaged property, by the mortgage, he has to deliver possession thereof to the mortgagor, and

(c) at the cost of the mortgagor either to re-transfer the mortgaged property to him or to such third person as he may direct.

14.14. ***Obligation to transfer to third party instead of re-transference to the mortgagor*** **:-** Where a mortgagor is entitled to redemption, then, on the fulfillment of any conditions of the fulfillment of which he would be entitled to require a re-transfer, he may require the mortgagee, instead of re-transferring the property, to assign the mortgage-debt and transfer the mortgaged property to such person as the mortgagor may direct; and the mortgagee shall be bound to assign and transfer accordingly.

Under section 61 the mortgagor who has executed two or more mortgages in favour of the same mortgagee shall, in the absence of a contract to the contrary, when the principal money of any two or more of the mortgage has become due, be entitled to redeem any one such mortgage separately, or any two or more of such mortgages together.

14.15. ***Improvement to mortgaged property*** **:-** Section 63 provides the right of mortgage for cost spent on improvement of mortgage property such as cost on preservation of property from deterioration, destruction or necessary to prevent the security from becoming insufficient, or was made in compliance with the lawful order of any public servant or public authority, the cost is liable to pay the mortgagor in addition to the principal with interest. Same right is to mortgage under section 72 to spent money for the purposes mentioned in above.

14.16. ***Foreclosure*** **:-** A suit to obtain a decree that a mortgagor shall be absolutely debarred of his right to redeem the mortgaged property is called a suit for foreclosure section (67).

A mortgage in an "English mortgage" has power to sell the mortgaged property without intervention of the Court provided neither the mortgagor nor the mortgage is a Hindu, Muhammad anor Buddhist or belongs to any race, tribe or class notified by the State Government for the purpose of clause (a) of section (69). Also, where the property is situated in Calcutta, Madras, Mumbai or any other town notified by the State Government, a mortgage has power to sell without intervention of the Court where the power is expressly conferred by the mortgage-deed [clause (c)]. Under section 69-A, such a mortgage is also entitled to appoint a receiver of the income of the mortgaged property or any part thereof.

Under section 78, where through the fraud, misrepresentation or gross neglect of prior mortgage, another person has been induced to advance money on the security of the mortgaged property, the prior mortgage shall be postponed to the subsequent mortgage.

14.17. ***Charge: section (100)*** **:-** Where immovable property of one person is by an act of the parties or operation of law made security for the payment of another, and the transaction does not amount to a mortgage, the latter person is said to have a charge on the property; and all the provisions applicable to a simple mortgage shall so far as may be applied to such charge. However, no charge can be enforced against any property in the hands of a person to whom such property has been transferred for consideration without notice of the charge.

14.18. ***Leases of immovable property*** **:-** Section 105 defines lease ***of immovable property as a transfer of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or promised or of money, a share of crops, service, or any other thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such items.***

The essentials of a lease are thus as under :-

(1) Right to enjoy property;

(2) Duration for such enjoyment;

(3) The consideration which may be price or rent;

(4) Acceptance of transfer by the transferee, *i. e.* lessee.

In the absence of a contract or local law or usage to the contrary, a lease of immovable property for agricultural or manufacturing purposes shall be deemed to be a lease from year to year and a lease of immovable property for any other purpose shall be deemed to be a lease from month to month. However, in view of the enactment of the Agricultural Lands Act and the Rent Control Act, all tenants of agricultural lands and of residential premises in cities are permanent tenants and cannot be evicted except under circumstances and for reasons specified in the respective Acts.

Under section 107, a lease of immovable property from year to year or for a term exceeding one year or for any period exceeding one year or reserving a yearly rent, ***can be made only by a registered instrument***. All other leases of immovable property (such as leave and license agreement of residential premises) may be made either by a registered instrument or by oral agreement accompanied by delivery of possession. A lease, which is made by a registered instrument, must be executed both by the lesser and the lessee.

Under clause (f) of section (111), a lease may be terminated by forfeiture, i. e. in case the lessee breaks an express condition, which provides that on breach thereof the lesser may re-enter.

14.19. ***Transfer of actionable claims*** **:-** Under section (135), every assignee by endorsement or other writing, of a policy of insurance against fire in whom the property in the subject insured shall be absolutely vested at the date of the assignment, shall have transferred and vested in him all rights of a suit as if the contract contained in the policy had been made with himself.

———

CHAPTER No. 15

THE REGISTRATION ACT, 1908

15.1. ***Immovable property*** **:-** Under section 2(6) ***"immovable property"*** includes land, buildings, hereditary allowances, right to ways, lights, ferries, fisheries or any other benefit to arise out of land and things attached to earth or permanently fastened to anything which is attached to earth, but not standing timber, growing crops or grass.

A lease of fishery is immovable property as defined by S. 2(6) of the Act, if it is for a term exceeding one year or reserves yearly rent, it has to be registered (Bihar Eastern Gangetic Fisherman Cooperative Society Ltd. *V/s*. Simpahisingh A.I.R. 1977 SC 2149.

15.2. ***Documents required to be registered*** **:-** Under section (17) of the Act, the following documents, which auditors generally come across during their audits of co-operative societies, are required to be compulsorily registered :-

(a) Gifts of immovable property;

(b) All sales, transfers or mortgages of immovable property of the value of Rs. 100, or upward. Even if the value is less than Rs. 100, the document must be registered unless delivery is made (Transfer of Property Act, section 54);

(c) All leases of immovable property for terms exceeding one year;

(d) All receipts for payments in virtue of which the above transfer, mortgage, lease, etc., are cancelled or released.

However, any document not itself creating, declaring, assigning, limiting or extinguishing any right, title or interest in immovable property, but merely creating a right to obtain another document, which will, when executed, create, declare, assign, limit or extinguish any such right, title or interest need not be registered.

A document purporting or operating to effect a contract for the sale of immovable property shall not be deemed to require registration by reason only of the recital contained in the document of payment of any earnest money or of the whole or part of the purchases money. Thus, agreements for sale of immovable property need not be registered.

Under section (23), every document for registration has to be presented to the proper officer within four months from the date of its execution.

Under section (28), the proper officer to register the document, so far as such document affects immovable property, is the Sub-Registrar within whose sub-district the whole or some portion of the property to which the documents relates is situated.

However, under section (30), any Registrar may receive and register any document, which might be registered by any Sub-Registrar subordinate to him.

As per section 32A it is compulsory to affix passport size photograph and finger-prints to the document by every person presenting any document at the proper registration office under section 32. It further provides that, where such documents relate to the transfer of ownership of immovable property, the passport size photograph and the finger prints of each buyer and seller of such property mentioned in the document shall also be affixed to the document.

As per section (47), registration of a document has retrospective effect, in as much as, it relates back to the date on which the document was made. A document when registered is deemed to have been registered on the date when it was completed and not on the date when it is registered.

Under section (48), registered documents relating to property will have effect against oral agreements. Under provision to this section, a mortgage by deposit of title deeds, as defined in section (58) of the Transfer of Property Act, 1882, shall take effect against any mortgage-deed subsequently registered, which relates to the same property.

15.3. ***Effects of Non-Registration*** **:-** Section (49) deals with the effect of non-registration of documents required to be compulsorily registered. Whereas section (17) provides for the compulsory registration of certain documents, it is section (49), which makes it effective, by making such unregistered documents inoperative.

———

CHAPTER No. 16

THE MUMBAI TENANCY AND AGRICULTURAL LANDS ACT, 1948

The provisions of the Act mostly affect the operations of agricultural credit societies, land development banks and other institutions connected with agricultural finance.

16.1. ***Agriculturist*** **:-** Under section (2) of the Act, "agriculturist" means "a person who cultivates lands personally" and "agricultural **labor**" means "a person whose principal means of livelihood is manual **labo**r on land". Under clause (6) of section (2), "personal cultivation" has been defined as cultivating land on one's own account :-

(1) By one's own **labor**, or

(2) By the **labor** of any member of one's family, or

(3) Under the personal supervision of on self or any member of one's family, by hired **labor** or by servants on wages payable in cash or kind, but, not in crop.

16.2. ***To hold land*** **:-** Under clause (6C), "to hold land" as an owner or tenant means to be lawfully in actual possession of land as an owner or tenant. Under clause (18), "a tenant" is a person who holds land on lease and includes: -

(a) a person who is deemed to be a tenant under section 4;

(b) a person who is protected tenant; and

(c) a person who is a permanent tenant.

16.3. ***A permanent tenant*** :- is a person who holds land as an inferior holder, but on a permanent basis. "A protected tenant" is a person who is so recognized under section (4A) of the Act.

Section 5 prescribes a calling for holding land under the Act.

The quantum of rent payable by a tenant to the landlord has been fixed under section (8)

Under section (14), for certain defaults specified in the said section, the tenancy can be terminated.

16.4. ***Sub letting*** **:-** Section (27) prohibits sub-letting of the land held by a tenant or assignment of any interest therein. However, mortgaging or creating a charge on his interest in the land in favour of a co-operative society in consideration of a loan advanced to him by the society has been permitted. In the event of his making default in repayment of the loan, the co-operative society may cause his interest in the land to be attached and sold for recovery of the loan.

Section (32) is an important provision of the Act. Under sub-section (1) of this section, on the first day of April 1957, more popularly known as "the tillers day", every tenant became himself the owner of the land cultivated by him since he is deemed to have purchased it from his landlord free of all encumbrances subsisting thereon on the day provided he **fulfills** the conditions laid down in the section. The procedure for determining the quantum of purchase price has been laid down in section 32(1) (a) and (b) and the mode of payment of the purchase price has been laid down in section 32(k).

———

CHAPTER No. 17

THE INCOME TAX ACT 1961

As the provisions of the Income Tax Act are applicable to Co-operative Societies, the auditor is required to verify the compliance of various sections of the Income Tax Act 1961. The relevant provisions/sections of the Income Tax Act are as follows :-

17.1. *Definitions under the Income Tax Act* :-

1) Section 2 (7) **Assesses** means a person by whom any tax or any other sum of money is payable under this Act, and includes–

(a) Every-person in respect of whom any proceeding under this Act has been taken for assessment of his income or of the income of any other person in respect of which he is assessable, or of the loss sustained by him or by such other person, or of the amount of refund due to him or to such other person;

(b) Every-person who is deemed to be an **assesses** under any provisions of this Act;

(c) Every-person who is deemed to be an **assesses** in default under any provisions of this Act.

2) Section 2 (9) defines assessment year as the period of 12 months commencing on the 1st day of April every year.

3) Section 2 (19) defines "Co-operative Society" as a co-operative society registered under the Co-operative Societies Act 1912 (2 of 1912) or any other law for the time being enforce in any State for the registration of co-operative society.

4) Section 2 (34) and section 3 defines previous year means the financial year immediately preceding assessment year.

5) Section 2 (35) – "Principal Officer" used with reference to a local authority, company or any other public body or any association of persons or anybody of individuals, means –

(a) the secretary, treasurer, manager or agent of the authority, company, association or body, of;

(b) any person connected with the management or administration of the local authority, company, association or body upon whom the Assessing Officer has served a notice of his intention of treating him as the principal officer thereof;

17.2. *Exemptions under Income Tax Act* :-

Section 10 (35) – any income by way of–

(a) income received in respect of the units of a mutual fund specified under clause (23D); or

(b) income received in respect of the units from the administrator of the specified undertaking; or

(c) income received in respect of the units from the specified company;

Provided that this clause shall not apply to any income arising from transfer of units of the administrator of the specified undertaking or of the specified company or of a mutual fund as the case may be.

However, any expenditure incurred in relation to exempt income is disallowable under Section 14A of the Income Tax Act, 1961 and Rule 8D of the Income Tax Rules, 1962.

17.3. *Profits and gains of business or profession* :-

1) Section 28 defines the profits and gains of any business or profession which was carried on by the **assesses**at any time during the previous year as income chargeable to tax under this head.

2) Section 32 prescribes the rates of depreciation on various assets as follows:-

Sr. No.	Asset Class	Asset Type	Rate of Depreciation
1.	Building	Residential buildings except hotels and boarding houses	5%
2.	Building	Hotels and boarding houses	10%
3.	Building	Purely temporary erections such as wooden structures	100%
4.	Furniture	Furniture – Any furniture / fittings including electrical fittings	10%
5.	Plant & Machinery	Motor cars other than those used in a business of running them on hire	15%
6.	Plant & Machinery	Motor buses/taxies/lorries used in a business of running them on hire	30%
7.	Plant & Machinery	Computers and computer software	60%
8.	Plant & Machinery	Books owned by assesses, carrying on profession being annual publications	100%
9.	Plant & Machinery	Books owned by assesses, carrying on profession not being annual publications	60%
10.	Plant & Machinery	Books owned by assesses, carrying on business in running lending libraries	100%
11.	Intangible Assets	Know how, patents, copyright, trademark, license, franchise or any other business or commercial rights of similar nature	25%

3) Section 36 prescribes the deductions as mentioned in sub clauses for the purpose of computing the income referred to in section 28 as follows :-

36 (ia) the amount of any premium paid by the federal milk co-operative society to effect or to keep in force an insurance on the life of the cattle owned by a member of co-operative society, being the primary society engaged in supplying milk raised by its members to such federal milk co-operative society.

36 (iv) any sum paid by the **assesses** as an employer by way of contribution towards recognized provident fund or an approved superannuation fund subject to such limits as may be prescribed for the purpose of recognizing the provident fund or approving the superannuation fund as the case may be; and subject to such conditions, the board may think fit to specify cases where the contributions are not in the nature of annual contributions of fixed amount or annual contributions fixed on some definite basis by reference to the income chargeable under the head "salaries" or to the contributions or to the number of members of the fund.

36 (iva) any sum paid by the **assesses** as an employer by way of contribution towards a pension scheme as referred to in Section 80 CCD, on account of an employee to the extent it does not exceed ten percent of the salary of the employee in the previous year.

36 (v) any sum paid by the **assesses**as an employer by way of contribution towards an approved gratuity fund created by him for the exclusive benefits of the employees under an irrevocable trust.

36 (*vii*) subject to the provisions of sub-section (2), the amount of any bad debt or part thereof which is written off as irrecoverable in the accounts of the **assesses** for the previous year.

Provided-that in the case of an **assesses** to which clause (*viia*) applies, the amount of the deduction relating to any such debt or part thereof shall be limited to the amount by which such debt or part thereof exceeds the credit balance in the provision for bad and doubtful debts account made under that clause.

Explanation—For the purposes of this clause, any bad debt or part thereof written off as irrecoverable in the accounts of the **assesses** shall not include any provision for bad and doubtful debts made in the accounts of the **assesses.**

The following *Explanation 2* shall be inserted after the renumbered *Explanation 1* to clause (*vii*) of sub-section (1) of section 36 by the Finance Act, 2013, *w.e.f.* 1-4-2014 :

Explanation 2.—*For the removal of doubts, it is hereby clarified that for the purposes of the proviso to clause (*vii*) of this sub-section and clause (*v*) of sub-section (2), the account referred to therein shall be only one account in respect of provision for bad and doubtful debts under clause (*viia*) and such account shall relate to all types of advances, including advances made by rural branches;*

36 (*viia*) In respect of any provision for bad and doubtful debts made by—

(*a*) a scheduled bank not being a bank incorporated by or under the laws of a country outside India or a non- scheduled bank or a co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank an amount not exceeding seven and one-half per cent of the total income (computed before making any deduction under this clause and Chapter VIA) and an amount not exceeding ten per cent of the aggregate average advances made by the rural branches of such bank computed in the prescribed manner :

Provided that a scheduled bank or a non-scheduled bank referred to in this sub-clause shall, at its option, be allowed in any of the relevant assessment years, deduction in respect of any provision made by it for any assets classified by the Reserve Bank of India as doubtful assets or loss assets in accordance with the guidelines issued by it in this behalf, for an amount not exceeding five per cent of the amount of such assets shown in the books of account of the bank on the last day of the previous year.

Provided further that for the relevant assessment years commencing on or after the 1st day of April, 2003 and ending before the 1st day of April, 2005, the provisions of the first proviso shall have effect as if for the words "five per cent", the words "ten per cent" had been substituted.

Provided also that a scheduled bank or a non-scheduled bank referred to in this sub-clause shall, at its option, be allowed a further deduction in excess of the limits specified in the foregoing provisions, for an amount not exceeding the income derived from redemption of securities in accordance with a scheme framed by the Central Government.

***Provided* also** that no deduction shall be allowed under the third proviso unless such income has been disclosed in the return of income under the head "Profits and gains of business or profession."

Explanation.—For the purposes of this sub-clause, "relevant assessment years" means the five consecutive assessment years commencing on or after the 1st day of April, 2000 and ending before the 1st day of April, 2005.

(*b*) A bank, being a bank incorporated by or under the laws of a country outside India, an amount not exceeding five per cent of the total income (computed before making any deduction under this clause and Chapter VI-A).

(*c*) A public financial institution or a State financial corporation or a State industrial investment corporation, an amount not exceeding five per cent of the total income (computed before making any deduction under this clause and Chapter VI-A)

Provided :- that a public financial institution or a State financial corporation or a State industrial investment corporation referred to in this sub-clause shall, at its option, be allowed in any of the two consecutive assessment years commencing on or after the 1st day of April, 2003 and ending before the 1st day of April, 2005, deduction in respect of any provision made by it for any assets classified by the Reserve Bank of India as doubtful assets or loss assets in accordance with the guidelines issued by it in this behalf, of an amount not exceeding ten per cent of the amount of such assets shown in the books of account of such institution or corporation, as the case may be, on the last day of the previous year.

Explanation.—For the purposes of this clause,—

(*i*) "non-scheduled bank" means a banking company as defined in clause (*c*) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank;

(*ia*) "rural branch" means a branch of a scheduled bank or a non-scheduled bank situated in a place which has a population of not more than ten thousand according to the last preceding census of which the relevant figures have been published before the first day of the previous year;

(*ii*) "scheduled bank" means the State Bank of India constituted under the State Bank of India Act, 1955, a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959, a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, or under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, or any other bank being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934.

(*iii*) "**Public** financial institution" shall have the meaning assigned to it in section 4A of the Companies Act, 1956;

(*iv*) "State financial corporation" means a financial corporation established under section 3 or section 3A or an institution notified under section 46 of the State Financial Corporations Act, 1951;

(*v*) "State industrial investment corporation" means a Government company within the meaning of section 617 of the Companies Act, 1956, engaged in the business of providing long-term finance for industrial projects and eligible for deduction under clause (*viii*) of this sub-section;

(*vi*) **"Co-operative** bank", "primary agricultural credit society" and "primary co-operative agricultural and rural development bank" shall have the meanings respectively assigned to them in the *Explanation* to sub-section (4) of section 80P.

4) Section 40 – Amounts not deductible in certain circumstances -

Section 40 (a) (ia) - any interest, commission or brokerage, rent, royalty, fees for professional services or fees for technical services payable to a resident, or amounts payable to a Contractor or sub-Contractor, being resident, for carrying out any work (including supply of **labor** for carrying out any work), on which tax is deductible at source under Chapter XVII-B and such tax has not been deducted or, after deduction, has not been paid on or before the due date specified in sub-section (1) of section 139 :

Provided that where in respect of any such sum, tax has been deducted in any subsequent year, or has been deducted during the previous year but paid after the due date specified in sub-section (1) of section 139, such sum shall be allowed as a deduction in computing the income of the previous year in which such tax has been paid.

Explanation.—For the purposes of this sub-clause,—

(i) "commission or brokerage" shall have the same meaning as in clause (i) of the explanation to section 194H;

(ii) "fees for technical services" shall have the same meaning as in explanation 2 to clause (vii) of sub-section (1) of section 9;

(iii) "professional services" shall have the same meaning as in clause (a) of the explanation to section 194J;

(iv) "work" shall have the same meaning as in explanation III to section 194C;

(v) "rent" shall have the same meaning as in clause (i) to the explanation to section 194-I;

(vi) "royalty" shall have the same meaning as in explanation 2 to clause (vi) of sub-section (1) of section 9;

17.4. ***Section 40A - Expenses or payments not deductible in certain circumstances*** **:-** (1) The provisions of this section shall have effect notwithstanding anything to the contrary contained in any other provision of this Act relating to the computation of income under the head "Profits and gains of business or profession".

(2) (a) Where the **assesses** incurs any expenditure in respect of which payment has been or is to be made to any person referred to in clause (b) of this sub-section, and the Assessing Officer is of opinion that such expenditure is excessive or unreasonable having regard to the fair market value of the goods, services or facilities for which the payment is made or the legitimate needs of the business or profession of the **assesses** or the benefit derived by or accruing to him **there from,** so much of the expenditure as is so considered by him to be excessive or unreasonable shall not be allowed as a deduction.

(b) The persons referred to in clause (a) are the following, namely :—

(i) Where the **assesses** is an individual any relative of the **assesses;**

(ii) Where the **assesses** is a company, firm, association of persons or Hindu un-divided family any director of the company, partner of the firm, or member of the association or family, or any relative of such director, partner or member;

(iii) Any individual who has a substantial interest in the business or profession of the **assesses,** or any relative of such individual;

(iv) a company, firm, association of persons or Hindu undivided family having a substantial interest in the business or profession of the **assesses** or any director, partner or member of such company, firm, association or family, or any relative of such director, partner or member;

(v) a company, firm, association of persons or Hindu undivided family of which a director, partner or member, as the case may be, has a substantial interest in the business or profession of the **assesses;** or any director, partner or member of such company, firm, association or family or any relative of such director, partner or member;

(vi) Any person who carries on a business or profession,—

(A) Where the **assesses** being an individual, or any relative of such **assesses,** has a substantial interest in the business or profession of that person; or

(B) **Where** the **assesses** being a company, firm, association of persons or Hindu undivided family, or any director of such company, partner of such firm or member of the association or family, or any relative of such director, partner or member, has a substantial interest in the business or profession of that person.

Explanation. —For the purposes of this sub-section, a person shall be deemed to have a substantial interest in a business or profession, if,

(a) in a case where the business or profession is carried on by a company, such person is, at any time during the previous year, the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) carrying not less than twenty per cent of the voting power; and

(b) in any other case, such person is, at any time during the previous year, beneficially entitled to not less than twenty per cent of the profits of such business or profession.

(3) Where the **assesses** incurs any expenditure in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, exceeds twenty thousand rupees, no deduction shall be allowed in respect of such expenditure.

Provided further that in the case of payment made for plying, hiring or leasing goods carriages, the provisions of sub-sections (3) and (3A) shall have effect as if for the words "twenty thousand rupees", the words "thirty-five thousand rupees" had been substituted.

17.5. ***Section 43B - Certain deductions to be only on actual payment*** **:-** Not with standing anything contained in any other provision of this Act, a deduction otherwise allowable under this Act in respect of :—

(a) any sum payable by the **assesses** by way of tax , duty, cess or fee, by whatever name called, under any law for the time being in force, or

(b) any sum payable by the **assesses** as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees, or

(c) any sum referred to in clause (ii) of sub-section (1) of section 36, or

(d) any sum payable by the **assesses** as interest on any loan or borrowing from any public financial institution or a State financial corporation or a State industrial investment corporation, in accordance with the terms and conditions of the agreement governing such loan or borrowing, or

(e) any sum payable by the **assesses** as interest on any loan or advances from a scheduled bank in accordance with the terms and conditions of the agreement governing such loan or advances, or

(f) any sum payable by the **assesses** as an employer in lieu of any leave at the credit of his employee, shall be allowed (irrespective of the previous year in which the liability to pay such sum was incurred by the **assesses** according to the method of accounting regularly employed by him) only in computing the income referred to in section 28 of that previous year in which such sum is actually paid by him :

Provided that nothing contained in this section shall apply in relation to any sum – which is actually paid by the **assesses** on or before the due date applicable in his case for furnishing the return of income under sub-section (1) of section 139 in respect of the previous year in which the liability to pay such sum was incurred as aforesaid and the evidence of such payment is furnished by the **assesses** along with such return.

Section 43D :- **Special provision in case of income of public financial institutions, public companies, etc**

Under this section, in the case of scheduled banks,the income by way of interest in relation to such categories of bad or doubtful debts as may be prescribed having regard to the guidelines issued by the Reserve Bank of India in relation to such debts shall be chargeable to tax in the previous year in which it is credited by the scheduled bank to its Profit and Loss account for that year or, as the case may be, in which it is actually received by that bank whichever is earlier.

For the purposes of this section, "scheduled bank" shall have the meaning assigned to it in clause (ii) of the Explanation to clause (viia) of sub-section (1) of section 36 of the Income Tax Act ,1961.

In other words interest on NPA (Substandard Accounts) credited to "Overdue Interest Reserve account "and debited to "Interest Receivable Account" is not to be considered as income , unless it is actually recovered. This treatment of interest on NPA accounts is in accordance with the "Assets Classification and Income Recognition Norms" as issued by the Reserve Bank of India from time to time. There are differences of opinion whether this section is applicable to the non scheduled cooperative banks, but Income Tax Appellate Tribunal and Hon'ble High court have given decisions in favour of the non scheduled cooperative banks. (*CIT* V/s. *Deogiri Nagari Sahakari Bank - Mumbai High Court*; *ACIT* V/s. *Solapur Siddheshwar Sahakari Bank, (2015) 57 Taxmann.com 183, Pune ITAT, Bench B; Osmanabad Janta Sahakari Bank Ltd., ITAT Pune Bench A)*

17.6. ***Section 50 - Special provision for computation of capital gains in case of depreciable assets*** **:-** Notwithstanding anything contained in clause (42A) of section 2, where the capital asset is an asset forming part of a block of assets in respect of which depreciation has been allowed under this Act or under the Indian Income-tax Act, 1922, the provisions of sections 48 and 49 shall be subject to the following modifications :—

(1) where the full value of the consideration received or accruing as a result of the transfer of the asset together with the full value of such consideration received or accruing as a result of the transfer of any other capital asset falling within the block of the assets during the previous year, exceeds the aggregate of the following amounts, namely :—

(i) Expenditure incurred wholly and exclusively in connection with such transfer or transfers;

(ii) The written down value of the block of assets at the beginning of the previous year; and

(iii) The actual cost of any asset falling within the block of assets acquired during the previous year, such excess shall be deemed to be the capital gains arising from the transfer of short-term capital assets;

(2) Where any block of assets ceases to exist as such, for the reason that all the assets in that block are transferred during the previous year, the cost of acquisition of the block of assets shall be the written down value of the block of assets at the beginning of the previous year, as increased by the actual cost of any asset falling within that block of assets, acquired by the **assesses** during the previous year and the income received or accruing as a result of such transfer or transfers shall be deemed to be the capital gains arising from the transfer of short-term capital assets.

17.7. ***Audit of Accounts of Certain Persons Carrying On Business or Profession*****.**

Section 44AB of the Act provides that, Every Person :-

(a) Carrying on business shall, if his total sales, turnover or gross receipts as the case may be in business exceed or exceeds Rs.1 crores in any previous year or,

(b) Carrying on profession shall if his gross receipts in professional exceed Rs.25 lakhs in any previous year or,

(c) Carrying on the business shall, if the profits and gains from the business are deemed to be the profits & gains of such persons under section 44 AE or section 44 AF (or section 44 BB or section 44 BBB) as the case may be and he has claimed his income to be lower than the profits or gains so deemed to be the profits and gains of his business as the case may be in any previous year; get his accounts of such previous year audited by an accountant before the specified date and furnished by that date the report of such audit in the prescribed form duly signed and verified by such accountant and setting form such particulars as may be prescribed:

The section further provides that this section shall not apply to the person, who derives income of the nature referred to in section 44 B (section 44 BB or section 44 (BBA) or section 44 (BBB), on and **from** the 1st day of April, 1985 or, as the case may, the date on which the relevant section came into force, whichever is later:

It further provides that in a case where such person is required by or under other law to get his accounts audited, it shall be sufficient, compliance with the provisions of this section, if such person gets the accounts of such business or profession audited under such law before the specified date and (furnishes by) that date the report of the audit as required under such other law and a further report (by an accountant) in the form prescribed under the section.

The section further explains that: — For the purposes of this section –

***(i) "Accountant"* :-** shall have the same meaning as in the explanation below sub-section (2) of section 288. As per the said sub section, "Accountant" means a chartered accountant within the meaning of Chartered Accountant Act 1949.

***(ii) "Specified date"*:-** in relation to the accounts of the **assesses** of the previous year relevant to an assessment year, means the 30th September of the assessment year.

17.8. *Deductions* :- Section 80 P provides certain deduction in respect of income of co-operative societies except Urban co-operative banks, DCC Banks, State Co-operative banks are given below:

Section : 80 P sub section (1) provides that, where in the case of an **assesses** being a cooperative society, the gross total income includes any income referred to in sub section (2), there shall be deducted in accordance with and subject to the provisions of this section, the sums specified in sub section (2) in computing the total income of the **assesses.**

Sub-section (2) : The sums referred to in sub-section (1) shall be the following namely: -

(a) In the case of a Co-operative society engaged in –

(i) Carrying on the business of banking or providing credit facilities to its members or,

(ii) A cottage Industry. or,

(iii) The marketing of agricultural implements seeds, livestock or other articles intended for agriculture for the purpose of supplying them to its members. or,

(iv) The processing without the aid of power of the agricultural produce of its members or,

(v) The collective disposal of the **labor** or its members or,

(vi) Fishing or, allied activities that is to say the catching, curing processing, preserving, strong or marketing of fish or the purchase of materials and equipments in connection therewith for the purpose of supplying them to its members.

The whole of the amount of profits and gains of business attributable to any one or more of such activities.

Provided that in the case of a co-operative society falling under sub-clause (vi) or sub-clause (vii) the rules and bye-laws of the society restrict the voting rights to the following classes of its members namely: —

(1) The individuals who contribute their **labor** or as the case may be carry on the fishing or allied activities.

(2) The co-operative credit societies, which provide financial assistance to the society.

(3) The State Government.

(b) In the case of a co-operative society, being a primary society engaged in supplying milk, oilseeds, fruits or vegetables raised or grown by the members to;

(i) A federal co-operative society, being a society engaged in the business of supplying milk, oilseeds, fruits or vegetables as the case may be or,

(ii) The Government or a local authority or,

(iii) A Government company as defined in section 617 of the Companies Act, 1956 or a corporation established by or under a Central, State or Provincial Act, (being a company or corporation engaged in supplying milk, oilseeds, fruit or vegetables as the case may be to the public), the whole amount of profits and gains of such business.

(c) In the case of a co-operative society engaged in activities other than those specified in clause.

(a) Or clause (b) either independently of or in addition to all or any of the activities so specified so much of its profits and gains attributable to such activities as do not exceed :—

(i) Where such co-operative society is a consumer's co-operative society (one hundred) thousand rupees, and

(ii) In any other case fifty thousand rupees.

Explanation :— In this clause consumer's co-operative society means a society for the benefit of the consumers.

(d) In respect of any income by way of interest or dividends derived by the co-operative society, from the investments with any other co-operative society the whole of such income:

(e) In respect of any income derived by the co-operative society from the letting of godowns or warehouses for storage, processing or facilitating the marketing of commodities, the whole of such income.

(f) In the case of a co-operative society not being a housing society or an Urban consumers society carrying on transport business or a society engaged in the performance of any manufacturing operations with the said of power, where the gross total income does not exceed twenty thousand rupees the amount of any income by way of interest on securities or any income from house property chargeable under section 22.

Explanation: — For the purpose of this section, an urban consumer's co-operative society means a society for the benefit of the consumers within the limits of a municipal corporation, Municipality, Municipal committee, notified area committee, town, area or cantonment.

Section 80 P (4):- The provision of this section shall not apply in relation to any co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank.

17.9. ***Section 139 (1) – Return of Income*** :- As per section 139 (1) of Income Tax Act, 1961, every society is required to furnish its returns of income in the prescribed form and verify in prescribed manner and setting for such other particulars as may be prescribed on or before the due date which is 30th September of the following year.

Under section 139 (3) of the Income Tax Act, 1961, if any society has sustained the loss in any previous year under the head "profits and gains of business or profession" or under the head "capital gains" and claims that the loss or any part thereof should be carried forward under section 72, 73 or 74 of the Act, then the return of loss should be furnished within the time allowed under section 139 (1) of the Act. If the same is not furnished within the time, then the loss cannot be carried forward.

17.10. ***Tax Deduction at Source*** **:-** The society is required to deduct the tax at source from the payments made under various heads as per following chart.

Section	Payment Nature	Payment in excess of	TDS Rate for Individual	TDS Rate for Others
194A	Interest from a Banking Company	10000	10%	10%
194A	Interest other than from a Banking Co.	5000	10%	10%
194C	Contractors (including Advertising & Sub-Contractor)	30000 (per . payment) or 75000 p.a	1%	2%
194C	a. Transport Contractors (Providing PAN and engaged in the business of plying, hiring or leasing of goods carriages, provided that such transport contractor owns ten or less goods carriage at any time during the previous year and furnishes a declaration to that effect along with his PAN to the person paying / crediting transport chargesh	Nil	Nil	Nil
	b. If not covered as above , then TDS is to be made	30000 (per payment) or 75000 p.a	1%	2%
194D	Insurance Commission	20000	10%	10%
194H	Commission or Brokerage	5000	10%	10%
194I	Rent of Land & Building	180000	10%	10%
194I	Rent of Plant & Machinery and Other Equipments	180000	2%	2%
194IA	Transfer of Immovable Property other than Agriculture Land	5000000	1%	1%
194J	Payment for Professional Services, Technical Services & Royalty	30000	10%	10%
194J(1)(ba)	Payment to Directors any remuneration or fees or commission by whatever named called if the same is not covered U/s. 192	-	10%	10%

The above rates are applicable if the party of whom TDS is to be made furnishes PAN to the party making payments. If PAN is not furnished then TDS is to be made @ 20%.

Note :- These rates of TDS are applicable for Assessment Year 2016-17. The Finance Act, 2016 has proposed to change the Threshold limits and rates of TDS as mentioned above *w. e. f.* 1.6.2016. Since the Act has not been enacted , the changed limits and rates have not been given here.

The auditor is required to verify whether tax has been deducted from all the eligible payments at the specified rate and has been paid to the credit of Central Government within the time allowed. The auditor is also required to verify that, returns of TDS have been submitted on or before due date.For delay in submission of TDS returns late filing fees is payable U/s. 234E of the Income Tax Act ,1961. The auditor is expected to verify Justification Reports of the concerned bank / society as downloaded from the Income Tax Department Website in order to verify demands, if any raised by the Income Tax Department on the society.

As per section 194 A(3)(viia)(a) of the Income Tax Act ,1961 the provisions of TDS are not applicable to interest credited or paid on deposits with a primary agricultural credit society or a primary credit society or a co-operative land mortgage bank or a co-operative land development bank.

Further, as per section 194A(3)(v) of the Income Tax Act, 1961 the provisions of TDS are not applicable to interest credited or paid by a co-operative society, other than a Co-operative bank, to its member . So also a Co-operative society is not required to deduct tax at source from interest credited or paid by it to any other Co-operative society. Accordingly a Co-operative bank is not required to deduct tax at source from the payment of interest to a depositor, being a Co-operative society.

Earlier the Co-operative banks were not making TDS from interest paid to its members. But from 1st June, 2015 this exemption provided from deduction of tax at source from payment of interest to members by a co-operative society under section 194A(3)(v)) of the Act shall not apply to the payment of interest on time deposits, including recurring deposits , by the co-operative banks to its members. Further, where the co-operative bank or a co-operative society, engaged in carrying on business of banking, has adopted core banking solution then, the threshold limit for interest credit/payment is to be considered bank/society as a whole and not its branch wise. So now the cooperative banks are required to make TDS from interest paid even to its members and bank wise and not branch wise threshold limit of interest is to be considered , where core banking system has been adopted.

The auditor of Co-operative society , including co-operative bank is required to be very much careful in verifying the compliance of TDS provisions as if not followed properly, it would lead to disallowance of interest expenditure U/s. 40(a)(ia) of the Income Tax Act, 1961 apart from penal provisions relating to TDS.

17.11. ***Section – 269SS: Mode of taking or accepting certain loans and deposits*** **:-**

269SS. No person shall, after the 30th day of June, 1984, take or accept from any other person (hereafter in this section referred to as the depositor), any loan or deposit otherwise than by an account payee cheque or account payee bank draft *or use of electronic clearing system through a bank account* if,—

(a) the amount of such loan or deposit or the aggregate amount of such loan and deposit; or,

(b) on the date of taking or accepting such loan or deposit, any loan or deposit taken or accepted earlier by such person from the depositor is remaining unpaid (whether repayment has fallen due or not), the amount or the aggregate amount remaining unpaid; or,

(c) the amount or the aggregate amount referred to in clause (*a*) together with the amount or the aggregate amount referred to in clause (*b*), is [twenty] thousand rupees or more :

Provided :- that the provisions of this section shall not apply to any loan or deposit taken or accepted from, or any loan or deposit taken or accepted by,—

(a) Government ;

(b) any banking company, post office savings bank or co-operative bank ;

(c) any corporation established by a Central, State or Provincial Act ;

(d) any Government company[9] as defined in section 617 of the Companies Act, 1956 (1 of 1956) ;

(e) such other institution, association or body or class of institutions, associations or bodies which the Central Government may, for reasons to be recorded in writing, notify in this behalf in the Official Gazette :

Provided further :- that the provisions of this section shall not apply to any loan or deposit where the person from whom the loan or deposit is taken or accepted and the person by whom the loan or deposit is taken or accepted are both having agricultural income and neither of them has any income chargeable to tax under this Act.

So the Co-operative banks can accept deposits exceeding the limit as mentioned above otherwise than by an account payee cheque or account payee bank draft *or use of electronic clearing system through a bank account* but the other Co-operative societies cannot accept so.

17.12. *Section – 269T* :- *Mode of repayment of certain loans or deposits* :-

269T. No branch of a banking company or a co-operative bank and no other company or co-operative society and no firm or other person shall repay any loan or deposit made with it otherwise than by an account payee cheque or account payee bank draft drawn in the name of the person who has made the loan or deposit *or by use of electronic clearing system through a bank account* if—

(*a*) the amount of the loan or deposit together with the interest, if any, payable thereon, or

(*b*) the aggregate amount of the loans or deposits held by such person with the branch of the banking company or co-operative bank or, as the case may be, the other company or co-operative society or the firm, or other person either in his own name or jointly with any other person on the date of such repayment together with the interest, if any, payable on such loans or deposits, is twenty thousand rupees or more:

Provided :- that where the repayment is by a branch of a banking company or co-operative bank, such repayment may also be made by crediting the amount of such loan or deposit to the savings bank account or the current account (if any) with such branch of the person to whom such loan or deposit has to be repaid :

Provided further :- that nothing contained in this section shall apply to repayment of any loan or deposit taken or accepted from—

(i) Government;

(ii) any banking company, post office savings bank or co-operative bank;

(iii) any corporation established by a Central, State or Provincial Act;

(iv) any Government company as defined in section 617 of the Companies Act, 1956;

(v) such other institution, association or body or class of institutions, associations or bodies which the Central Government may, for reasons to be recorded in writing, notify in this behalf in the Official Gazette.

So the Co-operative societies cannot repay any deposit accepted from its members or from any person, exceeding the limit as specified above , otherwise than by an account payee cheque or account payee bank draft drawn in the name of the person who has made the deposit *or by use of electronic clearing system through a bank account*. If so repaid , then it shall be liable for penalty u/s 271E of the Income Tax Act,1961 which shall be equal to the amount of loan or deposit so repaid.

———

CHAPTER No. 18

THE BOMBAY STAMP ACT 1958.

18.1. ***Introduction*** **:-** Societies registered under Maharashtra Co-operative Societies Act have to execute various documents, like agreements, deeds, etc., which may be required to be registered under Indian registration act or may not be, but for the legality of these documents they are required to affix stamps of certain amount as per Bombay Stamp Act. The auditors should carefully study the provisions of this Act, to see that the correct amount of stamps are affixed to the documents as required under the Act.

The Registrar of Co-operative Societies, Maharashtra State, Pune has instructed in his circular to verify this fact, while auditing the various types of societies, particularly the Urban Co-op. Societies and Bank, DCC Banks, Housing Societies, Marketing and processing Societies, Sugar Factories and Spinning Mills etc. The instrument which is not properly stamped is inadmissible as evidence as it is held in case (Taka Pharmaceuticals Ltd. vs. State of Mah., 1996(2) Mh. L. j. 156)

18.2. ***Instruments Chargeable with duty*** **:-** Stamp duty is chargeable on an instrument and not on transaction. The section 3 of the Act provides which instruments are chargeable for stamp duty; it includes–

(a) every instrument mentioned in Schedule I, which not having been previously executed by any person, is executed in the State, on or after the date of commencement of this Act; *i.e.* from 11th June 1958.

(b) every instrument mentioned in Schedule I, which not having been previously executed by any person, is executed out of the State on or after the said date, relates to any property situate, or to any matter or thing done or to be done in this State and is received in this State; it further provides that a copy or extract, whether certified to be a true copy or not and whether a facsimile image or otherwise of the original instrument on which stamp duty is chargeable under the provisions of this section, shall be chargeable with full stamp duty indicated in the schedule I if the proper duty payable on such original instrument is not paid.

Schedule I is related with the instruments those are to be charged for stamp duty, related with Cooperative Societies are as follows:

Sr. No.	Particulars of document	Description of document	Kind of stamps required
1	Acknowledgement	A debt written or signed by or on behalf of a debtor in order to supply evidence of such debt in any book	Adhesive under section 11
2	Affidavit	Statement in writing purporting to be a statement of facts, signed by the person making it and confirmed by him on oath or in case of persons by law allowed to affirm or declare instead of swearing, by affirmation	Impressed table / special adhesive stamp by proper officer under Rule 11.
3	Agreement or its records or memorandum of an agreement	If relating to the sale of a bill of exchange	Non Judicial stamp paper under rule 6 or impressed label
		If relating to the purchase or sale of Government securities	Adhesive stamps under section 11

Sr. No.	Particulars of document	Description of document	Kind of stamps required
		If relating to the purchase or sale of shares, scripts, stocks, bonds, debentures, debenture stocks or any other marketable security of a like nature in or of any Adhesive stamps under section 11 incorporated company or other body corporate	Adhesive stamps under section 11
		If relating to giving authority or power to a promoter or a developer, by whatever name called, for construction on, development of or, sale or transfer (in any manner whatsoever) of, any immovable property.	Adhesive stamps under section 11
		If relating to transfer of tenancy of immovable property, for every square meter of the area of the tenanted property the right of tenancy in which is the subject matter of transfer and situated within the various limits prescribed of locations specified in act.	Adhesive stamps under section 11
		If relating to hire purchase	Adhesive stamps under section 11
		Agreement to lease	Adhesive stamps under section 11
		Otherwise not provided in above	Impressed stamp under rule 6
4	Agreement relating to deposit of title decds, pawn pledge, or hypothecation.	The deposit of title deeds or instrument constituting or being evidence of the title to any property whatever (other than a marketable security), where such deposit has been made by way of security for the repayment of money advances or to be advanced by way of loan or an existing or future debt.	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/ Special Adhesive Stamp affixed by proper officer under rule 11
		The pawn, pledge or hypothecation of movable property, where such pawn, pledge or hypothecation has been made by way of security for their repayment of money advanced or to be advanced by way of loan or an existing or future debt.	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/ Special Adhesive Stamp affixed by proper officer
		Letter of hypothecation accompanying a bill of exchange.	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/ Special Adhesive Stamp affixed by proper officer

Sr. No.	Particulars of document	Description of document	Kind of stamps required
5	Appointment of execution of power	Of property movable or immovable	Non-judicial stamp paper execution of power (NJ) under Rule 6 or Impressed label/Special Adhesive Stamp affixed by proper officer
6	Cancellation deed	Instrument of, if attested and or otherwise provided for	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/ Special Adhesive Stamp affixed by proper officer
7	Conveyance	On the true market value of the property which is the subject matter of the conveyance	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/ Special Adhesive Stamp affixed by proper officer
		(a) If relating to movable property,	
		(b) if relating to movable property within specified limits of certain locations	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/ Special Adhesive Stamp affixed by proper officer
		(c) Relating to both movable and immovable property.	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/Special Adhesive Stamp affixed by proper officer
		(d) If relating to residential premises consisting of building or unit	Non-judicial stamp paper (NJ) under Rule 6 or
		(a) By, or in favour of, a cooperative housing society registered or deemed to have been registered under M.C. Societies Act, 1960 or	Impressed label/ Special Adhesive Stamp affixed by proper officer
		(b) to which the provisions of the Maharashtra Ownership Flats Act 1963, apply to;	
		(c) by such society in favour of its member or incoming member whether in consequence of purchase of its shares or not, or	
		(d) by a member of such society in favour of another member and incoming member whether in consequence of transfer of its shares to another member or not and as per the value stated in the Act.	

Sr. No.	Particulars of document	Description of document	Kind of stamps required
		If relating to land for construction payable on residential premises and falling under the descriptions in items (A) , (C),or (D) or sub clause (1)	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/ Special Adhesive Stamp affixed by proper officer
8	Agreement of Deposit of title deeds.	Agreement relating to Deposit of of title deeds pawn, pledge or hypothecation (Article 6)	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/Special Adhesive Stamp affixed by proper officer
9	Exchange of property	As per conveyance	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/Special Adhesive Stamp affixed by proper officer
10	Hiring Agreement	Agreement for service as per agreement	
11	Lease & Transfer of lease	As per conveyance	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/Special Adhesive Stamp affixed by proper officer
12	Leave and license agreement	Rates as applicable as per locations specified in the Act.	Non-judicial stamp paper (NJ) under Rule 6 or Impressed label/Special Adhesive Stamp affixed by proper officer
13	Letter of Guarantee	As per agreement	
14	Mortgage deed by Power of Attorney		Non-judicial stamp paper (NJ) under Rule 6 or/Special Adhesive Stamp under rule 10 (ii)
15	Mortgage of a Crop		Adhesive Stamp under rule (6)

Section 42 of the Maharashtra Co-operative Societies Act, 1960, relates to power to exempt from taxation, power to refund. As per this Section, Government has issued various notifications regarding remission and exemption of stamp duty as per Bombay Stamp Act 1958. The auditors are required to study the notification regarding this and while auditing takes care if proper stamp duty is affixed or not.

Sr. No.	Notification No. and Date	Remarks
1	G.N., A.& C.D., No.CSL. 1072/13068-C-5, dated 30/10/1972	Regarding stamp duty payable by housing societies.
2	G.N., A.& C.D., No.CSL. 1772/15889/15 (C-171), dated 14/03/1980	Regarding stamp duty payable by crop protection/ lift irrigation/consumer/urban credit societies and bank/DCCBs/Land development banks/MSC Bank/farming societies/producers societies/ resource societies and general societies (sub classified as social)
3	G.N., A.& C.D., No.CSH. 1079/25697/ 1229/14-C, dated 24/03/1980	Regarding stamp duty payable by housing societies.
4	G.N., A.& C.D., No.CSH- 1088/CR-35/ 88/14-C, dated 16/03/1988	Regarding stamp duty payable by housing societies.
5	G.N.C.& T.D. No.Sagruyo 2590/3099/ 236/14-C, dated 22/07/1993	Regarding stamp duty payable by housing societies.
6	G.N., A.& C.D., No.CSF. 1082/18367/ 122/9-C, dated 26/03/1988	Regarding stamp duty payable by farming societies.

CHAPTER No. 19

PROFESSION TAX ACT, 1975

19.1. *Purpose* :- The Maharashtra State Tax on Professions, Trades, Callings and Employments Act, 1975 (Profession Tax Act) has come into operation from 1-4-1975. The purpose is to collect revenue for the purpose of implementing Employment Guarantee Scheme.

19.2. *Applicability* :- The Act proposes to levy tax on 'person' covered by Schedule I appended to the Profession Tax Act, 1975. There are 21 entries in the Schedule to cover the different categories of persons. The rates of taxes are also given in same schedule. The person liable to Profession Tax has to obtain Enrolment Certificate within 30 days from date of liability. Normally, the tax is required to be paid by 30th June of respective financial year. The payment is to be made in challan No.VIII.

19.3. *Definition of Salary* :- "Salary" or "wages" includes pay or wages, dearness allowance and all other remunerations received by any person on regular basis, whether payable in cash or kind, and also includes perquisites and profits in lieu of salary, as defined in section 17 of the Income-tax Act, 1961, but does not include bonus in any form, and on any account or gratuity.

It is to be noted that, as per above mentioned definition, "any person on regular basis" is to be considered only for the purpose of this Act. However salary or wages does not include Pension.

19.4. *Composition Scheme* :- There is scheme of composition for enrolment holders U/s. 8(3) by which any person holding a certificate of enrolment and liable to pay tax at the rate of Rs. 2,500/- per annum, may discharge his liability for payment of tax under this Act for a total continuous period of five years by making payment in advance of a lump sum amount equal to four times of such rate of tax, on or before the 30th June of the year. Any variation in rates during above years will not affect the person covered by composition. If composition money is paid late (*i.e.* after June in the financial year) interest at Rs. 200/- p.m. is payable for delayed months.

19.5. *Tax On Employees* :— *Registration* - Salaried persons are also liable to profession tax but their tax is to be deducted and paid by employer. The slab rates applicable to them are as per entry 1 in the given Schedule. The duty is cast upon the employer to deduct tax at above rates and deposit with Government. However even if not deducted, employer is liable to pay tax. For this purpose the Employer should obtain the Registration Certificate from Department within 30 days from date of his liability. There are also provisions for non-deduction of tax, etc. subject to production of required form by the employee. The employer should also file the returns and pay taxes as per monthly/ quarterly/ annual return applicable to him, determined as per tax liability.

19.6. *Exemptions* :- Section 27A provides for exemptions from payment of profession tax. Some important exemptions are as under:

(i) Person suffering from permanent physical disability.

(ii) Parents of mentally retarded child.

(iii) Parents of a child suffering from a physical disability.

(iv) Persons who have completed the age of 65 years.

***19.7. Penalties and Interest* :-** Penalty for "late application" for enrolment/registration [Sec. 5(5)] -The prescribed authority may impose penalty of Rs. 5/- for each day of delay in case of an employer for registration and of Rs. 2/- for each day of delay in case of any person for enrolment, after giving a reasonable opportunity of hearing.

a) Penalty for giving "false information in any application" for enrolment/ registration [Sec. 5(6)] – The authority may impose penalty equal to 3 times the tax payable under the Act, after giving opportunity of being heard.

b) Penalty for "late filling of returns" by Employer [Sec. 6(3)] – Defaulter shall pay late fee of Rs. 1,000/- per return before filing of late return.

c) Penalty for "Non-payment or late payment of tax". by Enrollee / Employer (Sec.10) – The authority may impose a penalty equal to 10% of the tax due.

d) Interest on late payment of tax. (Sec. 9) - The interest for late payment of tax or any additional demand of tax raised in assessment is 1.25% p.m. with effect from 1-7-2004.

e) Interest on refund of excess payment of tax (Sec. 19A) - If any refund is due from any order in respect of period 1.4.2004 and onwards then interest on refund @ 6% p.a. is receivable by such person entitled to refund, for maximum 18 months.

19.8. ***Refund for Excess Payments*** **:-** When a person has paid excess sum, then authority may adjust it towards any recovery against any period or refund it (sec. 19).

19.9. ***Time Limits for Assessment*** **:-** Previously, there was no time barring limit for completion of assessment. However, from 1-4-2004, time limit has been introduced by inserting section 7. Assessments of employer for periods starting on or after 1st April, 2004 will now be time barred in three years, if the returns are filed within one month of the end of the year to which the return relates.

19.10. ***PT Information Form*** **:-** It is now mandatory for Profession Tax Enrollment Certificate (PTEC) & Profession Tax Registration Certificate (PTRC) holders to communicate PAN or TAN or both, as the case may be, to the Department. For this purpose & getting updated contact details online 'PT Information form' is made available on the website www.mahavat.gov.in. The said information is to be electronically uploaded on the website; there is no need to send the details manually to the department.

RETURNS

Tax Liability	Periodicity	Months of salary to be covered	Due Date
Less than Rs. 50,000/- in previous year.	Annual	March of the previous year and April to February of the current year	31st March
Rs. 50,000/- or more in previous year.	Monthly	Salary of previous month	End of the month for which return is filed.
In case of first year of registration.	Monthly	Salary of previous Month	End of the month for whichreturn is filed.

Note : With effect from 1st February, 2011, an **assesses** whose tax liability during the previous year is Rs. 20,000/- or more is required to upload his return in electronic mode. (Refer Notification No. VAT/ AMD-1010/IB/PT/ADM-6 dated 26-11-2010). Such **assesses** can make payment of tax in Form MTR-6.

"SCHEDULE I" (See Section 3)

Schedule of rates of tax on professions, trades, callings and employments (From 1st July, 2014 onwards)

Sr. No.	Class of Persons	Rate of Tax (Rs.)
1.	PART I	
	Salary and wage earners. Such persons whose monthly salaries or wages,	
	(a) do not exceed Rs. 7,500/-	Nil
	(b) exceed Rs. 7,500/- but do not exceed Rs. 10,000/-	Rs. 175/- per month

Sr. No.	Class of Persons	Rate of Tax (Rs.)
	(c) Exceed Rs. 10,000/-	Rs. 2500/- per annum, to be paid in the following manner:— a) Rs. 200/- per month except for the month February. b) Rs. 300/- for the month February
2.	Co-operative Societies registered or deemed to be registered under the Maharashtra Co-operative Societies Act, 1960 and engaged in any profession, trade or calling —	
	i. State level Societies	Rs. 2,500/- per annum
	ii. Co-operative sugar factories and spinning mills;	Rs. 2,500/- per annum
	iii. District level Societies;	Rs. 750/- per annum
	iv. Handloom weavers co-operative societies;	Rs. 500/- per annum
	v. All other co-operative societies not covered by clauses (i), (ii), (iii) and (iv) above.	Rs. 750/- per annum

19.11. v*erification by auditor* :- The statutory auditors of co-operative societies are required to verify :-

1) Applicability of the act to the society.
2) Registration of the society under the profession tax as an employer and as society.
3) Deduction of Profession Tax from the salary of the employees as per slab rates and payment there of as per the due dates.
4) Any penalty imposed on the society due to non or delayed submission of returns or interest paid for delayed or non-payment of tax.
5) The auditor is required to verify that the society has paid its profession tax as per the category to which it belongs as mentioned above.

———

CHAPTER No. 20

FOREIGN EXCHANGE MANAGEMENT ACT, 1999

20.1. ***Applicability*** **:-** It extends to the whole of India. It shall also apply to all branches, offices and agencies outside India owned or controlled by a person resident in India and also to any contravention there under committed outside India by any person to whom this Act applies.

20.2. ***Definitions*** **:-**

1) "Authorized person**"** means an authorized dealer, money changer, off-shore banking unit or any other person for the time being authorized under sub-section (1) of section 10 to deal in foreign exchange or foreign securities.

2) **"**Capital account transaction**"** means a transaction which alters the assets or liabilities, including contingent liabilities, outside India of persons resident in India or assets or liabilities in India of persons resident outside India, and includes transactions referred to in sub-section (3) of section 6.

3) **"**Currency" includes all currency notes, postal notes, postal orders, money orders, cheques, drafts, travelers' cheques, letters of credit, bills of exchange and promissory notes, credit cards or such other similar instruments, as may be notified by the Reserve Bank.

4) "Current account transaction" means a transaction other than a capital account transaction and without prejudice to the generality of the foregoing such transaction includes **:-**
   (i) Payments due in connection with foreign trade, other current business, services, and short term banking and credit facilities in the ordinary course of business,
   (ii) Payments due as interest on loans and as net income from investments,
   (iii) Remittances for living expenses of parents, spouse and children residing abroad, and
   (iv) Expenses in connection with foreign travel, education and medical care of parents, spouse and children.

5) "Foreign currency" means any currency other than Indian currency.

6) "person" includes-
   (i) an individual,
   (ii) a Hindu undivided family,
   (iii) a company,
   (iv) a firm,
   (v) An association of persons or a body of individuals, whether incorporated or not,
   (vi) Every artificial juridical person, not falling within any of the preceding sub-clauses, and
   (vii) Any agency, office or branch owned or controlled by such person.

7) "person resident in India" means-
   (i) a person residing in India for more than one hundred and eighty-two days during the course of the preceding financial year but does not include-

(A) a person who has gone out of India or who stays outside India, in either case-
   (a) for or on taking up employment outside India, or
   (b) for carrying on outside India a business or vocation outside India, or
   (c) for any other purpose, in such circumstances as would indicate his intention to stay outside India for an uncertain period;

(B) a person who has come to or stays in India, in either case, otherwise than-

(a) for or on taking up employment in India, or

(b) for carrying on in India a business or vocation in India, or

(c) for any other purpose, in such circumstances as would indicate his intention to stay in India for an uncertain period;

(ii) any person or body corporate registered or incorporated in India,

(iii) an office, branch or agency in India owned or controlled by a person resident outside India,

(iv) an office, branch or agency outside India owned or controlled by a person resident in India.

8) "person resident outside India" :- means a person who is not resident in India.

20.3. - Regulation And Management Of Foreign Exchange - *Dealing in foreign exchange* :- Section 3 prohibits following transactions-

a) deal in or transfer any foreign exchange or foreign security to any person not being an authorized person;

b) make any payment to or for the credit of any person resident outside India in any manner;

c) receive otherwise through an authorized person, any payment by order or on behalf of any person resident outside India in any manner.

d) enter into any financial transaction in India as consideration for or in association with acquisition or creation or transfer of a right to acquire, any asset outside India by any person.

Note :- Foreign exchange so received to be deposited by way of sale to either an authorized dealer or money changer within 7 days of the receipt.

20.4. *Authorized Person and Foreign Currency Bank Accounts* -

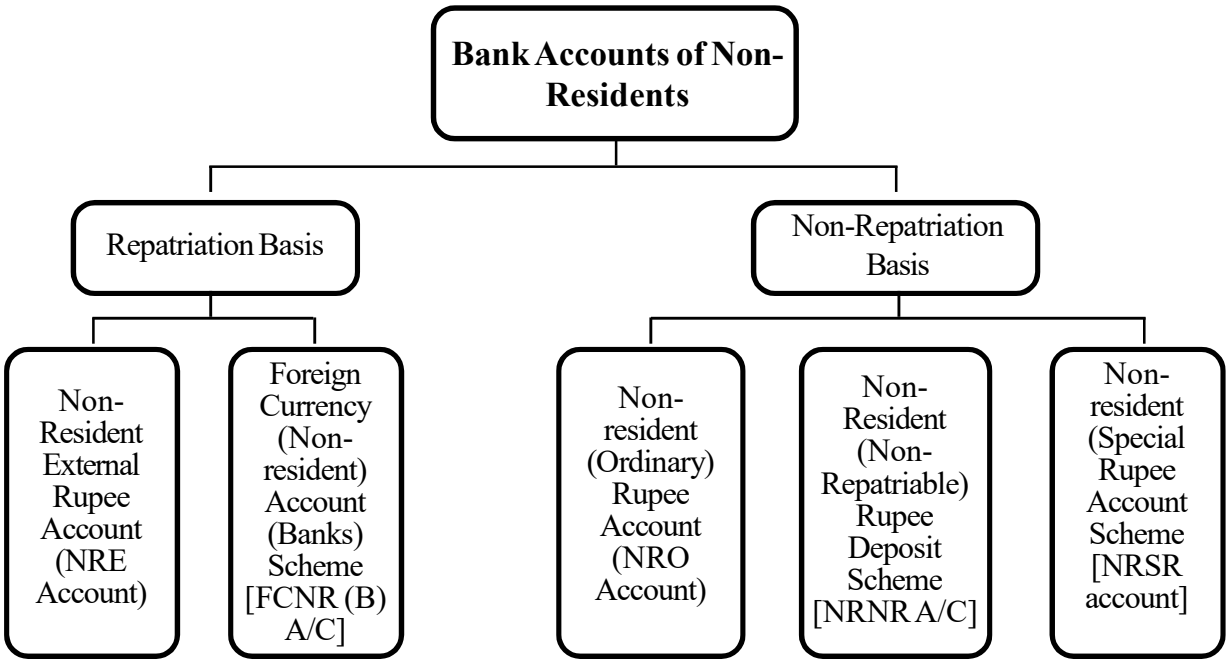
a) The Reserve Bank of India is vested with powers to authorize any person to deal in foreign exchange. It has accordingly authorized certain commercials/co-operative banks as authorized dealers. The authorized dealers are competent to open and maintain Non-Resident Bank Accounts. Foreign citizens of Indian origin are treated at par with NRI and can open any type of Non-Resident Account with any authorized dealer, which can be a co- operative bank.

b) KYC Norms are also applicable to foreign currency accounts.

c) The offence of Money Laundering has been defined in section 3 of the Prevention of Money Laundering Act, 2002(PMLA) as ''whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering.'' Money laundering can be called a process by which money or other assets obtained as proceeds of crime are exchanged for "clean money" or other assets with no obvious link to their criminal origins.

d) The objective of prescribing KYC/AML/CFT guidelines is to prevent the system of cross border inward money transfer into India from all over the world under the MTSS from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. KYC procedures also enable Authorized Persons, who are Indian Agents under MTSS to know/understand their customers and their financial dealings better, which in turn help them manage their risks prudently.

20.5. *Types of Bank Accounts of Non-Resident Indians* :- Non-resident bank accounts are generally classified as repatria and non-repatriable as under **:-**



20.6. ***Repatriation Basis*** **–**

i) Non-Resident External Rupee Account (NRE Account)

Non Resident External [NRE] account which is convertible / repatriable Indian rupee account can be opened and maintained by an Indian citizen or a foreign citizen of Indian origin residing outside India and be maintained in the form of savings, current and recurring or fixed deposit accounts.

"NRE account" means a Non-Resident External account referred to in clause (i) of sub-regulation (1) of Regulation 5.

Interest on other features of NRE Account are as follows :-

1.	Eligibility	An NRI can open and maintain an NRE account which needs to be opened by the NRI personally. A power of attorney cannot open an NRE account.
2.	Type of Accounts	Savings, Current, Recurring Deposit or Fixed Deposits.
3.	Mode of Deposit	Foreign Exchange transfer from abroad; transfer from account holder's or other NRI's NRE/ FCNR Account held with another bank or by deposit of foreign exchange during NRI's visit to India.
4.	Period	12 months to 120 months
5.	Joint Holding	Two or more NRIs can hold joint account
6.	Repatriation	Principal & Interest-both Fully Repatriable.
7.	Interest	Rate linked to the LIBOR being notified by Reserve bank of India from time to time. Compounded quarterly.
8.	Loans	Available to account holder as well as third party resident in India. **Loans in India –**

		To Account Holder : For business, investment in shares & securities, purchase of house property for own residential purpose and any other personal purpose subject to a maximum of INR 10 mn. To Third Party: For personal or business purpose subject to a maximum of INR 10 mn. Loans Overseas: Fund based/ non fund based facility for any bona fide purpose.
9.	Transfers	Transfer to NRE/FCNR Account of the account-holder or any other NRI permitted. Gift to Resident/NRI permitted. [POA cannot make a Gift on behalf of an NRI]
10.	Attorney	An attorney can operate an account but cannot open the account, make gift, transfer funds to another NRE Account nor remit abroad However an attorney can withdraw for local payments or remittance to the account holder himself through normal banking channels provided specific powers are granted.
11.	Nomination	Permissible.
12.	Renewal / Transfer	1. Can be renewed and easily transferred to account holder's another NRE / FCNR account. 2. Transfer to another NRI's NRE / FCNR account permitted. 3. Transfer abroad by way of remittance is allowed. The account can also be shifted from one bank to another bank in India.
13.	Premature Withdrawal	Permissible - However, For period of less than 12 Months - No Interest payable. After 12 months subject to specified penalty.
14.	Exchange Rate	At Bank Buying / Selling Rate.
15.	Permitted Credits	a) Remittances to India in any permitted foreign currency. b) Personal cheques drawn in foreign currency and/or bank drafts drawn in foreign currency or Indian rupees drawn abroad. c) Foreign currency / TCs deposited by NRI during visit to India. Import of currency exceeding US$ 5000 and TCs of equal amount require a Currency Declaration Form (CDF). d) Transfers from other NRE/FCNR accounts. e) Interest on Government securities and dividend on units of mutual funds, or any other income provided the securities/units were purchased from NRE/FCNR account or out of inward remittance through normal banking channels on repatriation basis. f) Maturity proceeds of Government securities and units of mutual funds sold on a recognized stock exchange in India and sale proceeds of units received from mutual funds, provided the securities / units were originally purchased from NRE / FCNR account or forex remittances received from outside India on repatriation basis. g) Refund of share/debenture subscriptions to new issues of Indian companies provided subscription was paid from NRE / FCNR account or forex remittance.

		h) Refund of advance of property, together with interest, if any (net of income tax provided the original payment was made out of NRE / FCNR account or forex remittance from abroad. i) Any other credit if covered under general or special permission granted by Reserve Bank.
16.	Permitted Debits	a) Local disbursements. b) Remittances outside India. c) Transfer to NRE/FCNR accounts of the account holder or another NRI. d) Investment in shares/ securities / commercial paper of an Indian company or for purchase of immovable property in India permitted under FEMA. e) Any othe transaction if covered under general or special permission granted by the Reserve Bank.
17.	Declaration of Amounts	In Currency Declaration Form (CDF)4 where applicable.

ii) Foreign Currency (Non-Resident) Account (Bank) Scheme [FCNR(B) Account] :

Under Foreign Currency (Non-Resident) Account (Banks) Scheme money is accepted only in form of 'deposits'. Deposits under this scheme means 'term deposits' received by the bank for a fixed period and shall also include reinvestment deposits and cash certificates or other deposits of similar nature.

Other features of FCNR (B) Account are as follows :-

1.	Eligibility	NRIs (individuals/entities of Bangladesh/Pakistan nationality/ ownership require prior approval of RBI)
2.	Joint Account	In the names of two or more non-resident individuals provided all the account holders are persons of Indian nationality or origin; Resident close relative (relative as defined in Section 6 of the Companies Act, 1956) on 'former or survivor' basis. The resident's close relative shall be eligible to operate the account as a Power of Attorney holder in accordance with extant instructions during the life time of the NRI/ PIO account holder.
3.	Nomination	Permitted.
4.	Currency in which account is denominated	Any permitted currency i.e. a foreign currency which is freely convertible.
5.	Repatriation	Allowed
6.	Type of Account	Term Deposit only
7.	Period for Fixed Deposits	For terms not less than 1 year and not more than 5 years.
8.	Rate of Interest	With effect from March 1, 2014 (i)deposits of 1 year to less than 3 year maturity, interest shall be paid within the ceiling rate of LIBOR/ SWAP rates plus 200 basis points; (ii) deposits of 3-5 years maturity, interest shall be paid within the ceiling rate of LIBOR/ SWAP rates plus 300 basis points.

		On floating rate deposits, interest shall be paid within the ceiling of SWAP rates for the respective currency /maturity plus 200 bps/ 300 bps as the case may be. For floating rate deposits, the interest reset period shall be six months.
9.	Operations by Power of Attorney in favour of a resident by the non-resident account holder	Operations in the account in terms of Power of Attorney is restricted to withdrawals for permissible local payments or remittance to the account holder himself through normal banking channels.
10.	Loans In India	
	a. To the Account Holder	Permitted without any ceiling subject to usual margin requirements.
	b. to Third Parties	Permitted without any ceiling subject to usual margin requirements.
	Loans To Abroad	
	a. To The Account	
0 Holder		Permitted
	b. To Third Party	Permitted
	Foreign Currency Loans In India	
	a. To The Account Holder	Permitted without any ceiling subject to usual margin requirements.
	b. To Third Parties	Permitted without any ceiling subject to usual margin requirements.
11.	Purpose of Loan	
	In India	
	1. To The Account Holder	i) Personal purposes or for carrying on business activities. ii) Direct investment in India on non-repatriation basis by way of contribution to the capital of Indian firms / companies. iii) Acquisition of flat / house in India for his own residential use. (Please refer to para 9 of Schedule 2 to FEMA 5).
	2. To Third Parties	i) Personal purposes or for carrying on business activities ii) Direct investment in India on non-repatriation basis by way of contribution to the capital of Indian firms / companies. iii) Acquisition of flat / house in India for his own residential use. (Please refer to para 9 of Schedule 2 to FEMA 5).
	Abroad	
	To Account Holder and Third Parties	Fund based and / or non-fund based facilities for bonafide purposes.

20.7. ***Non-Repatriation Basis -***

i) Non-Resident Ordinary Rupee Account (NRO Account)

A Non-Resident (Ordinary) Account can be opened and maintained by - any person residing outside India being an NRI & also a foreigner.

The accounts are not convertible / non repatriable and are maintained in Indian rupees in the form of savings, current and recurring or fixed deposit accounts.

"NRO Account" means a Non-Resident Ordinary account referred to in clause (iii) of sub-regulation (1) of Regulation 5.

Other features of NRO Account are as follows :-

1.	Eligibility	Any person resident outside India including an NRI who is a citizen of India or a foreign citizen of Indian origin residing outside India as also a foreigner and an Overseas Corporate Bodies (OCBs). Opening of accounts by individual/entities of Bangladesh/ Pakistan nationality/ownership requires approval of Reserve Bank.
2.	Currency	Indian Rupees
3.	Mode Of Deposit	Income from domestic non-repatriable sources or realizations from local investments / sources , transfer from NRE/FCNR accounts ; forex remittance from abroad or deposit of foreign exchange during visit to India.
	Period	15 days to 120 months
4.	Joint Holding	Permissible with other NRIs as well as Residents. (resident attorney can also operate)
5.	Interest	Banks can offer at par with resident accounts.
6.	Repatriability	Interest Repatriable subject to payment of tax. Balance repatriable upto US$ 1 mn per financial year [under US $ one million scheme] Repatriation from NRO to NRE is permissible w. e. f. 07th May 2012.
7.	Loans	Available to account holder as well as third party resident in India.
8.	Nomination	Permissible with NRIs as well as Residents.
9.	Transfers	Permissible in account holder's other NRO accounts or NRE accounts.
10.	Various Types of Accounts	Saving, Current, Recurring and Fixed Deposits account.
11.	Premature Withdrawal	Permissible : - However for period of less than 15 Days - No interest payable ; above 15 Days - Subject to Penalty As per Bank Rules.
12.	Permissible Credits	f) Income from domestic non-repatriable sources or realizations from local investments / sources. g) Remittances to India in any permitted foreign currency. h) Personal cheques drawn in foreign currency and/or bank drafts drawn in foreign currency or Indian rupees drawn abroad. i) Foreign currency / TCs deposited by NRI during visit to India. j) Import of currency exceeding US$ 5000 and TCs of equal amount require a Currency Declaration Form(CDF). k) Any other credit if covered under general or special permission granted by Reserve Bank.
13.	Permissible Debits	l) Local disbursements. m) Interest fully repatriable subject to tax. n) Remittances outside India upto and under US$ 1 mn, per financial year.

o) Transfer to NRO accounts of the account holder or another NRI.

p) Investment in shares/securities /commercial paper of an Indian company or for purchase of immovable property in India permitted under FEMA on non-repatriation basis.

q) Any other transaction if covered under general or special permission granted by the Reserve Bank.

ii) Non-Resident (Non-repatriable) Rupee Deposit Scheme [NRNR A/c]

A Non-Resident Non Repatriable account could be opened and maintained by any person resident outside India (other than individuals or entities of Pakistan/Bangladesh) including an NRI, being a citizen of India or a foreign citizen of Indian origin residing outside India.

Scheme of NRNR accounts is discontinued from 1-4-2002, The accounts were non-convertible / non-repatriable and were maintained in Indian rupees in the form of savings, current and recurring or fixed deposit accounts.

The Reserve Bank of India's notification No. FEMA 52/RB-2002 dt.1st March, 2002 notifying "Full Convertibility of Deposit Schemes For Non Resident Indians" has discontinued the said schemes w.e.f. 01/04/2002. Hence, no fresh deposits will be accepted nor willexisting deposits be renewed on or after 01/04/2002. Existing deposits upon maturity will be converted to NRE account at the option of the account holder but premature encashment of deposits was not eligible for such credit and balance in such case could be deposited in NRO account.

Non-Resident (Non-Repatriable) [NRNR] deposits were governed by Foreign Exchange Management (Deposit) Regulations, 2000.

1. As the name suggests, NRNR deposits were deposits designated in Indian Rupees.
2. NRNR deposits were accepted for the tenure of 6-12 months, 12-24, 24-36 months and 36 months.
3. An individual Non-Resident Indian (NRI) and Overseas Corporate Body (OCB) were eligible to open and maintain NRNR account till 31-03-2002.

"NRNR Account" means a Non-Resident Non-Repatriable account referred to in clause (iv) of sub-regulation (1) of Regulation 5;

Other features of NRNR Account :-

1.	Eligibility	Any person resident outside India (other than individuals or entities of Pakistan/Bangladesh) including an NRI who is a citizen of India or a person of Indian origin residing outside India as also Overseas Corporate Bodies (OCBs).
2.	Currency	Indian Rupees only.
3.	Mode of Deposits	By way of transfer of funds from abroad or from existing NRE/FCNR Account.
4.	Period	6 Months to 36 Months.
5.	Repatriability	Interest being current income Repatriable, subject to payment of tax. Principal amount -originally Non-Repatriable but total balance transferable to NRE account upon maturity with effect from 1-04-2002.
6.	Interest	Compounded Quarterly.
7.	Joint Holding	Permissible with NRIs and Resident.
8.	Nomination	Permissible, NRIs as well as Residents.
9.	Loan Facility	Available to depositor as well as third party residents in India.
10.	Renewal/Transfer	The account can also be shifted from one authorized dealer to another.

11.	Premature Withdrawal	Permissible - However for period of less than 6 Months - No Interest payable, Above 6 Months - Subject to Penalty as per Bank Rules.
12.	Exchange Rate of Remittance	At Banks Buying/ Market Rate of Exchange.
13.	Various Types of Accounts	Saving, Current, Recurring or Fixed deposit account.

iii) Non-resident (Special) Rupee Account Scheme [NRSR account]

NRSR accounts discontinued since 01/04/2002.

Non Resident Special Rupee [NRSR] Account could be opened and maintained by an NRI being a citizen of India or foreign citizens of Indian origin residing outside India. The accounts were non-convertible/ non-repatriable and were maintained in Indian rupees in the form of savings, current and recurring or fixed deposit accounts.

The Reserve Bank of India's Notification NO.FEMA 52/RB-2002.dt.1st March,2002 notifying "Full Convertibility of Deposit Schemes For Non-Resident Indians" has discontinued the said schemes w.e.f.1-4-2002. Hence, no fresh deposits will be accepted nor will existing deposits be renewed on or after 1-4-2002. Existing deposits upon maturity will be converted to NRO account at the option of the account holder.

"NRSR Account" means a Foreign Currency Non-resident (Bank) account referred to in clause (ii) of sub-regulation (1) of Regulation 5.

Other features of NRNR Account :-

1.	Eligibility	An NRI, being a citizen of India or a person of Indian origin, residing outside India.[the said scheme has been discontin ued since 1-4-2002 vide Notification NO. FEMA 52/RB-2002 dt.1st March, 2002]
2.	Currency	Indian Rupees.
3.	Mode of Deposit	Foreign Exchange remittance from abroad from FCNR / NRE/ NRO Account / Deposit of Foreign Exchange during visit to India or income from non-repatriable sources or local sources.
4.	Joint Holding	Permissible with other NRIs as well as Resident (resident attorney can also operate).
5.	Repatriability	Principal and interest non-repatriable
6.	Interest	Compounded quarterly.
7.	Loans	Available.
8.	Nomination	Permissible with Residents as well as Non - Residents.
9.	Withdrawal	Freely allowed.
10.	Various Types of Accounts	Saving, Current, Recurring and Fixed Deposits account.
11.	Premature Withdrawal	Permissible: - However for period of less than 15 Days - No Interest payable, Above 15 Days - Subject to Penalty as per Bank Rules

CHAPTER No. 21

PREVENTION OF MONEY LAUNDERING ACT, 2002 (PMLA)

The Prevention of money laundering Act 2002 is applicable to the whole of India.

21.1. ***Definitions*** :-

Cooperative Bank :- is defined in sub section (e) of the Section 2 of the Act as- "shall have the same meaning as assigned to it in clause (dd) of section 2 of the Deposit Insurance and Credit Guarantee Corporation Act 1961."

Financial Institute :- means a financial Institution as defined in clause © of Section 45-I of the Reserve Bank of India Act, 1934 and includes a chit fund company, a cooperative bank, a housing finance institute, and an authorised person, a payment system operator and a non- banking financial company.

Intermediary :- means a stock –broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser, and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992.

Money laundering :- has the same meaning as assigned to it in section 3.

Payment system :- means a system that enables payment to be effected between a payer and a beneficiary, involving clearing, payment or settlement service or all of them.

Payment system operator :- means a person who operates payment system and such person includes his overseas principal.

Explanation- For the purpose of this clause overseas principal means

(a) in the case of a person, being an individual, such individual residing outside India, who owns or controls or manages, directly or indirectly, the activities or functions of payment system in India;

(b) In the case of Hindu undivided family, Karta of such Hindu undivided family residing outside India who owns or controls or manages, directly or indirectly, the activities or functions of payment system in India;

(c) In the case of a company, a firm, an association of persons, a body of individuals, an artificial juridical person, whether incorporated or not, such person incorporated or registered outside India of existing as such and which owns or controls or manages, directly or indirectly, the activities or functions of payment system in India;

"Person" includes

(i) an individual,
(ii) a Hindu undivided family,
(iii) a company,
(iv) a firm ,
(v) an association of persons or a body of individuals, whether incorporated or not,
(vi) every artificial juridical person not falling within any of the preceding sub clauses, and
(vii) any agency, office, or branch owned or controlled by any of the above persons mentioned in preceding sub-clauses.

21.2. ***Money laundering*** **Section 3 :-** defines offence of money laundering as-" Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering.

21.3. ***Obligation on banking companies*** :-

To maintain records : Section 12 of the Act provides to maintain records by Banking Companies, financial Institutes and intermediaries that. – " (1) Every Banking company, financial Institution and intermediary shall-

1. maintain a record of all transactions, the nature and value of which may be prescribed, whether such transaction comprises a single transaction or a series of transactions integrally connected to each other, and where such series of transactions have taken place within a month;
2. furnish information of transaction referred to in clause (a) to the Director within such time as may be prescribed;

3. verify and maintain the records of the identity of all its clients, in such manner as may be prescribed :

Provided that where the principal officer of a banking company or financial institution or intermediary, as the case may be, has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed value so as to defeat the provisions of this section, such officer shall furnish information in respect of such transactions to the Director within the prescribed time.

(1) (a) The records referred to in clause (a) of sub-section (1) shall be maintained for a period of ten years from the date of transactions between the clients and the banking company or financial institution or intermediary, as the case may be,

(b) The records referred to in clause (c) of sub-section (1) shall be maintained for a period of ten years from the date of cessation of transactions between the clients and the banking company or financial institution or intermediary, as the case may be.

21.4. ***Civil Action :-*** Section 14 provides that, "Save as otherwise provided in section 13 the banking companies, financial institutions, intermediaries and their officers shall not be liable to any civil proceedings against them for furnishing information under clause (b) of subsection (1) of the section 12."

21.5. ***Procedure for submission of information :-*** Section 15 explains the procedure for submission of information as – "The Central Government may, in consultation with the Reserve Bank of India, prescribe the procedure and the manner of maintaining and furnishing information under sub section (1) of section 12 for the purpose of implementing the provisions of this Act."

21.6. ***Rules under The Prevention of money laundering Act 2002 :-*** These rules are regarding for nature and value of transactions, time of furnishing information and maintenance of records of the identity of clients of the banking companies, financial **institutions** and intermediaries. The rules provide how information by banking companies, financial institution and intermediaries is required to be furnished.

i) Rule 3 discusses about maintenance of records of transactions its nature and value;
ii) Rule 4 provides about records containing information,
iii) Rule 5 provides procedure and manner of maintaining information, and
iv) Rule 7 prescribes the procedure and manner of furnishing information.

For every transaction relating to account base relationship, the banking companies, financial institutions and intermediaries have to verify the identity of the client and such records are to be maintained by them. The auditors should go through the provisions of the Act and rules, and if they find suspicious transaction, should report in their audit report and see that necessary information has been submitted to the competent authority.

CHAPTER No. 22

THE BENAMI TRANSACTIONS (PROHIBITIONS) ACT, 1988

22.1. ***Definition :-*** Section 2 -

1. Benami transaction means any transaction in which property is transferred to one person for consideration, and paid or provided by another person.

2. Property means property of any kind, whether movable or immovable, tangible or intangible and includes any right and interest in such property.

Section 3 provides, regarding prohibition of Benami transactions:

1) No person shall enter into any Benami transaction.

2) Nothing in sub Section 1 shall apply to,

a. Purchase of property by any person in the name of his wife or unmarried daughter and it shall be presumed, unless the contrary is proved, that the said property had been purchased for the benefit of wife or the unmarried daughter.

b. The securities held by a –

i. Depository as registered owner under sub Section (1) of Section 10 of Depository Act, 1996;
ii. Participant as agent of depository;

Explanation :- The expressions "depository" and "participants" shall have the meaning respectively assigned to them in clauses (e) and (g) of sub Section (1) of Section 2 of Depositories Act, 1996.

3) Whoever enters into any Benami transaction shall be punishable with imprisonment for a term which may extent to three years or with fine or with both.

4) Notwithstanding anything contained in code of Criminal procedure, 1973, offence under this Section shall be non cognizable and **bailable**.

22.2. ***Consideration and another person :-***

The first and foremost requirement is that property should have been transferred in the name of a person for consideration paid or provided by another person. In other words, the consideration for the transaction should not have flown from the person in whose name the property is purchased. If the person in whose name the property has been purchased also has contributed consideration for purchase of the property in his name along with others whose name is not reflected in the sale deed, it would not amount to Benami transaction as defined under the Act. Secondly, the object of such purchase, namely, whether the property is purchased in the name of person with the intention of evading public revenue and whether there is any dishonesty in not mentioning the names of real contributors of the fund for the purchase of property is to be looked into. If the intention to purchase the property is to avoid payment of any tax,or to conceal any unaccounted income, then before applying the provisions of the Act, careful consideration of nature of transaction has to be looked into. *(M. Printer Vs Marcel Martins A.I.R.2002 Karn. 191)*

22.3. ***Benami property – proof of :–***

1) When a person sets off a plea that property is purchased Benami in the name of another, sale deed would not furnish any details to prove that funds were invested by such person. One has to rely on attending circumstances at or about the time of purchase of property in question. The conduct of parties involved in the transactions and related subsequent events would also lend material for drawing inferences either way. Whether the vendee had financial capacity to buy the property, whether the person claiming property as Benami had financial capacity to invest funds, whether such person took active part in sale transaction and whether he was involved in dealing with the property are all relevant questions. (*RapoluYadagiri* Vs. *RapoluLakshmannma A.I.R.2003 Andhra Pradesh 300*)

2) After the introduction of Benami transactions (prohibitions) Act 1988, even though the husband can purchase properties in the name of his wife or unmarried daughter, there is presumption that it is for the benefit of the wife or unmarried daughter unless the contrary is proved. (V.Susheelan *V/s.* T. P. Leela A.I.R. 2004 Kerala 312).

CHAPTER No. 23

INDIAN CONTRACT ACT, 1872

23.1. ***Applicability : -*** It extends to the whole of India except the State of Jammu and Kashmir.

23.2. ***Contract :-*** While all contracts are agreements, all agreements are not contracts. An agreement which is legally enforceable alone is a contract. An Agreement is a promise or a commitment or set of reciprocal promises or commitments. An agreement involves an offer or proposal by one person and acceptance of such offer or proposal by another person. If the agreement is capable of being enforced by law then it is a contract.

23.3. ***Definitions :-*** Sec. 2(b) of the act defines a promise as –"when the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. Proposal, when accepted, becomes a promise."

Section 2(e) of the Act defines an agreements as -''every promise and every set of promises forming consideration for each other".

Section 2(h) of the Act defines the term contract as –"an agreement enforceable by law".

23.4. ***Essentials of a Valid Contract :-***

1. Intention to create legal obligation through offer and acceptance should be present.
2. Free consent of the parties is necessary.
3. Competency or capacity of parties to enter into contract must be ensured.

Parties not competent to make a contract –

i. A person who has not attained the age of majority
ii. A person of unsound mind
iii. A person who is disqualified from entering into a contract by any law towhich he is subject,

4. Lawful consideration & lawful object should be present.
5. Agreement not expressely declared to be void.

23.5. ***Types of Contract :–***

1) Void Contract – Section 2 (j) states as follows – "A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable. :

2) Voidable Contract – Section 2 (i) defines – "an agreement which is enforceable by law at **the option** of one or more parties but not at the option of the other or others is a voidable contract."

3) Illegal Contract – "Illegal contracts are those that are forbidden by law."

4) Express Contract – "A contract would be an express contract if the terms are expressed by words or in writing."

5) Implied Contract – "Implied contracts in contrast come into existence by implication."

6) Tacit Contracts – "Tacit contracts are those that are inferred through the **conduct** of parties." E.g. – Cash is withdrawn by a customer of a bank from the automatic teller machine (ATM).

7) Executed Contract – "The consideration in a given contract could be an act or forbearance. When the act is done or executed or the forbearance is brought on record, then the contract is an executed contract."

8) Executor Contract – "In an executor contract, the consideration is reciprocal promise or obligation."

9) Unilateral Contract – "Unilateral contract is a one sided contract in which only one party has to perform his duty or obligation."

10) Bilateral Contract – "A Bilateral contract is one where the obligation or promise is outstanding on the part of both the parties."

23.6. ***Proposal / Offer : -*** In terms of Section 2(a) of the Act "a person is said to make a proposal when he signifies to another his willingness to do or abstain from doing anything with a view to obtaining the assent of that other to such act or abstinence".

(a) General offer – It is an offer made to public at large with or without any time limit.

(b) Special / Specific offer – Where an offer is made to a particular and specified person, it is a specific offer.

(c) Cross offer – Where a person to whom offer is made, makes the same offer without knowing proposal of the first person, it is a cross offer.

(d) Counter offer – Upon receipt of an offer from an offeror, if the offeree instead of accepting it straightway, imposes conditions which have the effect of modifying or varying the offer, he is said to have made a counter offer.

(e) Standing or Continuing or open offer – An offer which is made to public at large and if it is kept open for **public** acceptance for a certain period of time, it is known as standing or continuing or open offer.

23.7. ***Acceptance :–*** In terms of Section 2(b) of the Act, "A proposal or offer is said to have been accepted when the person to whom the proposal is made signifies his assent to the proposal to do or not to do something."

23.8. ***Communication of offer :–*** In terms of Section 4 of the Act, "the communication of offer is complete when it comes to the knowledge of the person to whom it is made."

23.9. ***Communication of acceptance :–*** In terms of Section 3 of the Act, two modes of communication namely, (a) by any act and (b) by omission.

23.10. ***Revocation of offer and acceptance :–*** In terms of Section 4, communication of revocation (of the proposal or its acceptance) is complete.

(i) as against the person who makes it when it is put into a course of transmission to the person to whom it is made so as to be out of the power of the person who makes it, and
(ii) as against the person to whom it is made, when it comes to his knowledge.

23.11. ***Consideration :–*** Section 2(d) of the Indian Contract Act, 1872 defines consideration as "when at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing or promises to do or abstain from doing something, such an act or abstinence or promise is called consideration for the promise."

23.12. ***Legal requirements regarding consideration :-***

(1) Consideration must be at the desire of the promisor.
(2) Consideration may move from one person to any other person.
(3) Consideration may be past, present or future and
(4) Consideration should be real though not adequate
(5) Performance of what one is legally bound to perform.
(6) Consideration must not be unlawful, immoral, or opposed to public policy.

23.13. ***Suit by a third party to an agreement :–*** A stranger / third party to an agreement leads to the doctrine of privity of contract. The doctrine says that only parties to a contract can enforce the contract. The parties stranger to a contract cannot sue and be sued.

23.14. ***Validity of an agreement without consideration :–***

1. A written and a registered agreement made between parties out of natural love and affection does not require consideration.
2. A promise to compensate wholly or in part for past voluntary services rendered by someone to promisor does not require consideration for being enforced.
3. Where there is a promise in writing to pay a debt, which was barred by limitation, is valid without consideration.
4. In term of Section 185 of the Act, no consideration is necessary to create an agency.
5. In case of completed gifts, no consideration is necessary.

23.15. ***Other essential elements of a contract :– Free consent :–*** In terms of Section 13 of the Act, two or more persons are said to have consented when they agree upon the same thing in the same manner. This is referred to as identity of minds or "**consensus ad-idem**".

23.16. ***Factors which should not influence consent :–***

1) Coercion (Section 15) – "Coercion" is the comitting, or threatening to commit any act forbidden by the Indian Penal Code 1860, or the unlawful detaining, or threatening to detain any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement.

2) Undue influence (Section 16) – A contract is said to be induced by "undue influence" where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and uses that position to obtain an unfair advantage of the other.

3) Fraud (Section 17) – Fraud means and includes any of the following act committed by a party to a contract or with his connivance or by his agent with intent to deceive another party thereto or his agent or to induce him to enter intor the contract.

(i) The suggestion, as to a fact, of that which is not true by one who does not believe it be true.
(ii) The active concealment of a fact by one, having knowledge or belief of the fact.
(iii) A promise made without any intention of performing it.
(iv) Any other act fitted to deceive.
(v) Any such act or omission as to law specially declared to be fraudulent.

4) Misrepresentation (Section 18) – "Misrepresentation" does not involve deception but is only an assertion of something by a person which is not true, though he believes it to be true.

5) Mistake – The fifth significant element that vitiates consent is "Mistake". Where parties to an agreement are under a mistake as to a matter of fact which is essential to the agreement, then the agreement is void.

6) Capacity to contract – every person who has (a) attained the age of majority, (b) is of sound mind and (c) is not otherwise disqualified from contracting, is competent to contract.

23.17. ***Performance of Contract :–*** Contract may be performed by –

1) Promisor himself
2) Agent
3) Representative
4) Third person (in exceptional cases)
5) Joint promisors

23.18. ***Time and Place for performacne of the promise :–***

Time –

1) Where no time is specified for performance of a promise, it must be performed within a reasonable time. What is reasonable time would depend on the facts and circumstances of each case.
2) Where a promise is to be performed on a specified date but no time is mentioned, then it can be performed any time on that day but during business hours only.

Place –

1) Where no place is fixed for the performance of a promise, it is the duty of the promisor to ask the promisee to fix a reasonable place.
2) Where the promisor has not undertaken to perform the promisee without an apllication by the promisee and the promise is to be performed on a certain day, it is the duty of the promisee to apply for performance at a proper place and with in usual hours of business.

23.19. ***Impossibility of performance :–***

1) Impossibility existing at the time of contract – Even at the time of entering into the agreement, it may be impossible to perform certain contracts at the beginning or inception itself. The impossibility of performance may be known or may not be known to the parties.

2) Supervening impossibility – When performance of a promise becomes impossible on account of subsequent developments of events or change in circumstances, which are beyond the contemplation of parties, the contract becomes void. Supervening impossibility can arise due to a variety of circumstances as stated below.

23.20. ***Appropriation of payments :–***

1) Application of payment where debt to be discharged is indicated – Where a debtor, owing several distinct debts to one person, makes a payment to him either with express intimation or under circumstances implying that the payment is to be applied to the discharge of some particular debt, the payment, if accepted, must be applied accordingly (Section 59).

2) Application of payment where debt to be discharged is not indicated – Where the debtor has omitted to intimate, and there are no other circumstances indicating to which debt the payment is to be applied, the creditor may apply it at his discretion to any lawful debt actually due and payable to him from the debtor whether its recovery is or is not barred by the law in force for the time being as to the limitation of suits (Section 60).

3) Application of payment when neither party appropriates – In terms of Section 61 of the Act, where neither party appropriates – (a) the payment shall be applied in discharge of debts in order of time, and (b) if the debts are of equal standing, the payment shall be applied in discharge of each proprortionately.

23.21. ***Contract, which need not be performed :–***

1) Novation – Novation means substitution. Where a given contract is substituted by a new contract, it is novation. The old contract, on novation ceases. It need not be performed. Novation can take place with mutual consent.

2) Rescission – In case of rescission, the old contract is cancelled and no new contract comes in its place. A contract is also discharged by rescission. Sometimes parties may enter into an agreement to rescind the previous contract. **Sometimes**, the contract is rescinded by implication or by non-performance for a long time without either complaining about it.

3) Alteration – Where the contract is altered, the original contract is rescinded. Hence the old one need not be performed, whereas the new one has to be performed.

23.22. ***Restoration of benefit under a viodable contract :–*** The following are the effects of such an action – (i) the other party need not perform the promise and (ii) any benefit received by the person rescinding it must restore it to the person from whom it was received.

23.23. ***Discharge of a contract :–***

(a) Discharge by performance
(b) Discharge by mutual agreement

(c) Discharge by impossibility of performance
(d) Discharge by lapse of time
(e) Discharge by operation of law
(f) Discharge by breach of contract
(g) A promisee may remit the performance of the promise by the promisor.
(h) When a promisee neglects or refuses to afford the promisor reasonable facilities or opportunities for performance, promisor is excused by such neglect or refusal.

23.24. ***Breach of Contract :–***

1) **Anticipatory breach of contract –** Where the promisor refuses to perform his obligation even before the specified time for performance and signifies his unwillingness, then there is an anticipatory breach.
2) **Actual breach of contract –** Where one of the parties breaches the contract by refusing to perform the promise on due date, it is known as actual breach of contract. In such a case, the other party to contract obtains a right of action against the one who breached the contract.

23.25. ***Measurement of damages :–*** The compensation can be classified as (i) those for damages that usually arise in the event of breach of contract and (ii) those for damages which parties know and anticipated at the time of entering into the contract called special damages.

23.26. ***Liability for damages :–***

1. **Liability for special damages –** Where it is understood between parties that in the event of breach of contract, there would be special damages also in addition to normal damages, then special damages would be payable.
2. **Liability for exemplary damages –** These situations may arise mainly in two cases, namely, (i) breach of promise to marry and (ii) wrongful dishonour of cheques of customer by bank.
3. **Liability to pay nominal damages –** Nominal damages are awarded in those cases of breach of contract where no damage has been suffered. Such damages are awarded only to establish the right to decree for breach of contract.
4. **Damages of deterioration caused by delay –** Compensation can be recovered even without notice for damages or 'deterioration' caused to goods on account of delay by carriers amounting to breach of contract.

23.27. ***How to calculate the damage :–*** In case of a contract for sale of goods,

(i) Where the buyer breaks the contract, the damages would be the difference between contract price and market price as on the date of breach.
(ii) Where the seller breaks the contract, the buyer can recover the difference between market price and contract price as on date of breach. Where, if the seller retains the goods after the contract has been broken by the buyer, the seller cannot recover from the buyer any further loss even if the market falls. Again, he is not liable to have the damages reduced if the market rises.

23.28. ***Duty to mitigate loss :–*** The person who suffers losses on account of breach of contract by the other party must take all reasonable steps to imitigate the loss.

23.29. ***Compensation for breach of contract where the penalty is stipulated for :–*** The compensation for breach of contract falls into two broad categories, namely, liquidated damage and penalty.

1) **Liquidated damage –** It is a genuine pre-estimate of compensation for damages for certain anticipated breach of contract. This estimate is agreed to between parties to avoid at a later date detailed calculations and the necessity to convince outside parties.
2) **Penalty –** It is an estravagant amount stipulated and is clearly unconscionable and has no comparison to the loss suffered by the parties.

CHAPTER No. 24

MINIMUM WAGES ACT, 1948

24.1. ***Introduction : -*** The Minimum Wages Act 1948 is an Act of Parliament concerning Indian **labor** law that sets the minimum wages that must be paid to skilled and unskilled **labor**. The reason for enactment of this act was poor bargaining power of workers' organization in the country.

24.2. ***Applicability :-*** The Act provides for fixing wage rate (time, piece, guaranteed time, overtime) for any industry that has at least 1000 workers.

Any person who directly or through contractor / agency or other person whether for himself or for any other persons employs one or more employees in any schedule employment in respect of which minimum rates of wages have been fixed under this act.

1) While fixing hours for a normal working day as per the act, he should make sure of the following:

- The number of hours that are to be fixed for a normal working day should have one or more intervals/breaks included.
- At least one day off from an entire week should be given to the employee for rest.
- Payment for the day decided to be given for rest should be paid at a rate not less than the overtime rate.

2) If an employee is involved in work that categorises his service in two or more scheduled employments, the employee's wage will include respective wage rate of all work for the number of hours dedicated at each task.

3) It is mandatory for the employer to maintain records of all employees' work, wages and receipts.

4) Appropriate Governments will define and assign the task of inspection and appoint inspectors for the same.

24.3. ***Eligibility of Employees :-*** Any person who is employed for hire or reward to do any work in a scheduled employment and includes an outdoor worker to whom any articles or materials are given for doing same work either at home or any other premises.

24.4. ***Definition of Wages :-*** According to Sec.2 (h) of this Act, wages means all remuneration, capable of being expressed in terms of money which includes HRA.

24.5. ***Classification of Wages :–*** The Indian Constitution has defined a **'living wage',** is the level of income for a worker which will ensure a basic standard of living including good health, dignity, comfort, education and provide for any contingency.

'Fair wage' is that level of wage that does not just maintain a level of employment, but seeks to increase it keeping in perspective the industry's capacity to pay. To achieve this in its first session during November 1948, the Central Advisory Council appointed a Tripartite Committee of Fair Wage. This committee came up with the concept of Minimum Wages.

A 'minimum wage' is such a wage that it not only guarantees bare subsistence and preserves efficiency but also provides for education, medical requirements and some level of comfort.

Wage Boards are set up to review the industry's capacity to pay and fix minimum wages such that they at least cover requirements of calories, shelter, clothing for a family of four, their education, medical assistance, and entertainment. Under the law, wage rates in scheduled employments differ across states, sectors, skills, regions and occupations owing to difference in costs of living, regional industries' capacity to pay, consumption patterns, etc.

24.6. ***Fixation and Revision of Minimum Wages :-*** The Minimum Wages Act 1948 generally

specifies minimum wage rates on a per day basis, and extends to the entire country and is revised within a period of not less than five years, However, there is a provision to increase dearness allowance every two years. The norms in fixing and revision of minimum wages were first recommended by ILC, 1957.

Revision of minimum wage rates is based on a 'cost of living index' and wages can be fixed for an entire state, part of the state, class or classes and employments pertaining to these categories. The fixation of wages is based on the norms mentioned and a wage board (different for different industry).

There are two ways of fixing and/or revising minimum wages :-

- **Committee Method :** Committees and Sub-committees are set up to make recommendations or create inquiries.
- **Notification Method :** The government publishes proposals and an official date in the Official Gazette. All advice and recommendations from various committees and sub-committees as well as representations are collected before the specified official date and the government then proceeds to fix/revise minimum wages.

In order to have a uniform wage structure and to reduce the disparity in minimum wages across the country, a concept of National Floor Level Minimum Wage (NFLMW) was mooted by the Ministry of Labour and Employment. The NFLMW is a non-statutory measure so state governments are persuaded to fix or revise state minimum wage levels to ensure that they are not less than the NFLMW in respect of all scheduled employment, including in agriculture. The Government keeps on revising the NFLMW from time to time , which is Rs. 160 per day with effect from July 1, 2015.

As per the existing provisions of Minimum Wages Act, minimum wages are revised quinquennially in the Central Sphere. In order to protect the minimum wages against inflation, the Central Government introduced the idea of Variable Dearness Allowance (VDA) since 1989. The appropriate Governments are required to increase the minimum rates of wages from time to time by adding VDA, twice a year or annually, taking into account the rise in the Consumer Price Indices for the Industrial Workers. In the Central sphere, the minimum rates of wages are revised effective from 1stApril and 1st October every year.

24.7. ***Other Important issues :-***

a) Register of wages is required to be maintained at the place of work in prescribed format by every employer. Such records are to be preserved for 3 years from the time of last entry made therein.

b) An employee is prohibited from giving up any of his right or relinquishing or reducing his right to minimum wages under the Act.

c) The normal working day for an adult consists of 9 hours including the intervals of rest with maximum of 48 hours of working in a week.

d) The State Government of Maharashtra has made it mandatory to pay the wages to employees drawing wages of Rs. 3000/- or more by cheque only or to credit to the bank account of employed person.

24.8. ***Penalties for Non-Compliance :-*** Imprisonment up to 6 months and / or fine up to Rs. 500 is imposable for contravention.

24.9. ***Verification by auditor :-***

i) Applicability of the Act to the society.

ii) Ensure that the actual wages are equal to or more than the minimum wages as prescribed in the Act.

iii) All registers and documents as prescribed under the Minimum Wages Act have been properly maintained.

iv) **Whether payment of wages more than Rs 3000 has been given by cheque or credit to the bank a/c of employed person.**

CHAPTER No. 25

NEGOTIABLE INSTRUMENTS ACT, 1881

25.1. ***Introduction :-*** The Negotiable Instruments Act was enacted, in India, in 1881. Prior to its enactment, the provision of the English Negotiable Instrument Act were applicable in India, and the present Act is also based on the English Act with certain modifications. It extends to the whole of India except the State of Jammu and Kashmir.

25.2. ***Meaning :-*** According to Section 13 (a) of the Act, "Negotiable Instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer, whether the word "order" or " bearer" appear on the instrument or not."

25.3. ***Two conditions of negotiability :-***

1. The instrument should be freely transferable (by delivery or by endorsement. and delivery) by the custom of the trade; and
2. The person who obtains it in good faith and for value should get it free from all defects, and be entitled to recover the money of the instrument in his own name.

Examples :- Bill of Exchange, Promissory Note, Cheque, Share Warrants, Dividend Warrants etc.

25.4. ***Characteristics of A Negotiable instrument :-***

1) **Property :** The property in a negotiable instrument can be transferred without any formality. In the case of bearer instrument, the property passes by mere delivery to the transferee. In the case of an order instrument, endorsement and delivery are required for the transfer of property.
2) **Title :** The transferee of a negotiable instrument is known as 'holder in due course.' A bona fide transferee for value is not affected by any defect of title on the part of the transferor or of any of the previous holders of the instrument.
3) **Rights :** The transferee of the negotiable instrument can sue in his own name, in case of dishonour. A negotiable instrument can be transferred any number of times till it is at maturity. The holder of the instrument need not give notice of transfer to the party liable on the instrument to pay.
4) **Presumptions :** Certain presumptions apply to all negotiable instruments e.g., a presumption that consideration has been paid under it. It is not necessary to write in a promissory note the words 'for value received' or similar expressions because the payment of consideration is presumed. The words are usually included to create additional evidence of consideration.
5) **Prompt Payment :** A negotiable instrument enables the holder to expect prompt payment because a **dishonor** means the ruin of the credit of all persons who are parties to the instrument.

25.5. ***Presumptions as To Negotiable Instruments :-*** Sections 118 and 119 of the Negotiable Instrument Act lay down certain presumptions as follows –

1) **Consideration :** It shall be presumed that every negotiable instrument was made, drawn, accepted or endorsed for consideration.
2) **Date :** Where a negotiable instrument is dated, the presumption is that it has been made or drawn on such date, unless the contrary is proved.
3) **Time of acceptance :** Unless the contrary is proved, every accepted bill of exchange is presumed to have been accepted within a reasonable time after its issue and before its maturity if acceptance of that instrument is not dated.
4) **Time of transfer :** Unless the contrary is presumed, it shall be presumed that every transfer of a negotiable instrument was made before its maturity.

5) **Order of endorsement :** Until the contrary is proved, it shall be presumed that the endorsements appearing upon a negotiable instrument were made in the order in which they appear thereon.
6) **Stamp :** Unless the contrary is proved, it shall be presumed that a lost promissory note, bill of exchange or cheque was duly stamped.
7) **Holder in due course :** Until the contrary is proved, it shall be presumed that the holder of a negotiable instrument is the holder in due course i.e. having title in good faith.
8) **Proof of protest :** Section 119 lays down that in a suit upon an instrument which has been **dishonored,** the court shall on proof of the protest, presume the fact of **dishonor**, unless and until such fact is disproved.

25.6. ***Types of Negotiable Instruments :-***

1) Promissory notes - Section 4 of the Act defines a promissory note as,"an instrument in writing (note being a bank-note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money to or to the order of a certain person, or to the bearer of the instruments."

Essential Elements :-

1) It must be in writing.
2) It must certainly an express promise or clear understanding to pay.
3) Promise to pay must be unconditional.
4) It should be signed by the maker.
5) The maker must be certain.
6) The payee must be certain.
7) The promise should be to pay money and money only.
8) The amount should be certain.

2) Bill Of Exchange - Section 5 of the Act defines a bill of exchange as"an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".

Essential Elements :-

1) It must be in writing.
2) It must be signed by the drawer.
3) The drawer, drawee and payee must be certain.
4) The sum payable must also be certain.
5) It should be properly stamped.
6) It must contain an express order to pay money and money **only.**

3) Cheques - Section 6 of the Act defines a cheque as "a bill of exchange drawn on a specified banker, and not expressed to be payable otherwise than on demand".

Essential Elements :-In addition to elements mentioned above there are 2 more elements which are essential for a cheque –

1) It is always drawn on a specified banker.
2) It is always payable on demand.

4) Hundis - A "Hundi" is a negotiable instrument written in an oriental language. The term hundi includes all indigenous negotiable instruments whether they be in the form of notes or bills. The word 'hundi' is said to be derived from the Sanskrit word 'hundi', which means "to collect".

25.7. ***Negotiation :-*** Negotiation may be defined as the process by which a third party is constituted as the holder of the instrument so as to entitle him to the possession of the same and to receive the amount due thereon in his own name.Two conditions which are required for negotiation –

1) There must be a transfer of the instrument to another person; and
2) The transfer must be made in such a manner as to constitute the transferee as the holder of the instrument.

Two modes of Negotiation –

1) **Negotiation by delivery (Sec. 47)** : Where a promissory note or a bill of exchange or a cheque is payable to a bearer, it may be negotiated by delivery thereof.
2) **Negotiation by endorsement and delivery (Sec. 48)** : A promissory note, a cheque or a bill of exchange payable to order can be negotiated only be endorsement and delivery. Unless the holder signs his endorsement on the instrument and delivers it, the transferee does not become a holder. If there are more payees than one, all must endorse it.

25.8. ***Dishonor of a Negotiable instrument :-*** When a negotiable instrument is **dishonored**, the holder must give a notice of **dishonor** to all the previous parties in order to make them liable. A negotiable instrument can be **dishonored** either by non-acceptance or by non-payment. A cheque and a promissory note can only be **dishonored** by non-payment but a bill of exchange can be **dishonored** either by non-acceptance or by non-payment.

25.9. ***Effect of dishonour :-*** When a negotiable instrument is dishonoured either by non acceptance or by non-payment, the other parties thereto can be charged with liability. The imprisonment term in the case of dishonour of the cheque is two years.

25.10. ***Notice of dishonor :-*** Notice of **dishonor** means the actual notification of the **dishonor** of the instrument by non-acceptance or by non-payment. When a negotiable instrument is refused acceptance or payment, notice of such refusal must immediately be given to parties to whom the holder wishes to make liable. Failure to give notice of the **dishonor** by the holder would discharge all parties other than the maker or the acceptor (Sec. 93).

In case of dishonour of cheque the period of time to issue demand notice to the drawer is 30 days. (Section 138)

25.11. ***Noting with Notary :-*** As soon as a bill of exchange or a promissory note is **dishonored,** the holder, can after giving the parties due notice of **dishonor**, sue the parties liable thereon. Section 99 provides a mode of authenticating the fact of the bill having been **dishonored**. Such mode is by noting the instrument. Noting is a minute recorded by a notary public on the **dishonored** instrument or on a paper attached to such instrument. When a bill is to be noted, the bill is taken to a notary public who represents it for acceptance or payment as the case may be and if the drawee or acceptor still refuses to accept or pay the bill, the bill is noted as stated above.

25.12. ***Noting should specify in the instrument :–***

(a) the fact of **dishonor**,
(b) the date of **dishonor**,
(c) the reason for such **dishonor,** if any
(d) the notary's charges,
(e) a reference to the notary's register and
(f) the notary's initials.

25.13. ***Protest :-*** Protest is a formal certificate of the notary public attesting the **dishonor** of the bill by non-acceptance or by non-payment. After noting, the next step for notary is to draw a certificate of protest, which is a formal declaration on the bill or a copy thereof. The chief advantage of protest is that the court on proof of the protest shall presume the fact of **dishonor.**

25.14. ***Local Courts having jurisdiction over the cases of dishonour of cheques - Section 142 —Depending upon the place where :-***

1. If the cheque is delivered for collection through an account, the branch of the bank where the payee or holder in due course, as the case may be, maintains the account, is situated; or

2. If the cheque is presented for payment by the payee or holder in due course otherwise through an account, the branch of the drawee bank where the drawer maintains the account, is situated.

CHAPTER No. 26

THE PAYMENT OF BONUS ACT, 1965

26.1. ***Applicability :-*** Unless it is provided otherwise in this Act, it shall apply to :

i. every factory; and
ii. every other establishment in which 20 or more persons are employed on any day during accounting year
iii. the appropriate Government may also apply the provisions of this Act with effect from such accounting year as may be notified in the official Gazette, to any establishment or class of establishments [including an establishment as defined by Section 2(m) (ii) of the Factories Act, 1948 employing persons less than 20 but not less than 10 in number [Proviso to Section 1(3)].
iv. The provision of this Act shall also apply to certain public sector establishments [Section 20(1)1].

A part-time employee is also included in the definition of an employee for the purpose of calculating the number of employees *i.e.*, 20 or more under Section 1 (3)(b).

The said act is **not** applicable to following classes of employees :-

I. Employees employed by the Life Insurance Corporation of India;
II. Seamen as defined under Section 3(42) of the Merchant Shipping Act, 1958;
III. Employees registered or listed under any scheme made under the Dock Workers (Regulation of Employment) Act, 1948 and employed by registered or listed employers;
IV. Employees employed by an establishment engaged in any industry carried on by or under the authority of any department of the Central Government or a State Government or a local authority;
V. Employees employed by-
   a. the Indian Red Cross Society or any other institution of a like nature (including its branches);
   b. Universities and other educational Institutions;
   c. Institutions (including hospitals, chambers of commerce and social welfare institutions) established not for purposes of profit;
VI. Employees employed by the Reserve Bank of India;
VII. Employees employed by the financial and other institutions such as :-
   a. the Industrial Finance Corporation of India;
   b. any Financial Corporation established under Section 3, or any Joint Financial Corporation established under Section 3A, of the State Financial Corporations Act, 1951;
   c. the Deposit Insurance Corporation;
   d. the National Bank for Agriculture and Rural Development;
   e. the Unit Trust of India;
   f. the Industrial Development Bank of India;
   g. the Small Industries Development Bank of India established under Section 3 of the Small Industries Development Bank of India Act,1989;
   h. the National Housing Bank;
   i. any other financial institution (other than a banking company) being an establishment in public sector, which the Central Government may, by notification in the Official Gazette, specify; while so specifying the Central Government shall have regard to its capital structure, its objectives and the nature of its activities and the nature and extent of financial assistance or any concession given to it by the Government and any other relevant factor;
VIII. Employees employed by inland water transport establishment operating on routes passing through any other country

26.2. ***Definitions :-***

1) Allocable surplus [Section 2(4)1] :

Allocable surplus means :

i. In case where company is employer- Where a company (other than a banking company) which has not made the arrangements prescribed under the Income-tax Act, 1961 for the declaration and payment within India of the dividends payable out of its profits in accordance with the provisions of Section 194 of that Act- there 67% of the allocable surplus in an accounting year shall be the allocable surplus.

ii. In any other case of employer- the allocable surplus means 60% of such available surplus.

2) Available Surplus (Section 2(6)1] :

It means the available surplus in an accounting year as defined and computed under Section 5 of the Act. Available surplus shall be the gross profit for that year after deduction of prior charges (mentioned in Section 6) and by addition of the amount equal to the difference of certain items (mentioned in section 7).

Therefore, available surplus can be calculated with the following equation:

Gross profit for the purpose of bonus

Less :- Amount of prior charges

Add :- Amount equal to the differences between the amount of direct taxes on the gross profit (for the immediately preceding accounting year and of the immediate preceding accounting year after deduction of the amount of bonus which the employer has paid/liable to pay for that year(as calculated in accordance with the **provisions** of section 7)

= Available Surplus

3) Employee [Section 2(13)1] :

It means any person (other than an apprentice) employed —

i. On a salary or wage not exceeding Rs.21,000/- per month in any industry,

ii. To do any skilled or unskilled, manual, supervisory, managerial, administrative, technical or clerical work,

iii. for hire or reward,

iv. Under the express implied terms of employment

4) Employer [Section 2(14)1] :

Includes :-

i. In relation to an establishment which is a factory — the owner or occupier of the factory, including the agent of such owner or such occupier, the legal representative of a deceased owner or occupier and where a person has been named as a manager of that factory under Section 7(1)(t) of the Factories Act, 1948, the person so named are termed as employer.

ii. In relation to any other establishment which is not a factory — the person or the authority whichhas the ultimate control over the affairs of the establishment and if the said affairs are entrusted to a manager, managing director, or managing agent then such manager, managing director or managing agent are termed as employer.

5) Salary or Wages for the purpose of payment of bonus Section 2(21):-

"Salary or wage" means all remuneration (other than remuneration in respect of over-time work) capable of being expressed in terms of money, which would, if the terms of employment, express or implied, were fulfilled, be payable to an employee in respect of his employment or of work done in such employment and includes dearness allowance (that is to say, all cash payments, by whatever name called, paid to an employee on account of a rise in the cost of living), but does not include —

(i) any other allowance which the employee is for the time being entitled to;

(ii) the value of any house accommodation or of supply of light, water, medical attendance or other amenity or of any service or of any concessional supply of foodgrains or other articles;
(iii) any travelling concession;
(iv) any bonus (including incentive, production and attendance bonus);
(v) any contribution paid or payable by the employer to any pension fund or provident fund or for the benefit of the employee under any law for the time being in force;
(vi) any retrenchment compensation or any gratuity or other retirement benefit payable to the employee or any *Ex-gratia* payment made to him;
(vii) any commission payable to the employee.

Explanation. —Where an employee is given in lieu of the whole or part of the salary or wage payable to him, free food allowance or free food by his employer, such food allowance or the value of such food shall, for the purpose of this clause, be deemed to form part of the salary or wage of such employee.

26.3. *Payment of Bonus :-* Bonus payable to an employee under this Act shall be paid by his employer -

8) Proof of protest :- Section

(a) where there is a dispute regarding payment of bonus pending before any authority under section 22, within a month from the date on which the award becomes enforceable or the settlement comes into operation, in respect of such dispute;
(b) in any other case, within a period of eight months from the close of the accounting year;

Provided that the appropriate Government or such authority as the appropriate Government may specify in this behalf may, upon an application made to it by the employer and for sufficient reasons, by order, extend the said period of eight months to such further period or periods as it thinks fit; so, however, that the total period so extended shall not in any case exceed two years.

Bonus shall be paid by cheque or direct credit through ECS and not by cash.

26.4. *Return to be filled :-* Annual return in Form 'D' is required to be filled.

26.5. *Employee entitled to bonus :-*

I) Every employee of an establishment covered under the Act is entitled to bonus from his employer in an accounting year provided he has worked in that establishment

i. For not less than thirty working days in that year,
ii. On a salary or wage not exceeding Rs.21,000 per month.

II) Employees employed through contractor on building operation have now been covered by this act.

26.6. *Benefits under the Act :-*

a) Subject to provisions, minimum bonus shall be 11% of the salary/wages earned by the employees or Rs. 100 whichever is higher
b) If allocable surplus, as computed under the Act, exceeds the amount of minimum bonus, then bonus shall be payable at a rate subject to a maximum 20% of salary/wages earned during the accounting year.

26.7. *Penalties for Non-Compliance :-* Imprisonment upto 6 months and / or fine upto Rs. 1000 or both.

26.8. *Verification by auditor :-*

1) Verify applicability of the Act to the society being audited.
2) Verify that calculation of bonus has been made correctly, after taking into account relevant provisions of the Act.
3) Verify eligibility of employees for the payment of bonus.

4) The ICAI has issued AS -15 'Employees Benefits'. So disclosure regarding provisions / payments of the bonus to the employees is required to be given in Notes to Accounts.

26.9. ***Bonus linked with production or productivity :-*** Section 31 (A) provides that (i) where an agreement or settlement has been entered into by the employees with their employer before or after the commencement of this act, for payment of an annual bonus linked with production or productivity in lieu of bonus based on profits payable under this Act, then, such employees shall be entitled to receive bonus due to them under such agreement or settlement.

It further provides that any such agreement or settlement whereby the employees relinquish their right to receive the minimum bonus under section 10 shall be *null and void* in so far as it purports to deprive them such right, and such employees shall not be entitled to be paid such bonus excess of 20% of the salary or wage earned by them during the accounting year.

CHAPTER No. 27

EMPLOYEE'S COMPENSATION ACT, 1923 (FORMER :- WORKMENS' COMPENSATION ACT, 1923)

27.1. ***Introduction :-*** The formerly known 'Workmen's Compensation Act, 1923,' is now known as 'Employee's Compensation Act, 1923'. The objective of this Act is that in the case of an employment injury, compensation be provided to the injured workman and in case of his death to his dependants. This Act is very important as it introduced a kind of social security scheme for the workers.

27.2. ***Applicability :-*** The Act applies to every employer –

a) Which includes **anybody** of persons whether incorporated or not and any managing agent of an employer and the legal representative of a deceased employer, and
b) when the services of an employee are temporarily lent or let on hire to another person by the person with whom the employee has entered into a contract of service or apprenticeship, means such other person while the employee is working for him.

27.3. ***Eligibility Of Employees :-*** The definition of 'employee' has been widened to include therein person recruited to work abroad as well.

Every employee to whom a personal injury is caused by accident arising out of and in the course of employment, his employer shall be liable to pay compensation in accordance with the provisions of Chapter II to the Act within 30 days from the date when it fell due otherwise he would also be liable to pay interest and penalty.

27.4. ***Definition of Wages :-*** "Wages" includes any privilege or benefit which is capable of being estimated in money other than a travelling allowance or the value of any travelling concession or a contribution paid by the employer of a workman towards any pension or provident fund or a sum paid to a workman to cover any special expenses entailed on him by the nature of his employment.

27.5. ***Compensation Provisions :-***

(i) Where death results from injury, compensation should be 50% of monthly wages multiplied by relevant factor as given in Schedule IV of the Act or Rs. 1,20,000/- whichever is more (relevant factor depends upon the age of employee)
(ii) Where permanent total disablement results from the injury, compensation should be 60% of monthly wages multiplied by relevant factor as given in Schedule IV of the Act or Rs. 1,40,000/- whichever is more (relevant factor depends upon the age of employee)
(iii) Where permanent partial disablement or temporary disablement results from injury, compensation will be decided as per prescribed schedule.
(iv) Where temporary disablement, total or partial, results from injury, compensation should be a half monthly payment equivalent to 25% of monthly wage of workman.
(v) The said compensation shall be payable on the sixteenth day (i) from the date of disablement where such disablement lasts for a period of twenty-eight days or more, or (ii) after the expiry of a waiting period of three days from the date of disablement where such disablement lasts for a period of less than twenty-eight days; and thereafter half-monthly during the disablement or during a period of five years, whichever period is shorter.
(vi) The amount of any payment or allowance which the employee has received from the employer by way of compensation during the period of disablement is to be deducted from any lump sum or half-monthly payments to which the employee is entitled , prior to the receipt of such lump sum or of the first half-monthly payment.
(vii) The half-monthly payment shall not in any case exceed the amount, if any, by which half the amount of the monthly wages of the employee before the accident exceeds half the amount of such wages which he is earning after the accident.

(viii) Any payment or allowance which the employee receives from the employer towards his medical treatment is not deemed to be a payment or allowance received by him by way of compensation.
(ix) The funeral expenses have been increased to Rs. 5000/-.

27.6. ***Payment of Compensation :-***

1. Compensation under section 4 shall be paid as soon as it falls due.
2. In cases where the employer does not accept the liability for compensation to the extent claimed, he shall be bound to make provisional payment based on the extent of liability which he accepts, and, such payment shall be deposited with the Commissioner or made to the workman, as the case may be, without prejudice to the right of the workman to make any further claim.
3. Where any employer is in default in paying the compensation due under this Act within one month from the date it fell due, the Commissioner shall —

a. direct that the employer shall, in addition to the amount of the arrears, pay simple interest thereon at the rate of twelve per cent per annum or at such higher rate not exceeding the maximum of the lending rates of any scheduled bank as may be specified by the Central Government, by notification in the Official Gazette, on the amount due; and
b. if, in his opinion, there is no justification for the delay, direct that the employer shall, in addition to the amount of the arrears, and interest thereon pay a further sum not exceeding fifty per cent of such amount by way of penalty.

27.7. ***Returns as to Compensation :-*** The State Government may by notification in the Official Gazette direct that every person employing workmen or that any specified class of such persons shall send at such time and in such form and to such authority as may be specified in the notification a correct return specifying the number of injuries in respect of which compensation has been paid by the employer during the previous year, and the amount of such compensation together with such other particulars as to the compensation as the State Government may direct.

27.8. ***Other Important Issues :-***

(i) Any contract by an employee waiving his right to be compensated under this Act is null and void.
(ii) Notice book is to be maintained.

27.9. ***Time limit for disposal of cases relating to compensation :-*** **(Section 25A)**

The matter relating to compensation under this Act are required to be disposed off within a period of three months from the date of reference and the decision in respect thereof is required to be intimated to the employee within the said period.

27.10. ***Penalties For Non-Compliance :-***

1) Compensation paid after 30 days from the date when it fell due will attract interest @ 6% p.a. and penalty of up to 50% of the compensation. Certain other offences attract fine up to Rs. 500/-.
2) Whoever –
   (a) fails to maintain a notice-book which he is required to maintain under sub-section (3) of section 10 or
   (b) fails to send to the Commissioner a statement which he is required to send under sub-section (1) of section 10A or
   (c) fails to send a report which he is required to send under section 10B or
   (d) fails to make a return which he is required to make under section 16 shall be punishable with fine which may extend to Rs. 5000/-.
3) No prosecution under this section shall be instituted, except by or with the previous sanction of a Commissioner and no Court shall take cognizance of any offence under this section unless complaint thereof is made within six months of the date on which the alleged commission of the offence came to the knowledge of the Commissioner.

27.11. ***Verification by auditor :-***

1) Applicability of the Act to the society.
2) All registers and documents as prescribed in Workmen's Compensation Act, 1923 are maintained properly.
3) Calculation of compensation wherever such payment has been made.

CHAPTER No. 28
PAYMENT OF GRATUITY ACT, 1972

28.1. ***Applicability :-***

i. Every factory, mine, oil field, plantations, port & railway company;
ii. Every shop or establishment in which ten or more persons are / were employed;
iii. Such other establishment in which ten or more employees employed or were employed on any day of the preceding 12 months.

28.2. ***Eligibility of Employees :-*** The following persons are entitled to the benefits under the Act :-

a. Any person (not being an apprentice) employed for wages in any kind of work or in connection with work of factory, mine, plantation, oilfield, railway company, port or other establishments; and
b. At the time of retirement, resignation/termination, an employee should have rendered continuous service of not less than 5 years.
c. In case of death or disablement, the gratuity is payable, even if he has not completed 5 years of service.
d. Family in relation to male employee.

28.3. ***Definition of Salary :-*** "Salary" means all emoluments which are earned by an employee while on duty or on leave in accordance with the terms and conditions of his employment and which are paid, or are payable to him in cash, and includes dearness allowance but does not include any bonus, commission, house rent allowance, overtime wages and any other allowance.

28.4. ***Computation of Gratuity :-***

i) The quantum of gratuity is to be computed at the rate of 15 days' salary (7 days' salary in case of seasonal establishments) at the rate of wages last drawn by the employee concerned for every completed year of service or a part thereof exceeding 6 months.
ii) The total amount of gratuity payable shall not exceed Rs. 10,00,000/- (at present).
iii) In case where employer offers the higher benefits of gratuity scheme, the employee will be eligible for such higher benefits.
iv) In case of monthly rated employees, per day wages shall be calculated by dividing monthly rate by 26 days.

28.5. ***Payment of Gratuity :-***

(1) Gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years,-

(a) on his superannuation, or
(b) on his retirement or resignation, or
(c) on his death or disablement due to accident or disease :

Provided that the completion of continuous service of five years shall not be necessary where the termination of the employment of any employee is due to death or disablement.

Provided further that in the case of death of the employee, gratuity payable to him shall be paid to his nominee or, if no nomination has been made, to his heirs, and where such a nominee or heir is a minor, the share of such minor, shall be deposited with the controlling authority who shall invest the same for the benefit of such minor in such bank or other financial institution, as may be prescribed, until such minor attains majority.

Explanation.- For the purposes of this section, disablement means such disablement as incapacitates an employee for the work which he was capable of performing before the accident or disease resulting in such disablement.

(2) For every completed year of service or part thereof in excess of six months, the employer shall pay gratuity to an employee at the rate of fifteen days' wages based on the rate of wages last drawn by the employee concerned.

Provided that in the case of a piece-rated employee, daily wages shall be computed on the average of the total wages received by him for a period of three months immediately preceding the termination of his employment, and, for this purpose, the wages paid for any overtime work shall not be taken into account.

Provided further that in the case of an employee who is employed in a seasonal establishment, and who is not so employed throughout the year, the employer shall pay the gratuity at the rate of seven days' wages for each season.

Explanation- In the case of a monthly rated employee, the fifteen days' wages shall be calculated by dividing the monthly rate of wages last drawn by him by twenty-six and multiplying the quotient by fifteen.

(3) For the purpose of computing the gratuity payable to an employee who is employed, after his disablement, on reduced wages, his salary for the period preceding his disablement shall be taken to be the salary received by him during that period, and his salary for the period subsequent to his disablement shall be taken to be the salary as so reduced.

(4) Nothing in this section shall affect the right of an employee to receive better terms of gratuity under any award or agreement or contract with the employer.

(5) Notwithstanding anything contained in sub-section (1),-

(a) the gratuity of an employee, whose services have been terminated for any act, willful omission or negligence causing any damage or loss to, or destruction of, property belonging to the employer, shall be forfeited to the extent of the damage or loss so caused;
(b) the gratuity payable to an employee may be wholly or partially forfeited-
(i) If the services of such employee have been terminated for his riotous or disorderly conduct or any other act of violence on his part, or
(ii) If the services of such employee have been terminated for any act which constitutes an offence involving moral turpitude, provided that such offence is committed by him in the course of his employment.

28.6. ***Other Important Issues :-***

i) Employers other than Central Govt. or State Govt. obliged to obtain insurance from LIC in prescribed manner for liability for payment of gratuity.
ii) Establishments to which Act applies must get registered with the Controlling Authority.
iii) Once the Act applies, it continues to apply even if employment strength falls below 10.
iv) An employee who is eligible for payment of gratuity, has to send a written application to employer in Form I within 30 days from the date gratuity becomes payable.
v) Gratuity amount has to be paid by account payee cheque or direct credit through ECS to an employee and not by cash or bearer cheque.

28.7. ***Penalties for Non-Compliances :-*** Non-payment of gratuity payable under the Act is punishable with imprisonment up to 2 years (minimum 6 months) and / or fine up to Rs. 20,000/-. Other contraventions / offences attract imprisonment up to 1 year and / or fine upto Rs. 10,000/-.

28.8. ***Verification by auditor :-***

1) Applicability of the Act to the society.
2) Ensure that proper procedure has been followed. by employees to whom gratuity is payable.
3) Also ensure that payment of gratuity is not made by cash.
4) The ICAI has issued AS -15 'Employees Benefits'. So disclosure regarding provisions / payments of the gratuity to the employees is required to be given in Notes to Accounts.

CHAPTER No. 29

THE BANKING REGULATION ACT 1949 (AACS)

29.1. ***Applicability :-*** Banking Regulation Act, 1949 Part V, Section 56, gives the manner in which various provisions of this Act are applicable to co-operative banks with effect from 1st March 1966.

The Act applies to cooperative banks, which include state cooperative banks, central cooperative banks and primary cooperative banks.

However, as per Section 3 of the Banking Regulation Act, it does not apply to

(a) a primary agricultural credit society;
(b) a cooperative land mortgage bank; and
(c) any other cooperative society, except in the manner and to the extent specified in Part V of the Act.

29.2. ***Banking :-*** Section 5(b) defines Banking as "the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise".

From this definition, the functions of bank are clearly stated as

1) To accept deposits repayable on demand or otherwise
2) To lend
3) To invest

29.3. ***Primary Co-operative Bank :-*** The Act defines Primary Co-operative Bank in sub section (ccv) of section 5 of Banking Regulation Act (AACS), "a cooperative society, other than a primary agricultural credit society-

a) the primary object or principal business of which is the transaction of banking business;
b) the paid up share capital and reserves of which are not less than one lakh of rupees; and
c) the bye-laws of which do not permit admission of any other cooperative society as a member." However sub-clause 3 is not applicable to the banks subscribing to the share capital of such cooperative society out of funds provided by the State Government for the purpose.

29.4. ***District central Bank and State Co-operative :-*** banksare defined as per meanings respectively assigned to them in the Reserve Bank of India Act, 1934.

29.5. ***Loans and advances : Secured and unsecured*** :- Under subsection (n) of the Section 5, ***"Secured loan or advance"***means "a loan or advance made on the security of assets the market value of which is not at any time less than the amount of such loan or advance; and ***' unsecured loan or advance'*** means a loan or advance not so secured."

29.6. ***Banking business :-*** Section 6 of the Act has defined the activities that are to be undertaken by the Banks. It includes following business :

a) The borrowing, raising, or taking up of money;
b) The lending or advancing of money either upon or without security;
c) The drawing, making, accepting, discounting, buying, selling, collecting, and dealing in bills of exchange, **Hundis,** promissory notes, coupons, drafts, bills of **landing,** railway receipts, warrants, debentures, certificates, scrips and other instruments and securities whether transferable or negotiable or not;
d) Granting and issuing of letter of credit, **traveler's** cheques and circular notes;
e) The buying, selling and dealing in bullion and specie;

f) The buying and selling of foreign exchange including foreign bank notes, the acquiring, holding issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investment of all kinds;
g) The purchasing and selling of bonds, scrips or other forms of securities on behalf of constituents or other, the negotiating of loans and advances;
h) The receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise;
i) The providing of safe deposit vaults;
j) The collecting and transmitting of money and securities;
k) Acting as agents for any Government or local authority or any other person or persons; the carrying on of agency business of any description including the clearing and forwarding of goods, giving of receipts and discharges and otherwise acting as an attorney on behalf of customers;
l) Contracting for public and private loans and negotiating and issuing the same;
m) The effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of State, municipal or other loans or of share, stock, debentures or debenture stock of any company, co-operative society, corporation or association and the lending of money for the purpose of any such issue;
n) Carrying on and transacting every kind of guarantee and indemnity business
o) Managing, selling and **realizing** any property which may come into the possession of the company in satisfaction or part satisfaction of any of its claims;
p) Acquiring and holding and generally dealing with any property or any right, title or interest in any such property which may form the security or part of security for any loans or advances or which may be connected with any such security;
q) Undertaking and executing trusts;
r) Undertaking the administration of estates as executor, trustee or otherwise;
s) Establishing and supporting or aiding in the establishment and support of associations, institutions, funds, trusts and conveniences calculated to benefit employees or ex-employees of the company or the dependents or connection of such persons; granting pensions and allowances and making payments towards insurance; subscribing to or guaranteeing moneys for charitable or benevolent objects or for any exhibition or for any public, general or useful object;
t) The acquisition, construction, maintenance and alteration of any building or works necessary or convenient for the purpose of the company;
u) Selling, improving, managing, developing, exchanging, leasing, mortgaging, disposing of or turning into account or otherwise dealing with all or any part of the property and rights of the company;
v) Acquiring and undertaking the whole or any part of the business of any person or company or co-operative society when such business is of nature enumerated or described in this sub-section;
w) Doing all such other things as are incidental or conducive to the promotion or advancement of the business of the company;
x) Any other form of business, which the central government may notify.

29.7. ***Prohibition on trading :-*** Co-operative Banks are prohibited directly or indirectly dealing in the buying or selling or bartering of goods, except in connection with the **realization** of security given to or held by it, or engage in any trade or buy, sell or barter goods for others, otherwise than in connection with bills of exchange received for collection or negotiation or with such of its business as is referred to in clause (i) sub-section (1) of section 6.

29.8. ***Disposal of Non-banking Assets: Section 9 :-*** No banking company shall hold any immovable property, howsoever, acquired, except such as is required for its own use, for any period exceeding seven years from the acquisition thereof. This section further provides that Reserve Bank may, in any particular case, extend the aforesaid period of seven years by such period as it may consider necessary, but not exceeding 5 years, where it is satisfied that such extension would be in the interest of the depositors of the banking company including cooperative bank.

29.9. ***Requirement as to minimum paid up capital and reserves :-*** Under sub section (1) of section 11, the Cooperative banks cannot commence or carry on the business of banking in India unless the aggregate value of their paid up capital and reserves is not less than one lakh rupees. It further provides in sub section 2 that, for the purpose of meaning of value, value means the real or exchangeable value and not the nominal value which may be shown in the books of the co-operative bank concerned.

If any dispute arises in computing the aggregate value of paid up capital and reserves of any co-operative bank, a determination thereof by the Reserve Bank of India shall be final for the purposes of this section.

29.10. ***Charge on capital and assets :-*** Co-operative banks are prohibited from creating charge on their unpaid capital under section 14; and, they are also prohibited from creating floating charge on the undertaking or any property or any part thereof, of the bank, unless the creation of such floating charge is certified in writing by Reserve Bank as not being detrimental to the interests of the depositors of the Bank.

29.11. ***Cash reserve and Statutory liquidity Reserve :-*** Co-operative Banks have to maintain Cash Reserve at such percentage level as the Reserve Bank of India may specify, of their total of demand and time liabilities in India and such percentage not exceeding 40% as the Reserve Bank of India may specify from time to time as Statutory liquidity reserve of their total of demand and time liabilities in India as per section 18 and 24 respectively of Banking Regulation Act. For the purpose of calculating the above percentage, the Reserve Bank of India has issued detailed guidelines. The auditor should check the liquidity register as prescribed by the Reserve Bank, and verify that the bank has maintained the required Cash Reserve to meet the statutory obligations in this regard.

29.12. ***Loans and advances :-*** Restriction on loans and Advances: Section 20 read with Section 56 As Applicable to Co-operative Societies (AACS) provides that, no cooperative bank shall –

(a) make any loans or advance on the security of its own shares; or
(b) grants unsecured loans or advances-
(i) to any of its directors; or
(ii) to firms or private companies in which any of its directors is interested as partner or managing agent, or guarantor or to individual in cases where any of its directors is a guarantor; or
(iii) to any company in which the chairman of the Board of directors of the Co-operative Bank (where the appointment of a chairman is for a fixed term) is interested as its managing agent, or where there is no managing agent, as its chairman or managing director;

The section further provides that nothing in clause (b) shall apply to the grant of unsecured loans or advances-

(a) made by a co-operative Bank
(i) against bills for supplies or services made or rendered to Government or bills of exchange arising out of bona fide commercial or trade transactions, or
(ii) in respect whereof trust-receipts are furnished to the cooperative bank.
(c) Made by a primary cooperative bank to any of its directors or to any other person within such limits and on such terms and conditions as may be approved by the Reserve Bank in this behalf.

Sub clause 3 of the section provides that, if it appears to the Reserve Bank that any loans or advances referred to in sub section (2) are being granted to the detriment of the interest of the depositors of the co-operative bank, the Reserve Bank may, by order in writing, prohibit the cooperative bank from granting any such further loans or advances or impose such restriction on the grant thereof as it thinks fit, and may by like order direct the cooperative bank to secure the re-payment of such loan or advance within such time as may be specified in the order.

Under section (20-a), the Reserve Bank has prohibited cooperative banks, without its prior approval, from remitting in whole or in part any debt due to it by (a) any of its past or present directors, or (b) any firm or company in which any of its director is interested as director, partner, managing agent or guarantor, or (c) any individual if any of its directors is his partner or guarantor. Sub section (2) further provides that such remission without prior approval of the Reserve Bank shall be void and of no effect.

The Reserve Bank of India has issued the directions that, co-operative banks are prohibited to make, provide or renew either secured or unsecured loans and advances or extend any other financial accommodation to their directors, or their relatives and the firms / concerns / companies in which they are interested with effect from 1st Oct. 2003. The existing advances may allowed to continue upto the date when they are due.

The following categories of director related loans are exempted from the purview of the above instructions.

i. Regular employee related loans to staff directors on the board of the banks.
ii. Normal loans as applicable to members, to the directors on the boards of the salary earners' co-operative banks, and
iii. Normal employee related loans to managing directors of multi-state co-operative banks.
iv. Loans to directors and their relatives against fixed deposits and life insurance policies standing in their own name.

29.13. ***Power of Reserve Bank to Control Advance by Cooperative banks*** *:-* In the interest of public, depositors and or banking policy, the Reserve Bank is empowered under section 21 to control advances granted by the cooperative banks. The Reserve Bank can determine in relation to advances, in general and in particular as to

(a) the purpose for which advances may or may not be made.
(b) the margins to be maintained in respect of secured advances,
(c) the maximum amount of advances or other financial accommodation which having regard to the paid up capital, reserves and deposits of a bank and other relevant consideration, may be made by that bank to any one party,
(d) the maximum amount up to which, having regard to the considerations referred to in clause (c), guaranteed may be given by a bank, on behalf of any one party, and
(e) the rate of interest and other terms and condition on which advance or other financial accommodation may be or guarantees may be given.

29.14. ***Banking license :-*** As per section 22, every bank has to obtain license for banking business in India from the Reserve Bank of India.

29.15. ***Restrictions on opening of new, and transfer of existing, place of business :-*** Section 23 provides that the primary urban cooperative banks should obtain prior approval of Reserve Bank of India for opening new branches, or transfer of existing place of business.

CHAPTER No. 30

EMPLOYEES PROVIDENT FUND & MISCELLANEOUS PROVISIONS ACT, 1952, EMPLOYEES' PROVIDENT FUND SCHEME, 1952 , EMPLOYEES' PENSION SCHEME, 1995 AND EMPLOYEES' DEPOSIT-LINKED INSURANCE SCHEME, 1976

30.1. ***Applicability :-*** The act applies to –

a. Every establishment which is a factory engaged in any industry specified in Schedule I and in which 20 or more persons are employed.
b. Establishment engaged in manufacture, marketing, servicing and usage of computer or deriving any form of output there from or employing it for any type of processing services and remote maintenance companies, research and development companies, systems integrators, **onsite**service companies and offshore development companies; and
c. Any other establishment employing 20 or more persons which Central Government may notify.
d. Any establishment employing even less than 20 can be covered by a specific Central Government Notification.
e. A new category of 'International Employee' defined under the Act, bringing foreign nationals working in India under the scope of this act. Contributions under the act are required to be carried out unless he/she is an 'excluded employee' and/or the other country has a reciprocating social security agreement with India. The due amount in respect of the said international worker shall be payable in the payees' bank account directly or through the employer.

The Act does not apply to :

- The co-operative societies employing less than 50 persons and working without the aid of power. **16(1)(a) -** "A proposal to reduce the threshold limit from 20 persons to 10 persons for coverage under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 is included in the comprehensive amendments to the Act, which is under consideration of the government,

30.2. ***Eligibility of Employees :-*** "Employee" means any person who is employed for wages in any kind of work, manual or otherwise, in or in connection with the work of an establishment and who gets his wages directly or indirectly from the employer, and includes any person,-

(i) employed by or through a contractor in or in connection with the work of the establishment;
(ii) engaged as an apprentice, not being an apprentice engaged under the Apprentices Act, 1961 (52 of 1961) or under the standing orders of the establishment;

Any person who is employed for wages in any kind of work of an establishment or employed through contractor in or in connection with the work of an establishment. Present wage ceiling is Rs. 15,000/- per month.(w.e.f. 01.09.2014). So employees drawing salaries / wages less than or equal to Rs. 15,000/- p.m. is mandatorily required to become member of P.F. Employees contribution to P.F. is to be calculated on the basic salary / wages. The employer is also required to contribute to the P.F. equivalent amount . But at the option of the employee his/ her contribution can be more also.

If an employee's basic wages exceeds INR 15,000, the employee may opt for voluntary membership (unless already a member). For such employee, the contribution is required to be made on Rs. 15 ,000 per month unless an option to contribute on a higher salary is exercised.

30.3. ***Benefits under the Act :-***

i. Final withdrawal at the time of retirement / leaving of service
ii. Advance for –
a. Purchase of House
b. Repair of House
c. LIC Premium
d. Marriage of son / daughter
iii. Lifelong pension to the member and to his / her legal heirs after death. An employee covered under EDLI Scheme is entitled to benefits (subject to a maximum of Rs. 1,00,000/-) if he had

been in employment for a continuous period of 12 months **preceding** his death as per formula under sub-para (1) of para 22 or para 3 whichever is **higher.**

iv. Insurance benefit available on members' death while in service.
v. Interest @ 8.5% on deposits and the same is exempt from income tax.

30.4. ***Other Provisions :-***

a. Once the Act applies to the concerned establishment, it continues to apply even if employment strength falls below 20.
b. Periodical returns should be filed to the Regional Provident Fund Commissioner or any other officer as the Central Government may direct from time to time. Scheme of electronic format of return has been introduced w.e.f. 05.08.2011. Employees' Provident Fund Office (EPFO) has decided to give monthly updates of contribution instead of annual statement.
c. Employers are required to file various returns and maintaining contribution cards in electronic modes also.
d. Inspection note book has to be maintained.
e. Splitting of minimum wages further for the purpose of PF is not permissible now.
f. Employers are required to provide copies of relevant forms to the employees immediately on joining the service or at the time of leaving service, as the case may be.
g. Employer is to forward application for transfer of PF within 5 days of its receipt to the concerned authorities.
h. For transfer of claims, Online Transfer Claim Form has been introduced instead of Form 13. The form can be submitted physically or online after verification from present or previous employer. Online submission is possible only where the employer is having registered digital signature. This shall enable paperless process for claim settlement.

30.5. ***Penalties for Non-Compliance :-*** Any person who contravenes any of the provisions of the Act is liable to be arrested without any warrant being issued in respect of a cognizable offence. Whereas defaults by employer in paying contributions or inspections, administration charges attract imprisonment upto 3 years and fines upto Rs. 5,000/-.

In case, if offence is repeated, imprisonment may be extended to 5 years, but is not less than 2 years.

30.6. ***Employees' Penson Scheme, 1995 :-***

- If an employee's basic wages is less than or equal to Rs.15,000, the employee is mandatorily required to become a member. For such employee, the contribution is required to be made on the employee's basic wages.
- New members (joining on or after 1 September 2014) drawing wages exceeding INR 15,000 per month shall not be eligible to voluntarily contribute to the Pension Scheme.
- The maximum pensionable salary for the purpose of determining the monthly pension has been revised from INR 6,500 to INR 15,000 per month.
- The pensionable salary shall be calculated on the average monthly pay for the contribution period of the last 60 months (earlier 12 months) preceding the date of exit from the membership.
- The monthly pension for any existing or future member shall not be less than INR 1,000 for the financial year 2014-15.

30.7. ***Employees' Deposit-Linked Insurance Scheme, 1976 :-***

- If an employee's monthly salary is less than or equal to Rs. 15,000, the employee is mandatorily required to become a member. For such employee, contribution is required to be made on employee's monthly salary.
- If an employee's monthly salary exceeds Rs. 15,000, the employee is mandatorily required to become a member if he/she is a member of the Provident Fund Scheme. For such employee, contribution is required to be made on INR 15,000 per month.
- In the event of death of a member (on or after 1 September 2014), the assurance benefits available under the Insurance Scheme has been increased by twenty percent (20%) in addition to the already admissible benefits.

CHAPTER No. 31

SECURITISATION AND RECONSTRUCTION OF FINANCIAL ASSET AND ENFORCEMENT OF SECURITY INTEREST ACT 2002 (SARFAESI)

SARFAESI Act is effective from 21st June 2002.

31.1. ***Right of secured lender arises :–*** When any borrower, who is under liability to secured creditor under security arrangement makes any default in repayment of secured debt or installment thereof and his account has classified as NPA by secured creditor.

1) Secured creditor may require the borrower by notice in writing to discharge in full his liability to secured creditor within 60 days from the date of notice.
2) Secured creditor shall be entitled to exercise all or any right under Section 13 (4) to take possession of secured / mortgaged asset and deal with / dispose of it and recover their dues.
3) If the borrower thereafter fails to respond to the notice by offering payment, secured lender can take any of the following options under Section 13 (4)
   a. Take possession of asset mortgaged and transfer the same either by selling or by leasing or assigning.
   b. Take over the management of business of defaulting borrower, including right to transfer or sale only when sustained part of business is secured.
   c. Can appoint manager to take charge of secured assets taken into possession.
   d. Ask any person from whom moneys are due to the borrower to pay directly to the secured creditor.
4) In the event total dues of secured creditors are not recovered from sale of secured assets, they will have the right of approaching DRT for recovery of balance amount from the borrowers and / or guarantors {Section 13 (10)}
5) On receiving the notice, no borrower can sell, lease or transfer the secured assets mentioned in the notice without lender's consent as per sub section 13 of the Section 13.
6) Where the sale of immovable property, for which Reserve Price has been specified, has been postponed for want of bid of an amount not less than such Reserve Price, it shall be lawful for any officer of secured creditor to bid for immovable property on behalf of secured creditor at subsequent date.
7) Where the secured creditor is declared to be purchaser of immovable property at any subsequent sale, the amount of purchase price shall be adjusted towards the amount of claim of secured creditor for which the auction of enforcement of security interest is taken by the secured creditor as per sub section 4 of Section 13.
8) If borrower doesn't voluntarily handover the assets to the secured creditor, bank needs to approach metropolitan / District Magistrate and seek their help to take possession of the unit.
9) If sale is not effected at Reserve Price, then with the consent of borrower secured creditor may sale the asset below Reserve Price.

CHAPTER No. 32

SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT, 1985

32.1. ***Definition :-*** Section 2

(b) Board :- means the Board for Industrial and Financial Reconstruction (BIFR) established under Section 4.

(ga) Net worth :- means the sum total of the paid up capital and free reserves.

For the purpose of this clause free reserves means all reserves credited out of the profits and share premium but does not include reserve credited out of revaluation of assets, write back of depreciation provision and amalgamation.

32.2. ***Section 24 Misfeasance proceedings :-*** This Section provides action to be taken against the directors of the company, if the board comes to the conclusion that due to misapplication, retention, viable or accountable for they are guilty of misfeasance, malfeasance or non-**fiancé,** breach of trust resulting into damages to the sick industrial company. The Section provides that,

(1) If in the course of scrutiny or implementation of any scheme or proposal, it appears to the board that any person who has taken part in promotion, formation or management of sick industrial company or its undertaking including any past or present director, manager or officer or employee of sick industrial company –

(a) has misapplied or retained or became liable or accountable for any money or property of sick industrial company or

(b) has been guilty of any misfeasance, malfeasance or non-**fiancé** or breach of trust in relation to sick industrial company.

The board may, by order, direct him to repay or restore the money or property or any part thereof, with or without interest, as it thinks just or to contribute such sum to the assets of the sick industrial company or the other person entitled thereto by way of compensation in respect of misapplication, retainer, misfeasance or breach of trust as the Board thinks just and also report the matter to Central Government for any other action which that Government may deem fit.

If the auditor, while auditing loan proposals, observes that the lending was made by the banks to the sick industrial units, and necessary action for recovery of loan has been taken by the bank, by approaching BIFR board and it has registered its claim with the board.

CHAPTER No. 33

GOODS AND SERVICES TAX (GST) ACT 2016

33.1. ***Introduction :-*** In order to avoid cascading effects of various indirect taxes and to maintain uniformity in the rates of indirect taxes all over the country, w.e.f. 1st July, 2017 Goods and Services Tax has been introduced by passing the Constitution (One Hundred and First Amendment) ACT, 2016. It received the assent of the President on 8th August 2016.

Goods & Services Tax Law in India is a **comprehensive**, **multi-stage**, **destination-based tax** that will be levied on every **value addition**.

The Government hopes that GST will boost the development of Indian economy by removing the indirect tax barriers between states and integrating the country through a uniform tax rate. The basic concept of GST is **"One Nation One Tax".** Accordingly rate of GST for one article will be same in all the states.

GST is a tax on the **'Supply'**of goods and services or both, in India except Jammu & Kashmir. Area upto 200 Nautical miles inside sea is 'India' for the purpose of GST.

33.2. ***GST replaces the following Act :-***

GST Law has replaced following indirect tax laws, *i.e.* these taxes have been subsumedin Goods & Service Tax :-

(1) CENTRAL INDIRECT TAXES :-

a) Central Excise Duty
b) Additional Excise Duties (levied on medicinal / toilet preparation)
c) Service Tax
d) Additional Custom Duty
e) Special Excise Duty of Customs (SAD equivalent to VAT)
f) Central surcharges
g) Cess related to supply of goods and services

(2) STATE INDIRECT TAXES :-

a) State VAT / Sales Tax
b) Entertainment Tax to the extent levied by State
c) Central Sales Tax
d) Octroi
e) Entry Tax
f) Purchase Tax
g) Luxury Tax
h) Taxes on betting Lottery & Gambling
i) State Cess
j) Surcharge

Thus, mainly Excise Duty, VAT, Central Sales Tax, Service Tax etc with which majority of the Co-operative societies are concerned have been abolished and in place GST has been introduced.

But following commodities have been kept out of the purview of GST and they will continue to be charged under VAT & Central Excise:

a) Alcoholic liquor for human consumption.
b) Petroleum products viz petroleum crude, motor spirit (petrol), high speed diesel, natural gas, aviation turbine fuel. (Central Tax to be levied from such date as may be notified by the Government on the recommendation of Council)
c) Electricity.

33.3. ***Applicability :-***

There are 3 applicable taxes under GST :-

- Central Goods and Services Tax (CGST) :

Collected by the **Central Government** on an **intra-state sale** (i.e. within the same state)

- State Goods and Services Tax (SGST) :

Collected by the **State Government** on an **intra-state sale** (i.e. Within the same state)

- Integrated Goods and Services Tax (IGST) :

Collected by the **Central Government for inter-state sale** (i.e. between two states or union territories)

In most of the cases, the tax structure under the GST regime is as follows :-

Transaction type	Tax structure in GST Regime	Tax structure under Old Regime	Remark
Sale within the State i.e. intra - state sales	CGST + SGST	VAT + Central Excise/Service tax	Tax Revenue will be shared equally between the Centre and the concerned state.
Sale to another State - i.e. Inter-state sales	IGST	Central Sales Tax + Excise/Service Tax	There will only be one type of tax (Central) in case of inter-state sales. The centre will then share the IGST revenue with the state based on the destination of goods.

- **GST IS CONSUMPTION BASED TAX :-**

The basic principle of GST is that it should effectively tax the consumption of such supplies at the destination thereof or as the case maybe, at the point of consumption. So it is **destination** based tax.

The place of supply determines whether a transaction is an interstate supply or intra - state supply. The place of supply of goods is required to be determined for the purpose of whether a supply is subject to SGST +CGST i.e. within a State or else it would attract IGST if it is an interstate supply.

- **Tax Rate Under GST :-**

Tax Rate applicable under GST are**: 0 %** i.e. Nil rated**, 5%, 12%, 18% and 28%** plus compensation cess (if applicable). There are some services and goods which are exempted under GST.

The rates are determined on the basis of classification of goods on the basis of Customs Tariff Act that is through HSN (Harmonised System Nomenclature) or in case of supply of services on the basis of SAC (Service Accounting Code). The codes are required to be mentioned in Tax Invoice.

- **Persons liable for registration under GST (Sec. 22) :-**

A supplier having **aggregate turnover** exceeding Rs.**20 lakh in a financial year** shall be liable to be register under GST.

Also, every person who is registered or holds a license under an existing law (VAT, CST, Excise, Service Tax etc.) on the day immediately preceding the day on which GST has been made applicable are liable for registration under GST.

Since the registration number under GST is PAN and State based, there is single registration number through-out the state irrespective of number of branches.

- **Persons not liable for registration under GST (Sec.23) :-**

The following persons shall not be liable for registration under GST

a) Any person who is engaged exclusively in the business of supply of goods or services or both that are not liable to GST or wholly exempt from tax under CGST, IGST Act.

b) An agriculturist, to the extent of supply of produce out of cultivation of land.

33.4. *Registration under GST Act :-*

- **Time Limit for Registration Under GST :-**

Within 30 days from the date on which the supplier becomes liable to registration in the manner as prescribed.

- **Composition Scheme (Sec.10, CGST Act) :-**

Composition Scheme is available to the taxable person whose aggregate turnover in preceding financial year does not exceed Rs.75 lakh (Rs.50 Lakhs for some of the states). Also, a person making Inter-state outward supplies of goods, Supply of service other than restaurant service, Supply which is not leviable to tax under GST, E-commerce operator etc. cannot opt for composition scheme.

Under composition scheme the person opting for composition scheme needs to pay CGST and SGST at fixed percentage of turnover *i.e.* a) 1% each ,of turnover in case of Manufacturer b) 2.5% each , of turnover in case of restaurant, outdoor catering and mandap keeper services and c) 0.5% each, of turnover in case of traders.

Further, the dealer under composition scheme cannot issue "Tax Invoice" separately charging CGST and SGST. It cannot claim Input Tax Credit on Inward supplies but it is liable to GST under Reverse Charge Mechanism (RCM) provided the conditions of RCM are fulfilled.

U/s. 39(2) only one return per quarter is required to be submitted as against monthly return in case of non-composition suppliers.

33.5. *Definations :-*

1) Supply - (Section 7) :-

Supply means and includes all forms of supply of **Goods** and/ or **Services** or **both** when it is :

a) For a consideration and
b) In course or furtherance of business such as :
   (a) Sale i.e. regular sale of goods or provision of service
   (b) Transfer
   (c) Barter
   (d) Exchange
   (e) License
   (f) Rental i.e machinery rental, furniture rental
   (g) Lease i.e. lease of immovable properties for business
   (h) Disposal i.e. sale of scrap, wastage etc

It also includes, as per Section 7(1)(b), Import of service :-

a) For a consideration
b) Whether or not in the course or furtherance of business

Supply also includes, as per Section 7(1)(c), supplies made without consideration as follows **(Schedule – I of CGST Act)** :

a) Permanent transfer/disposal of business assets for which Input Tax Credit is availed on such assets
b) Supplies between related persons/distinct persons (as specified in section 25) in the course or furtherance of business of business
c) Supply of goods by principal (or agent) to agent (or principal)
d) Import of service from a related person in the course or furtherance of business.
e) Gift of goods / services to employees more than Rs.50,000/- per employee in financial year.

Activities to be treated as supply of goods or supply of services (Schedule – II of CGST Act) :-

- Transfer of right in goods without transfer of title is supply of service
- Transfer of title in goods as per agreement to transfer a property at a future date on consideration is supply of goods
- Transactions such as lease, tenancy, easement, license to occupy land is supply of service
- Lease or letting out of building, commercial and industrial complex, residential complex for business is supply of service
- Treatment or process carried on goods belonging to the other person is supply of service

Additionally the following shall be treated as supply of service :-

- Construction of complex, building, civil structure
- Development, design, programming, customization, adaptation, up gradation, enhancement, implementation of information technology **software:**
- Transfer of right to use any goods for any purpose.

The following composite supplies shall be treated as a supply of services

a) Works contract as defined u/s. 2(119)

b) Supply of food and beverages for human consumptions

Activities / transactions to be treated neither as supply of goods nor supply of services (Schedule – III of CGST Act) :-

1. Services by an employee to the employer in the course of or in relation to his employment.
2. Services by any court or Tribunal established under any law for the time being in force.
3. (*a*) the functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities;

   (*b*) the duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or

   (*c*) the duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.
4. Services of funeral, burial, crematorium or mortuary including transportation of the deceased.
5. Sale of land and, subject to clause (*b*) of paragraph 5 of Schedule II, sale of building.
6. Actionable claims, other than lottery, betting and gambling.

2) COMPOSITE SUPPLY :-

Supplies involving two or more goods or services or any combination thereof wherein one of the components having essential character is known as principle supply. This composite supply shall be taxable at the rate applicable to principle supply.

Example : Goods + insurance service on transportation.

Supply of goods is the essential supply.

Rate applicable to **such goods** would be applicable to this composite supply.

3) MIXED SUPPLY :-

A supply involving two or more supplies of goods or services or any combination thereof e.g. canned food, sweets, chocolates, cakes, dry fruits, cold drinks when supplied for a single price is a mixed supply. Each item can be supplied separately and is not dependent on each other. **Highest rate of GST for the commodities** in the mixed supply would be applied for the entire supply.

4) Aggregate Turnover (Section 2(6)) : -

Means the aggregate value of :-

a. all taxable supplies (**excluding** the value of inward supplies on which tax is payable by a person on reverse charge basis),
b. exempt supplies,
c. exports of goods or services or both and
d. inter-state supplies of person having same PAN, to be computed on all India basis but excludes central tax, state tax, union territory tax, integrated tax and cess.

This definition is important for verifying mainly the :-

1. Threshold limit of turnover for applicability of GST.
2. Deciding of applicability of composition scheme.
3. Quoting of HSN Code.

5) Person (Sec. 2(84)) :-

A person includes : a) Individual b) HUF c) Company d) Firm e) Limited Liability Partnership f) An association of persons or a body of individual, whether incorporated or not, India or outside India g) Any corporation established by or under any Central Act, State Act or Provincial Act or a Government company as defined in clause (45) of section 2 of the Companies Act, 2013 (h) Anybody corporate incorporated by or under the laws of a country outside India (i) A co-operative society registered under any law relating to co-operative societies (j) A local authority (k) Central Government or a State Government (l) Society as defined under the Societies Registration Act, 1860 (m) Trust and (n) Every artificial juridical person, not falling within any of the above.

33.6. *Input Tax Credit :-*

Input tax credit is the core aspect of GST, which will ensure that the goal of avoiding cascading effects of taxes is achieved.

The dealer of goods and services can avail ITC of IGST, CGST, SGST and UTGST paid by the dealer on all input goods and services and capital goods used or intended to be used in the course or furtherance of business, barring a few blocked credits as provided in section 17(5) of the CGST/SGST Act.

The ITC shall be credited to the electronic credit ledger of a dealer.

A person shall be entitled to ITC if :

i) The receiver is in possession of tax invoice or debit note issued by the supplier
ii) He has received the goods or services or both,
iii) The tax charged in respect of such supply has been actually paid to the Government by the supplier.
iv) The dealer has furnished the return.

If goods or services or both are used by the registered person for effecting both taxable supplies as well as exempt supplies, only **proportionate ITC** attributable to taxable supplies can be taken.

Banking companies or financial institution including NBFCs shall either take proportionate credit or exercise the option of availing every month, 50% of the eligible ITC on inputs, capital goods and input services in that month.

The credit of CGST and SGST cannot be cross utilised i.e. CGST cannot be used for payment of SGST and SGST cannot be used for payment of CGST.

The credit of IGST can be taken against CGST and SGST and vice-a-versa.

Input Tax Credit cannot be availed in respect of Input goods and services used for construction of office and factory, building, rent a cab, food and beverages, beauty treatment, health services, cosmetic and plastic surgery, leave travel, motor-vehicles and other conveyance if not used for further supply, transportation of passenger of goods and for training for driving.

If **payment** of goods or services is **not made** to the supplier within a **period of 180 days** from the date of Invoice, the **ITC availed** in respect of said supply is required to **reversed** and the same can be availed in the month of payment to the supplier.

Where Input Tax Credit is availed in respect of capital goods, depreciation is to be calculated on value before charging GST.

33.7. *Tax Invoice (Sec. 31, CGST Act) :-*

A registered person supplying taxable goods is required to issue tax invoice at the time of removal of goods for supply to the recipient.

Tax invoice shall be issued by the registered person containing the following particulars :

a) Name, address and GSTIN of the supplier.
b) A consecutive serial number, restricted to 16 digits.
c) Date of issue.
d) Name, address and GSTIN of the recipient.
e) Name and address of the recipient, address of delivery, along with the name of State and its code, if the recipient is un-registered and where the value of taxable supplies is 50,000/- or more then it.
f) HSN code of goods or Accounting Code of Services
g) Description of Goods or Services
h) Quantity in case of goods
i) Total value of supply of goods or services
j) Rate of tax (CGST, SGST, IGST)
k) Amount of tax charged
l) Place of supply along with name of State, in case of supply in the course of inter-state.
m) Address of delivery where the same is different from the place of supply.
n) Whether the tax is payable on reverse charge basis.
o) Signature or digital signature of the supplier or his authorized representative.

If the value of goods or services is less than Rs.200/- then a registered person may not issue a tax invoice unless recipient demands for a bill.

A registered person supplying exempted goods or services or paying taxunder composition scheme has to issue a **bill of supply** instead of tax invoice.

In case of continuous supply of goods, where successive statements of accounts or successive payments are involved, the invoice shall be issued before or at the time of each such statement is issued or each such payment is received.

The invoice shall be prepared in triplicate in case of supply of goods,

i) Original copy being marked as **ORIGINAL FOR RECEIPIENT**.
ii) Duplicate copy being marked as **DUPLICATE FOR TRANSPORTER.**
iii) The triplicate copy being marked as **TRIPLICATE FOR SUPPLIER.**

The invoice for supply of services shall be prepared in duplicate (original for recipient and duplicate for supplier).

33.8. *HSN Code :-*

The HSN Code is required to be quoted in each Tax Invoice and in GST returns . In return form, rate of tax shall be auto populated based on the HSN codes used in furnishing invoice level purchase or sale information. The products / services are identified on the basis of HSN Code / SAC.

Requirements of quoting HSN Code :-

A supplier having a turnover exceeding Rs 5 crore in the preceding year is required to follow the HSN code of 4 digits. After completing first year under GST, the turnover for previous year will be considered as baseline for using HSN codes of 4 digits.

A supplier with turnover between Rs 1.5 Crores and Rs 5 Crores in the preceding financial year, HSN codes may be specified only at 2-digit chapter level as an optional exercise to start with.

From second year of GST operations, mentioning 2-digit chapter level HSN Code will be mandatory for all taxpayers with turnover in previous financial year between Rs. 1.5 Crores and Rs. 5.0 Crores.

The eight digits HSN code will be mandatory in case of export and imports under the GST regime.

33.9. ***Returns :-***

Type Of Return	Form No.	Due Date
Outward Supply	GSTR - 1	10th of next month
Inward Supply	GSTR - 2	15th of next month
Monthly Return	GSTR - 3	20th of next month
Composition Scheme Dealer	GSTR - 4/4A	18th of Next quarter
Non-resident taxpayer	GSTR - 5	20th of next month
Input Service Distributor	GSTR - 6	13th of next month
TDS Return	GSTR - 7	10th of next month
TCS by e-commerce operators	GSTR - 8	10th of next month
Annual Return	GSTR - 9/9A	31st December of next year
Audited Annual Accounts and reconciliation	GSTR – 9B	31st December of next year
Last Return	GSTR-10	3 months from cancellation date

- **LATE FEE FOR FAILURE TO FILE RETURNS :-**

A registered person who fails to furnish the details of outward or inward supplies or fails to file returns by the due date shall be liable to pay late fee of Rs.100/- each under CGST and SGST for every day during which such failure continues subject to a maximum amount of Rs.5,000/-.

- **LATE FEE FOR FAILURE TO FILE ANNUAL RETURN :-**

Any registered dealer who fails to furnish annual return within the prescribed time shall be liable to pay a late fee of Rs.100/- for every day during which such failure continues subject to a maximum amount calculated at a quarter percent (1/4th %) of his turnover in the State.

33.10. ***Electronic Ledgers :-***

Electronic ledger shall be maintained on Dash board of tax payer by GSTIN. Such ledgers shall be updated in real time. Details in these ledgers shall be Auto populated from previous tax period return. The ledgers are as under:

a) GST PMT-01 Electronic Tax Liability Ledger

b) GST PMT-02 Electronic Credit Ledger

c) GST PMT-05 Electronic Cash Ledger

- **Electronic Tax Liability Ledger :-**

Debited with tax, interest, late fees/other dues. Tax / interest arising due to mis-match. Credited with payment either through net banking, debit/credit card, NEFT /RTGS.

- **Electronic Credit Ledger :-**

This ledger is to discharge tax liability only. Credited with ITC as self assessed in return.

- **Electronic Cash Ledger :-**

This Ledger is debited with tax, interest, penalty, fees and credited by amount deposited through net banking, debit/credit card, NEFT /RTGS, credited with amount of TDS / TCS.

33.11. ***Tax Deduction at Source :-***

a) The following persons are required to deduct tax at the rate of 1% CGST & SGST each from the payment made to the supplier of taxable goods / services where the total value of such supply exceeds Rs.2,50,000/- :
   i) Department of Central Government or State Government.
   ii) Local authority
   iii) Governmental agencies
   iv) Such persons or category of persons as may be notified.

b) No deduction shall be made if the location of the supplier and the recipient are in different State.

c) For deducting TDS, the value of supply shall be taken as the amount excluding tax.

d) The Tax Deducted shall be paid to the Government by the deductor within 10 days after the end of the month.

e) The tax deductor shall furnish the certificate within 5 days of payment to the Government. Failure to furnish the certificate, the deductor shall be liable to pay late fee of Rs.100 per day after expiry of 5 days period until the failure is rectified, subject to a maximum amount of Rs.5,000/-.

33.12. ***Reverse Charge Mechanism (RCM) (Sec. 2(98)) :-***

Reverse charge means the liability to pay the tax by the recipient of supply of goods or services or both instead of the supplier of such goods / services. In short, the recipient / purchaser is liable to pay the tax and not the supplier/seller.

RCM is applicable on notified categories of supplies.

In case of supplies from un-registered person, the recipient has to pay tax provided the value of supply of goods or services or both exceeds Rs.5000/- in a day from all such unregistered suppliers.

Such tax has to be paid in cash and the same cannot be adjusted by utilizing ITC.

Person liable to pay tax under RCM is required to be registered under GST Laws. Information of RCM is required to be furnished in GST Returns.

• **The services generally covered under Reverse Charge Mechanism (if the suppliers are not registered under GST) are as under :**

Rate of tax under GST on expenses debited to Trading Profit & Loss A/c

Sr. No.	Nature of Expense (Broad Head)	Rate of Tax	Whether registered supplier will levy tax	Reverse Charge (If supply is unregistered)	Whether Eligible for Input Credit
1	2	3	4	5	6
1	Salary, wages & bonus paid to employee	0%	No	No	No
2	Electricity bill	0%	No	No	No
3	Water Charges/ Plain Water	0%	No	No	No
4	Bank Interest	0%	No	No	No
5	Professional Tax	0%	No	No	No
6	Building / Property Tax	0%	No	No	No
7	Petrol / Diesel/ CNG/Kerosene Expenses (Motor Spirit)	0%	No	No	No
8	Liquor Expenses	0%	No	No	No
9	Registration Fees (ROF / ROC / RTO etc.)	0%	No	No	No
10	Bad Debt	0%	No	No	No
11	Donation	0%	No	No	No
12	Labour Welfare Contribution to Government	0%	No	No	No
13	Fine & Penalties	0%	No	No	No
14	Conveyance Expense - Non AC Taxi, Auto, Bus, Train	0%	No	No	No
15	Loading & Unloading in relation agricultural produce/ Hamali	0%	No	No	No
16	Rent Paid for residential use	0%	No	No	No
17	Godown Rent for agricultural produce	0%	No	No	No
18	News paper & magazines	0%	No	No	No
19	Remuneration to Director & partners	0%	No	No	No
20	Conveyance Expense - Radio Taxi like OLA & UBER or other AC vehicle	5%	Yes	Yes	No
21	Payment to Goods Transport Agency	5%	No	Yes	Yes
22	Travelling in Train by AC or First class	5%	Yes	Yes	No
23	Job Work / Labour Charges for textile yarn & textile fabric	5%	Yes	Yes	Yes
24	Job Work / Labour Charges for diamond, jewellery & precious metal	5%	Yes	Yes	Yes
25	Job Work / Labour Charges for printing of books, journals & periodicals	5%	Yes	Yes	Yes
26	Food & Beverages Expense (Non AC restaurant)	12%	Yes	Yes	No

1	2	3	4	5	6
27	Room Rent in a hotel, lodge (Rs.1000 to 2500 per room per day	12%	Yes	Yes	Yes
28	Fuel (Furnace Oil/LPG)	18%	Yes	Yes	Yes
29	Sales Promotion/Business Promotion	18%	Yes	Yes	Yes
30	Food & Beverages Expense (AC restaurant)	18%	Yes	Yes	No
31	Mineral water	18%	Yes	Yes	Yes
32	Truck/ Tempo Hire Charges	18%	Yes	Yes	Yes
33	Club & Membership fees	18%	Yes	Yes	No
34	Advertisement Charges / Hoarding / Magazine / News Papers / Media	18%	Yes	Yes	Yes
35	AMC Charges	18%	Yes	Yes	Yes
36	Bank Charges - Service charges recovered	18%	Yes	No	Yes
37	Broker Fee & Charges	18%	Yes	Yes	Yes
38	Extended Warranty	18%	Yes	Yes	Yes
39	House Keeping Charges	18%	Yes	Yes	Yes
40	Insurance paid on goods & vehicles	18%	Yes	Yes	Yes
41	Health Insurance	18%	Yes	No	No
42	Payment to advocate	18%	No	Yes	Yes
43	Loading & Unloading - others/ Hamali	18%	Yes	Yes	Yes
44	Training Expense	18%	Yes	Yes	Yes
45	Payment to Post office for Speed post & parcel post	18%	No	Yes	Yes
46	Postage and Courier Charges	18%	Yes	Yes	Yes
47	Printing & Stationery (Flex Printing, Broad Printing, Notice Printing)	18%	Yes	Yes	Yes
48	Recruitment Expenses	18%	Yes	Yes	Yes
49	Commission Paid	18%	Yes	Yes	Yes
50	Rent Paid for commercial use of premises	18%	Yes	Yes	Yes
51	Godown Rent for commercial purpose	18%	Yes	Yes	Yes
52	Repair and Maintenance - Building / Electrical / P& M / Others	18%	Yes	Yes	Refer Note 1
53	Room Rent in a hotel, lodge (Rs.2500 to 7500 per room per day	18%	Yes	Yes	Yes
54	Payment for Sponsorship Services	18%	Yes	Yes	No
55	Security Charges	18%	Yes	Yes	Yes
56	Telephone, Mobile & internet Charges	18%	Yes	No	Refer Note 2
57	Sundry Expenses	18%	Yes	Yes	Yes
58	Job Work/Labour Charges for garment processing	18%	Yes	Yes	Yes
59	Job Work / Labour Charges (Other)	18%	Yes	Yes	Yes

1	2	3	4	5	6
60	Sitting Fees, Commission or any other payment made to director by company	18%	Yes	Yes	Yes
61	Audit Fees, Account Writing, Professional Fees (other than Advocate)	18%	Yes	Yes	Yes
62	Research & Development Expenses	18%	Yes	Yes	Yes
63	Food & Beverages Expense (AC restaurant)	28%	Yes	Yes	No
64	Wall Paint	28%	Yes	Yes	No
65	Room Rent in a hotel, lodge Above 7500/-	28%	Yes	Yes	Yes
66	Travelling Expenses International	28%	Yes	Yes	No
67	Amusement Park/ Theatre Ticket	28%	Yes	Yes	Yes
68	Cold drink	40%	Yes	Yes	No
69	Repairs &maintenance Charges if it has not resulted into immovable property	18% / 28%	Yes	Yes	Yes
70	Electrical Fittings	18% / 28%	Yes	Yes	No
71	Staff Uniform Expenses	5% / 12%	Yes	Yes	
72	Packing material & Packing Charges	5%/ 12% 18%	Yes	Yes	Yes
73	Plant & Machinery	Actual Rate	Yes	Yes	Refer Note 3
74	Furniture & Fixture		Yes	Yes	Refer Note 3
75	Motor Car		Yes	Yes	No
76	Building		Yes	Yes	No
80	Office Equipment including Computer, Software & Hardware		Yes	Yes	Refer Note 3
81	Free Gift given to staff (Exempt upto 50,000/- per staff p.a.)	Applicable Rate	Yes	Yes	No
82	Free Gift given to staff (Above 50000/- per staff p.a)		Yes	Yes	Yes
83	Diwali/ New year Gift purchased & debited to P & L		Yes	Yes	Yes

Notes :

1) If repair & maintenance expenses resulted into immovable property than input credit is not available
2) If Telephone, Mobile & Internet bill is in the name of the company and address and place of business is mentioned then only one should claim the input credit
3) Input credit is available fully. However if it is sold/disposed off/ scrapped/ thrown away within 5 years, then input credit @ 5% per quarter is available for the used period and balance is to be reversed for not used fully at the time of date of sale.
4) Input credit is available only if goods & services are used for business. If good or services are used for personal purpose then input credit is not available. If goods & services are used partially for personal use and partially for business use then input credit is available partly in proportion to business use.
5) Input credit is not available if outward supply of goods or services is exempt from payment of tax.

6) As per Notification No 8/2017 dated 28/06/17, it is provided that if the aggregate value of goods or services or both debited to Trading A/c or expenses debited to Profit & Loss A/c or purchase of any asset obtained from unregistered suppliers is less than 5000/- in a day, then tax is not required to be paid for such inward supplies by the recipient for that particular day.
7) Details of all purchase of goods or services debited to Trading A/c or purchase of any fixed asset are required to be submitted in GST return whether purchased from registered person or unregistered person or from composition dealer.
8) However, if any expense items are purchased from unregistered supplier & escape the payment of tax in view of Notification No.8/2017 dated 28/06/17 then same are not required to be submitted in GST return.

33.13. ***Interest on delayed payment of tax :-***

Every person liable to pay tax as per the provisions of Act but fails to pay the same within the prescribed time has to pay interest for the period for which the tax remained unpaid at the rate not exceeding 18%.

33.14. ***Collection of tax at source (TCS) :-***

Every electronic commerce operator shall collect an amount at 1 % CGST & 1% SGST of the net value of taxable supplies made through it by other suppliers where the consideration with respect to such supplies is to be collected by the operator.

The amount collected by the operator shall be paid to the Government within 10 days after the end of the month. Such operator who collects the amount shall furnish annual statement containing the details of outward supplies of goods / services before 31st December following the end of financial year.

The supplier who has supplied the goods / services through the operator shall claim credit of the amount collected and reflected in the statement of operator.

33.15. ***Refund of tax :-***

No refund of un-utilized ITC shall be allowed in cases other than –

a) Zero rated supplies made without payment of tax.
b) Where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies. No refund of un-utilized ITC shall be allowed in cases where the goods are exported out of India are subjected to Export Duty.

33.16. ***Exports :-***

Export will be treated as zero rated supplies. No tax will be payable on export of Goods & Services, however credit of input tax credit will be available and same will be available as refund to the exporters. The exporter will have an option to either pay tax on the output (not to collect from the buyer) and claim refund of IGST or export under bond without payment of IGST and claim refund of input tax credit.

33.17. ***Anti-profiteering measure :-***

Any reduction in rate of tax on any supply of goods or services or the benefit of input tax credit shall be passed on to the recipient by way ofcommensurate reduction in prices. An authority may be constituted by the Government to examine whether input tax credits avail by any registered person or the reduction in the tax rate have actually resulted in commensurate reduction in the price of the goods or services or both supplied by the dealer.

33.18. ***E-Way bill under GST :-***

Every registered person who causes movement of goods of consignment value exceeding Rupees Fifty Thousand –

i) In relation to a supply; or
ii) For reasons other than supply; or

iii) Due to inward supply from an unregistered person, shall, before commencement of movement, furnish information, relating to the said goods in Part A of Form GST INS-01, electronically, on the common portal.

Thus e-way bill is applicable for any consignment the value of which is exceeding Rs.50,000/-. Even in case of inward supply of goods from unregistered person, e-way bill is necessary. The e-way bill is to be generated before the commencement of movement of goods.

33.19. ***FAQ issued by the Government in respect of applicability of GST in the case of Co-operative Housing Societies :-***

Question 1 : The society collects the following charges from the members on quarterly basis as follows :

1. PropertTax-actual as per Municipal Corporation of Greater Mumbai (MCGM)
2. Water Tax- Municipal Corporation of Greater Mumbai (MCGM)
3. Non- Agricultural Tax- Maharashtra State Government
4. Electricity charges
5. Sinking Fund- mandatory under the Bye-laws of the Co-operative Societies
6. Repairs & maintenance fund
7. Car parking Charges
8. Non Occupancy Charges
9. Simple interest for late payment.

From the tax / charge as listed above, on which GST is not applicable. ?

Answer :

1. Services provided by the Central Government, State Government, Union territory or local authority to a person other than business entity, is exempted from GST. So, Property Tax, Water Tax, if collected by the RWA/Co-operative Society on behalf of the MCGM from individual flat owners, then GST is not leviable.
2. Similarly, GST is not leviable on Non Agricultural Tax, Electricity Charges etc, which are collected under other statutes from individual flat owners. However, if these charges are collected by the Society for generation of electricity by Society's generator or to provide drinking water facility or any other service, then such charges collected by the society are liable to GST.
3. Sinking fund, repairs & maintenance fund, car parking charges, Non- occupancy charges or simple interest for late payment, attract GST, as these charges are collected by the RWA/ Co-operative Society for supply of services meant for its members.

Question 2 : As per guidelines on maintenance charges upto Rs. 5000/- no GST is applicable. Maintenance charges means only maintenance or collection of all charges?

Answer :

This is applicable to only the reimbursements of charges or share of up to an amount of five thousand rupees per month per member for sourcing of goods or services from a third person for the common use of its members. Here, charges mean the individual contributions made by members of the society to avail services or goods by the society from a third party for common use. [*Entry 77(c) of notification no 12/2017 Central Tax (Rate) dated 28.6.2017 refers]

Question 3 : Monthly maintenance (all above charges) are below Rs.5000/- but yearly total collection exceeds Rs. 20 lakhs limit whether GST is applicable ?

Answer :

Reimbursement of charges or share of contribution up to an amount of Rs. 5000/- per month per member for sourcing of goods or services from a third person for the common use is not liable to GST. However, if the Co-operative society/ RWAs provide specific.

Question 4 : At present co-operative societies are following quarterly billing-whether they should change to monthly billing in view of the monthly return to be filed under GST Rules ?

Answers :

It is individual business decision.

**[Service by an unincorporated body or a non- profit entity registered under any law for the time being in force, to its own members by way of reimbursement of charges or share of contribution – (a) as a trade union; (b) for the provision of carrying out any activity which is exempt from the levy of Goods and service Tax; or (c) up to an amount of five thousand rupees per month per member for sourcing of goods or services from a third person for the common use of its members in a housing society or a residential complex.]*

33.20. ***State Codes in GST (required to mentioned in Tax Invoice) :-***

01 – Jammu & Kashmir	02 – Himachal Pradesh
03 – Punjab	04 – Chandigarh
05 – Uttranchal	06 – Haryana
07 – Delhi	08 – Rajasthan
09 – Uttar Pradesh	10 – Bihar
11 – Sikkim	12 – Arunachal Pradesh
13 – Nagaland	14 – Manipur
15 – Mizoram	16 – Tripura
17 – Meghalaya	18 – Assam
19 – West Bengal	20 – Jharkhand
21 – Orissa	22 – Chhattisgarh
23 – Madhya Pradesh	24 – Gujarat
25 – Daman & Diu	26 – Dadra & Nagar Haveli
27 – Maharashtra	28 – Andhra Pradesh
29 – Karnataka	30 – Goa
31 – Lakshdweep	32 – Kerala
33 – Tamil Nadu	34 – Pondicherry
35 – Andaman & Nicobar Islands.	

CHAPTER No.34

THE MAHARASHTRA MOLASSES (CONTROL) ACT

34.1. ***Objects*** *:-* An Act to provide for the regulation and control of the supply of molasses for the purpose of development of certain industries by securing their equitable distribution and availability at fair prices and for certain other matters.

34.2. ***Section 2 (d) molasses :-*** means the heavy, dark coloured viscous liquid produced in the final stage of manufacture of sugar by vacuum or open pan, from sugarcane or gur when the liquid as such or in any form or admixture contains sugar ;

34.3. ***Section 2(g)*** **sugar** ***factory :-*** means any premises, including the precincts thereof, whereon twenty or more workers are working or were working on any day of the preceding twelve months and in any part of which a manufacturing process connected with the production of sugar by means of vacuum pans or in open pans is being carried on or is ordinarily carried on, with the aid of power.

34.4. ***Section 4 :-*** The Molasses Board shall—

(a) Advise the State Government on matters concerning the grading and marketing of molasses, the prices at which molasses are to be sold and generally, on their allocation for distilleries and other purposes, and

(b) Perform such other functions as may be prescribed.

34.5. ***Section 6 :-***

1) If the State Government is of the opinion that it is necessary or expedient so to do for maintaining supplies of molasses for the purpose of development of any industry by securing their equitable distribution and availability at fair prices, it may, by order, provide for regulating the supply and distribution of, or trade and commerce in, molasses.

2) Without prejudice to the generality of the powers conferred by sub-section *(1)*, an order made there under may provide—

   (a) for controlling the price at which and the manner in which molasses may be bought or sold generally or for any industrial purpose ;

   (b) for regulating by licences, permits or otherwise the storage, supply, transport, distribution, disposal, acquisition, possession, use or consumption of molasses ;

   (c) for requiring any person or occupier of a sugar factory to sell molasses, held in stock by him or produced or to be produced in his factory, to the State Government to the exclusion, complete or partial, of others or to such person or class of persons and in such circumstances and upon such terms as may be specified in the order;

   (d) for the taking of samples and grading and testing of molasses ;

   (e) for regulating or prohibiting any class of commercial or financial transactions relating to molasses, which in the opinion of the State Government are, or, if unregulated, are likely to be detrimental to the public interest ;

   (f) for collecting any information or statistics with a view to regulating or prohibiting any of the aforesaid matters ;

   (g) for requiring occupiers of sugar factories and persons engaged in the production, supply or distribution of, or trade and commerce in, molasses, to maintain and produce for inspection such books, accounts and records relating to their business and to furnish such information relating thereto,as may be specified in the order; and

   (h) for any incidental and supplementary matters, including in particular the grant or issue of licences, permits or other documents, their terms and conditions and the charging of fees therefor.

34.6. ***Section 7 :-*** Whoever contravenes any provisions of this Act or any order made there under or any term or condition of any licence or permit granted or issued under an order made under this Act, shall, on conviction, be punished with imprisonment of either description which may extend to one year or with fine.

34.7. ***Section 8 :-***

1) Where an offence under this Act has been committed by a company, every person who at the time the offence was committed, was incharge of, and was responsible to the company for the conduct of the business of the company, as well as the company shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly:

   Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence.

2) Notwithstanding anything contained in sub-section *(1)*, where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also bedeemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Explanation.—For the purposes of this section,—

a. 'company' means a body corporate and includes a firm or other association of individuals; and
b. 'director' in relation to a firm means a partner in the firm.

CHAPTER No. 35

THE LIMITATION ACT, 1963.

35.1. ***Object :-*** The Act provides for limitation of suits and other proceedings and purposes connected therewith. While auditing the auditor should carefully study these provisions regarding legal suits instituted by the society or to the society.

35.2. ***Definitions :-*** some definitions related to audit are as follows :

1) Section 2 c - "bill of exchange" includes a hundi and a cheque;
2) Section 2 d - "Bond" includes any instrument wherby a person obliges himself to pay money to another, on condition that the obligation shall be void if a specified act is performed, or is not performed, as the case may be;
3) Section 2 j - "period of limitation" means the period of limitation computed in accordance with the provisions of this Act;
4) Section 2 k - "promissory note" means any instrument wherby the maker engages absolutely to pay a specified sum of money to another at a time therein limited, or on demand, or at sight;
5) Section 2m - "tort" means a civil wrong which is not exclusively the breach of contract or the breach of a trust.

35.3. ***Limitations for various documents/ instruments :-*** Section 2(j) defines period of limitation and section 3 provides for bar of limitation , accordingly the limitation period is calculated. Period of limitation in some cases are given below as per Schedule of the Limitation Act.

Sr. No.	description	Period of limitation	Time from which period begins to run
	Part I - Suits relating to Accounts		
1	Balance due on a mutual, open and current account, where there have been reciprocal demands between parties	3 years	The close of the year in which the last item admitted or proved entered in the account such year to be computed as in the account.
	Part II- suits relating to contracts		
1	For wages in the case of any person.	3 years	When the wages accrue due.
2	For the balance of money advance in payment of goods to be delivered.	3 years	When the goods ought to be delivered.
3	For the price of goods sold and delivered when no fixed period of credit is agreed upon	3 years	The date of the delivery of the goods.
4	For the price of goods sold and delivered to be paid for after the expiry of a fixed period of credit	3 years	When the period of credit expires
5	For money payable for money lent	3 years	When the loan is made
6	For money lent under an agreement that it shall be payable on demand	3 years	When the loan is made
7	For money deposited under an agreement that it shall be payable on demand, including money of a customer in the hands of his banker so payable	3 years	When the demand made

Sr. No.	description	Period of limitation	Time from which period begins to run
8	On a bill of exchange or promissory note payable at a fixed time after date	3 years	When the bill or not falls due
9	On a bill of exchange or promissory note payable at sight or after sight but not at a fixed time	3 years	When the bill is presented
10	On a promissory note or bond payable by instalments	3 years	The expiration of the first term of payment as to the part then payable; and for the other parts, the expiration of the respective terms of payment
11	On a promissory note or bond payable by instalments , which provides that, if default be made in payment of one or more instalments, the whole shall be due	3 years	When the default is made, unless where the payee or obligee waives the benefit of the provision and then when fresh default is made in respect of which there is no such waiver.
12	By a surety against the principal debtor	3 years	When the surety pays to creditor
13	By a surety against a co-surety	3 years	When the surety pays anything to excess of his own share
14	For specific performance of a contract	3 years	The date fixed for the performance, or if no such date is fixed, when the plaintiff has notice that performance id refused.
15	For compensation for the breach of any contract, express or implied not herein specially proved for,	3 years	When the contract is broken or (where there are successive breaches) when the breach n respect of which the suit is instituted occurs or (where the breach is continuing) when it ceases.
	Part V- Suits relating to immovable property		
1	**By a mortgagor**		
	a) to redeem or recover possession of immovable property mortgaged	30 years	When the right to redeem or recover possession accrues
	b) to recover possession of immovable property mortgaged and afterwards transferred by the mortgagee for a valuable consideration	12 years	When the transfer becomes to known to the plaintiff.
	c) to recover surplus collection received by the mortgagee after the mortgage has been satisfied.	3 years	When the mortgagor re-enters on the mortgaged property.
2	To enforce payment of money secured by a mortgage or otherwise charged upon immovable property	12 years	When the money sued for becomes due.
3	**by a mortgagee**		
	a) for foreclosure	30 years	When the money secured by the mortgage becomes due
	b) for possession of immovable property mortgaged.	12 years	When the mortgagee becomes entitled to possession

Sr. No.	description	Period of limitation	Time from which period begins to run
4	For possession of immovable property based on previous possession and not on title , when the plaintiff while in possession of the property has been dispossessed.	12 years	The date of dispossession.
5	For possession of immovable property or any interest herein based on title	12 years	When the possession of the defendant become adverse to the plaintiff.

The auditor should study the contains of the schedule for more details of the limitation period in case they come to notice any other suit refereed above.

35.4. ***Bar of limitation :-*** Section 3 of the Limitation Act provides for bar of limitation as-

(1) Subject to the provisions contained in section 4 to 24 (inclusive) , every suit instituted , appeal preferred, and application made after the prescribed period shall be dismissed although limitation has not been set up as defence.

(2) for the purposes of this Act-

(a) a suit is instituted-

(i) In an ordinary case, when the plaint is presented to the proper officer,

(ii) in the case of a pauper, when his application for leave to sue as pauper is made ; and

(iii) in the case of a claim against a company which is being wound up by the court, when the claimant first sends his claim to the official liquidator;

(b) any claim by way of a set off or a counter claim, shall be treated as a separated suit and shall be deemed to have been instituted.

(i) in the case of a set off, on the same date as the suit in which the set off is pleaded;

(ii) in the case of counter claim, on the date on which the counter claim is made in the court;

(c) An application by notice of motion in a High Court is made when the application is presented to the proper officer of that court.

35.5. ***Extension of period :-*** Section 5 of the Act provides for extension of period of limitation in certain cases where the court is satisfied about the sufficient cause for not preferring the appeal or making the application within period.

35.6. Continuous running of time :- Section 9 of the Act provides that, " Where once time has begun to run, no subsequent disability or inability to institute a suit or a make a applications stops it.

It further provides that, Where letters of administration to the estate of a creditor have been granted to his debtor, the running of the period of limitation for a suit to recover the debt shall be suspended while the administration continues.

35.7. ***Acknowledgment in writing :-*** Acknowledgment given by the creditor extends the period of limitation as provided in the Section 18 of the Act. The section read as-

Section 18 effect of Acknowledgment in writing: (1) Where , before the expiration of the prescribed period for a suit or application in respect of any property or right, an acknowledgment of liability in respect of such property or right has been made in writing signed by the party against whom such property or right is claimed, or by any person through whom he derives his title or liability, a fresh period of limitation shall be computed from the time when the acknowledgement was so signed.

CHAPTER No. 36

THE MAHARASHTRA PROTECTION OF INTEREST OF DEPOSITORS (IN FINANCIAL ESTABLISHMENT) ACT, 1999.

36.1. ***Definitions :-*** Under this Act some definitions are described us under-

1) Section 2(a) : "Competent Authority" means the Competent Authority appointed under section 5;
2) Section 2 (c) "Deposit" includes and shall be deemed always to have included any receipt of money or acceptance of any valuable commodity by any Financial Establishment to be returned after a specified period or otherwise, either in cash or in kind or in the form of a specified service with or without any benefit in the form of interest, bonus, profit or in any other form, but does not include-
   i) amount raised by way of share capital or by way of debenture , bond or any other instrument covered under the guidelines given, and regulation made, by the SEBI established under the securities and Exchange Board of India Act, 1992;
   ii) amounts contributed as capital by partners of a firm;
   iii) amount received from a scheduled bank or a co-operative bank or any other banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;
   iv) any amount received from,-
      (a) the Industrial Development Bank of India,
      (b) A State Financial Corporation,
      (c) any financial institution specified in or under section 6A of the Industrial Development Bank of India Act, 1964 or
      (d) any other institution that may be specified by the Government in this behalf;
   v) amount received in the ordinary course of business by way of,-
      (a) security deposit,
      (b) dealership deposit,
      (c) earnest money
      (d) advance against order for goods or services
   vi) any amount received from an individual or a firm or an association of individuals not being a body corporate, registered under any enactment relating to money lending which is for the time being in force in the State and
   vii) any amount received by way of subscription in respect of a Chit.

Explanation I- Chit has the meaning as assigned to it in clause (b) of section 2 of the Chit Funds Act, 1982;

Explanation II- Any credit given by a seller to a buyer on the sale of any property(whether movable or immovable shall not be deemed to be deposit for the purposes of this Clause;

3) Section 2(d) ***"Financial Establishment"*** means any person accepting deposit under any scheme or arrangement or in any other manner but does not include a corporation or a co-operative society owned or controlled by any State Government or the Central Government or a banking company as defined under clause (c) of Section 5 of the Banking Regulation Act, 1949;

36.2. ***Fraudulent Default :-*** The Act has provided regarding the fraudulent default made by the society towards its depositors in Section 3 of the Act, which provides that-

Section 3 :- Any Financial Establishment , which fraudulently defaults any repayment of deposit on maturity alongwith any benefit in the form of interest, bonus, profit or in any other form as promised or fraudulently fails to render service as assured against the deposit, every person including the promoter, partner, director, manager or any other person or an employee responsible for the management of or conducting of the business or affairs of such Financial Establishment shall, on conviction , be punished with imprisonment for a term which may extend to six years and with fine which may extend to *one lac of rupees* and such financial Establishment also shall be liable for a fine which may extend to *one lac of rupees.*

The explanation under this section further explains the fraudulent act, as –

Explanation- For the purpose of this section, a Financial Establishment, which commits defaults in repayment of such deposit with such benefits in the form of interest, bonus, profit or in any other form as promised or fails to render any specified service promised against the deposit with an intention of causing wrongful gain to one person or wrongful loss to another person or commits such default due to its inability arising out of impracticable or commercially not viable promises made while accepting such deposits or arising out of deployment of money or assets acquired out of the deposit in such a manner as it involves inherent risk in recovering the same when needed shall, be deemed to have committed a default or failed to render the specific service, fraudulently.

36.3. ***Action against the Financial Establishment :-*** The action is initiated by the Government if the it is satisfied about the failure of the Establishment as per section 4 of the act in following circumstances-

i) to return deposit after maturity or on demand by the depositor; or

ii) to pay interest or other assured benefit; or

iii) to provide the service promised against such deposit; or

iv) where the Government has reason to believe that any Financial Establishment is acting in a calculated manner detrimental to the interest of the depositors with an intention to defraud them.

After satisfaction of not likely to return the deposits or may payment of interest or other benefits assured or to provide service against which the deposit is received , the Government may, in order to protect the interest of the depositors of such Establishment, after recording reasons in writing, issue an order , attaching the money or other property believed to have been acquired by such establishment either in its own name or in the name of any other person from out of the deposits, collected by the establishment , or if it transpires that such money or other property is not available for attachment or not sufficient for repayment of the deposits, such other property of the said Financial Establishment or the promoter, director, partner or manager or member of the said Financial Establishment.

36.4. ***Manner of Action :-*** The Government may issuing order appoint competent authority to initiate action against such establishment, and attach the property as explained in section 3 of the Act, through the designated Court appointed by the Government in this respect.

CHAPTER No. 37

THE SUGARCANE (CONTROL) ORDER, 1966

In exercise of the powers conferred by Section 3 of the Essential Commodities Act, 1955 (Central Act 10 of 1955), the Central Government hereby makes the Sugarcane (Control) Order, 1966. as per this order the Central Government provides regulation of sugar cane and its price.

37.1. ***Definitions :-***

a. ***"Co-operative society***" means a co-operative society registered under the Co-operative Societies Act, 1912 (2 of 1912), or under any other law for the time being in force relating to co-operative societies;

b. ***"Factory"*** means any premises including the precincts thereof in any part of which sugar is manufactured by vacuum pan process and at its own option, ethanol either directly from sugarcane juice or from molasses, including B-Heavy molasses, or both, as the case may be, is manufactured;

c. ***"Price"*** means the price or the minimum price fixed by the Central Government from time to time for sugarcane delivered.—

d. to a sugar factory at the gate of the factory or at a sugarcane purchasing centre; or (ii) to a khandsari unit;]

e. ***"Producer of sugar"*** means a person carrying on the business of manufacturing sugar by vacuum pan process and at its own option, ethanol either directly from sugarcane juice or from molasses, including B-Heavy molasses, or both;

f. ***"Reserved area"*** means any area where sugarcane is grown and reserved for a factory under sub-clause (1)(a) of clause 6;

37.2. ***Minimum sugar cane price :-***

A) ***Clause 3*** : Minimum price of sugarcane payable by producer of sugar.—(1) The Central Government may, after consultation with such authorities, bodies or associations as it may deem fit, by notification in the Official Gazette, from time to time, fix the minimum price of sugarcane to be paid by producers of sugar or their agents for the sugarcane purchased by them having regard to—

(a) the cost of production of sugarcane;
(b) the return to the grower from alternative crops and the general trend of prices of agricultural commodities;
(c) the availability of sugar to the consumer at a fair price;
(d) the price at which sugar produced from sugarcane is sold by producers of sugar; and
(e) the recovery of sugar from sugarcane :

It further provides that,- Provided that the Central Government or with the approval of the Central Government, the State Government, may, in such circumstances and subject to such conditions as specified in Clause 3-A, allow a suitable rebate in the price so fixed.

Explanation.—

(1) Different prices may be fixed for different areas or different qualities or varieties of sugarcane.

(2) When a sugar factory produces ethanol directly from sugarcane juice or B-Heavy molasses, the recovery rate in case of such sugar factory shall be determined by considering every 600 litres of ethanol so produced as equivalent to 1 tonne of production of sugar;

(3) Production of ethanol directly from sugarcane juice shall be allowed in case of sugar factories only.

sub-Clause (2) No person shall sell or agree to sell sugarcane to a producer of sugar or his agent, and no such producer or agent shall purchase or agree to purchase sugarcane, at a price lower than that fixed under sub-clause (1).

sub-Clause (3) Where a producer of sugar purchases any sugarcane from a grower of sugarcane or from a sugarcane growers' co-operative society, the producer shall, unless there is an agreement in writing to the contrary between the parties, pay within fourteen days from the date of delivery of the sugarcane to the seller or tender to him the price of the cane sold at the rate agreed to between the producer and the sugarcane grower or the sugarcane growers' co-operative society or that fixed under sub-clause (1), as the case may be, either at the gate of the factory or at the cane collection centre or transfer or deposit the necessary amount in the Bank account of the seller or the co-operative society, as the case may be.

sub-Clause(3-A) Where a producer of sugar or his agent fails to make payment for the sugarcane purchased within 14 days of the date of delivery, he shall pay interest on the amount due at the rate of 15 per cent per annum for the period of such delay beyond 14 days. Where payment of interest on delayed payment is made to a cane growers' society, the society shall pass on the interest to the cane growers concerned after deducting administrative charges, if any, permitted by the rules of the said society.

sub-Clause (4) Where sugarcane is purchased through an agent, the producer or the agent shall pay or tender payment of such price within the period and in the manner aforesaid and if neither of them has so paid or tendered payment, each of them shall be deemed to have contravened the provisions of this clause.

sub-Clause (5) At the time of payment at the gate of the factory or at the cane collection centre, receipts, if any, given by the purchaser, shall be surrendered by the cane grower or co-operative society.

sub-Clause (6) Where payment has been made by transfer or deposit of the amount to the Bank account of the seller or the co-operative society, as the case may be, the receipt given by the purchaser, if any, to the grower or the co-operative society if not returned to the purchaser, shall become invalid.

sub-Clause (7) In case, the price of the sugarcane remains unpaid on the last day of the sugar year in which cane supply was made to the factory on account of the suppliers of cane not coming forward with their claims therefor , it shall be deposited by the producer of sugar with the Collector of the district in which the factory is situated, within three months of the close of the sugar year. The Collector shall pay, out of the amount so deposited, all claims considered payable by him and preferred before him within three years of the close of the sugar year in which the cane was supplied to the factory. The amount still remaining undisbursed with the Collector, after meeting the claims from the suppliers, shall be credited by him to the Consolidated Fund of the State, immediately after the expiry of the time limit of 3 years within which claims therefor could be preferred by the suppliers.

The State Government shall, as far as possible utilise such amounts for development of sugarcane in the State.]

sub-Clause (8) Where any producer of sugar or his agent has defaulted in furnishing information under Clause 9 of this Order or has defaulted in paying the whole or any part of the price of sugarcane to a grower of sugarcane or a sugarcane growers co-operative society within fourteen days from the date of delivery of sugarcane, or where there is an agreement in writing between the parties for payment of price within a specified time and any producer or his agent has defaulted in making payment within the agreed time specified therein, the Central Government or an officer authorised by the Central Government in this behalf or the State Government or an officer authorised by the State Government in this behalf may either on the basis of information made available by the producer of sugar or his agent or on the basis of claims, if any, made to it or him regarding non-payment of prices or arrears thereof by the concerned grower of sugarcane or the sugarcane growers co-operative society as the case may be, or on the basis of such enquiry that it or he deems fit, shall forward to the Collector of the district in which the factory is located, a certificate specifying the amount of price of sugarcane and interest due thereon from the producer of sugar or his agent for its recovery as arrears of the land revenue.

sub-Clause (9) The Collector on receipt of such certificate, shall proceed to recover from such producer of sugar or his agent the amount specified therein as if it were arrears of land revenue.

sub-Clause (10) After effecting the recovery, the Collector shall intimate to the concerned growers of the sugarcane or the concerned sugarcane growers co-operative societies through a public notice to submit their claims in such a manner as he considers appropriate within thirty days:

Provided that the Collector may, for the reasons to be recorded in writing allow the submission of claims after the period so specified if he is satisfied that there was sufficient cause for not submitting such claim earlier.

sub-Clause (11) If the amount recovered is less than the amount specified in the certificate under sub-clause (8), the Collector shall distribute the amount so recovered among the concerned growers of the sugarcane or the concerned sugarcane growers co-operatives in proportion to the ratio determined by the Collector on the basis of the sugarcane supplied by the concerned growers of sugarcane or the sugarcane growers' co-operative society as the case may be.

sub-Clause (12) If the amount recovered and distributed under sub-clause (11) is less than the amount specified in the certificate under sub-clause (8), the Collector shall proceed to recover the remaining amount, as if it were arrears of land revenue till the full amount is recovered and distributed to satisfy the remaining claims.

sub-Clause (13) If the amount is given to the concerned sugarcane growers co-operative societies, it shall distribute the amount through cheque/draft/or any other recognised banking instrument on any Scheduled Bank to the concerned sugarcane growers within ten days of the receipt of the amount from the Collector.

sub-Clause (14) If the concerned sugarcane grower or the concerned sugarcane growers co-operative society do not come forward to claim or collect the amount so recovered by the Collector within three years from the date of the public notice referred to in sub-clause (10), the unclaimed amount shall be deposited by the Collector in the Consolidated Fund of the State.

37.3. ***Rebate that can be deducted from the price :-***

Clause 3-A. ***Rebate that can be deducted from the price paid for sugarcane***.—A producer of sugar or his agent shall pay for the sugarcane purchased by him to the sugarcane grower or the sugarcane growers' co-operative society, either the minimum price of sugarcane fixed under Clause 3, or the price agreed to between the producer or his agent and the sugarcane grower or the sugarcane growers' co-operative society as the case may be (hereinafter referred to as the agreed price.

Provided that.—

sub-Clause 2[(i) in the case of sugarcane delivered at any purchasing centre and the same being transported to the factory by the factory owner by rail or by road using his own transport a rebate shall be made from the minimum price or the agreed price as the case may be and such rebate shall be fixed by the Central Government having regard to the actual cost of transportation in the area after consultation with such body or bodies as it may deem fit by notification in the Official Gazette from time to time and the owner shall accordingly make the rebate;

(ii) the Central Government or the State Government, or the Director of Agriculture, or the Cane Commissioner, or the District Magistrate may allow a suitable rebate in the minimum price or the agreed price as the case may be, for the 3[burnt cane or stale cane or dried cane or rejected varieties of cane] supplied to factories within their respective jurisdiction subject to the condition that the rebate so allowed does not exceed the reduction in price on account of the estimated shortfall in the recovery of sugar from 4[burnt cane or stale cane or dried cane or rejected varieties of cane.

(iii) where the sugarcane is brought bound in bundles and weighed as such, the Central Government, or with the approval of the Central Government, the State Government, or the Director of Agriculture, or the Cane Commissioner, or the District Magistrate, within their respective jurisdictions may allow a suitable rebate in regard to the weight of the binding material not exceeding 1,000 grams per quintal of sugarcane; and

(iv) The Central Government or the State Government or the Director of Agriculture or the Cane Commissioner or the District Magistrate, may allow a suitable rebate in the minimum price or the agreed price as the case may be, when the cane is supplied ex-field to sugar factories within their respective jurisdictions subject to the condition that the rebate so allowed shall not exceed the estimated expenditure on harvesting.]

37.4. ***Additional price for sugarcane :-***

Clause 5. Additional price for sugarcane purchased.— sub-clause (1) Where a producer of sugar or his agent purchases any sugarcane from a grower of sugarcane or a growers' co-operative society during each of the four successive years beginning on the 1st day of November, 1958, the producer shall, in addition to the minimum price of sugarcane fixed under sub-clause (1) of Clause 3 pay to the grower or the co-operative society, as the case may be, an additional price, if found, due, in accordance with the provisions 6[of the First Schedule] hereto annexed.

sub-clause (2) Nothing in sub-clause (1) shall apply to the purchase of sugarcane,—

(a) where such sugarcane is used for the production of sugar in a newly established factory until the expiry of three years commencing from the year in which the factory is so established;

(b) where the purchase is made by a producer of sugar, which is a co-operative society, from the members of that co-operative society.

sub-clause (3) If the Central Government is satisfied that during any year a factory has made no profit or has made inadequate profit, that Government, may by order in writing, exempt either wholly or partially, any producer of sugar from payment of the additional price due from him under sub-clause (1) in respect of sugarcane purchased for that factory during that year.

sub-clause (4) The Central Government may appoint any person or authority as it thinks fit for the purpose of determining the additional price due from a producer of sugar under sub-clause (1) for each of the successive four years beginning on the 1st day of November, 1958 and when the price is so determined, the person or authority, as the case may be, shall intimate the same in writing to the producer and to the growers' co-operative societies or the local growers' associations, if any, connected with the supply of sugarcane to the factory.

sub-clause (5) (a) Any producer of sugar or grower of sugarcane or growers'co-operative society who or which feels aggrieved by any decision of the person or authority referred to in sub-clause (4), may, within thirty days from the date of communication of such decision under that sub-clause, appeal to the Central Government:

Provided that the Central Government may, if it is satisfied that the appellant had sufficient cause for not preferring the appeal within the aforesaid period of thirty days, admit the appeal if presented within a further period of fifteen days.

(b) The Central Government may, after giving an opportunity to the appellant to represent his case and after making such further enquiry as may be necessary, pass such order as it thinks fit.

(c) The decision of the officer or authority referred to in sub-clause (4) where no appeal is filed, and of the Central Government where an appeal is filed, shall be final.

sub-clause (6) The price determined under sub-clause (4) or sub-clause (5), as the case may be, shall be paid at such time and in such manner as the Central Government may from time to time direct.

sub-clause (7) Where any payment has been made in accordance with the directions issued by the Central Government under sub-clause (2) of Clause 5 as it stood immediately before the commencement of the Sugarcane (Control) (Amendment) Order, 1962, then, notwithstanding anything contained in the foregoing provisions of this clause, such payment shall be deemed to have been made in lieu of the payment provided for in this clause as if that sub-clause were in force when the direction was issued or payment was made.

37.5. Additional price for sugarcane purchased -

clause 5-A. Additional price for sugarcane purchased on or after 1st October, 1974.— ***sub-clause*** (1) Where a producer of sugar or his agent purchases sugarcane from a sugarcane grower during each sugar year, he shall, in addition to the minimum sugarcane price fixed under Clause 3, pay to the sugarcane grower an additional price, if found due in accordance with the provisions of the Second Schedule annexed to this Order.

sub-clause (2) The Central Government or the State Government, as the case may be, may authorise any person or authority, as it thinks fit for the purpose of determining the additional price payable by a producer of sugar under sub-clause (1) and the person or authority as the case may be, who determines the additional price, shall intimate the same in writing to the producer of sugar and the sugarcane grower connected with the supply of sugarcane to such producer of sugar.

sub-clause (3) (a) Any producer of sugar or sugarcane grower, who is aggrieved by any decision of the person or authority referred to in sub-clause (2), may, within thirty days from the date of communication of such decision under that sub-clause, appeal to the Central Government or the State Government as the case may be :

Provided that the Central Government or the State Government, as the case may be, may, if it is satisfied that the appellant had sufficient cause for not preferring the appeal within the aforesaid period of thirty days admit the appeal, if presented within a further period of fifteen days.

(b) The Central Government or the State Government, as the case may be, may, after giving an opportunity to the appellant to represent his case and after making such further enquiry as may be necessary pass such order as it thinks fit.

(c) The decision of the person or authority referred to in sub-clause (2) where no appeal is filed, and of the Central Government or State Government, as the case may be, where an appeal is filed shall be final.

sub-clause (4) The additional price determined under sub-clause (2) or sub-clause (3), as the case may be, shall be paid by the producer of sugar to the sugarcane grower, at such time and in such manner as the Central Government or the State Government, as the case may be, may, from time to time direct.

sub-clause (5) No additional price determined under sub-clause (2) or sub-clause (3), as the case may be, shall become payable by a producer of sugar who pays a price higher than the minimum sugarcane price fixed under Clause 3 to the sugarcane grower: Provided that the price so paid shall in no case be less than the total price comprising the minimum sugarcane price fixed under Clause 3 and the additional price determined under sub-clause (2) or sub-clause (3), as the case may be.

sub-clause (6) Where any extra price is paid by the producer of sugar to the sugarcane grower for the supply of sugarcane in addition to the minimum sugarcane price fixed under Clause 3, the extra price so paid shall be adjusted against the additional sugarcane price determined under sub-clause (2) or sub-clause (3), as the case may be, and the balance, if any, shall be paid to the sugarcane grower.

sub-clause (7) Subject to the provisions of sub-clause (4), the additional price shall become payable to a sugarcane grower if he in performance of his agreement with a producer of sugar supplies not less than 85 per cent of the sugarcane so agreed:

Provided that the additional price shall become payable to a sugarcane grower, even when he supplies less than 85 per cent of the sugarcane so agreed, if for the same supply he has not been subjected to any penalty by or under any Central or State Act or any rules or orders made hereunder for his failure to supply 85 per cent of sugarcane so agreed.

sub-clause (8) Where the additional price determined under sub-clause (2) or sub-clause (3), as the case may be, is paid to a sugarcane growers' co-operative society or the local sugarcane growers' association of whatever name it may be called, it shall disperse the said additional price to such of its member who has supplied not less than 85 per cent of the agreed sugarcane in performance of his agreement with it, within one month of the receipt of such additional price by it from the producer of sugar.

sub-clause (9) The additional price payable but not actually paid in view of sub-clause (7) shall be added to the amount found payable for the following sugar year arrived at as per provisions of the Second Schedule.

sub-clause (10) In case, the additional price determined under sub-clause (2) or sub-clause (3), as the case may be, remains unpaid on account of the sugarcane grower not coming forward to claim it, it shall be deposited by the producer of sugar with the Collector of the District in which the factory is situated, within six months of the close of the sugar year. The Collector shall pay out of the amount so deposited all claims, considered payable by him and preferred before him within three years of the close of the sugar year in which the sugarcane was supplied to the factory. The amount still remaining undisbursed with the Collector, after meeting the claims of the sugarcane growers, shall be credited by him to the Consolidated Fund of the State, immediately after the expiry of the time limit of three years within which claims therefor could have been preferred by the sugarcane growers. The State Government shall as far as possible, utilise such amounts for the development of sugarcane in the State.

sub-clause (11) Where any producer of sugar or his agent has defaulted in paying the whole or any part of the additional price of sugarcane within the time specified in this regard by the Central Government or an officer authorised by Central Government in this behalf or the State Government or an officer authorised by the State Government in this behalf, then such Government or officer may after making such enquiries or calling for such additional information from the producer of sugar or his agent as deems fit, or on the basis of claims of the sugarcane growers, forward to the Collector of the district in which the factory is situated a certificate specifying the amount of arrears of additional price of sugarcane due from the producer of sugar or his agent for its recovery as arrears of land revenue.

sub-clause (12) The Collector on receipt of such certificate shall proceed to recover from such producer of sugar or his agent the amount specified therein as if it were arrears of land revenue.

sub-clause (13) After effecting the recovery, the Collector shall intimate to the concerned growers of the sugarcane or the concerned sugarcane growers co-operative societies through a public notice to submit their claims in such a manner as he considers appropriate within thirty days:

Provided that the Collector may, for the reason to be recorded in writing allow the submission of claims after the period so specified if he is satisfied that there was sufficient cause for not submitting such claim earlier.

sub-clause (14) If the amount recovered is less than the amount specified in the certificate under sub-clause (11), the Collector shall distribute the amount so recovered to the concerned growers of the sugarcane or the concerned sugarcane growers co-operatives in proportion to the ratio determined by the Collector on the basis of the sugarcane supplied by the concerned growers of sugarcane or the sugarcane growers' co-operative society as the case may be.

sub-clause (15) If the amount recovered and distributed under sub-clause (14) is less than the amount specified in the certificate under sub-clause (11), the Collector shall proceed to recover the remaining amount as if it were arrears of land revenue till the full amount is recovered and distributed to satisfy the remaining claims.

sub-clause (16) If the amount is given to the concerned sugarcane growers' co-operative societies, it shall distribute the amount through cheque, draft, or any other recognised banking instrument on any Scheduled Bank to the concerned sugarcane growers within ten days of the receipt of the amount from the Collector.

sub-clause (17) If the concerned sugarcane grower or the concerned sugarcane growers' co-operative society do not come forward to claim or collect the amount so recovered by the Collector within three years from the date of the public notice referred to in sub-clause (13), the unclaimed amount shall be deposited by the Collector in the Consolidated Fund of the State.

Explanation.—For purposes of this clause and the Second Schedule.—

(1) "Sugarcane grower", includes a grower of sugarcane, a sugar growers' co-operative society, or a sugarcane growers' association of whatever name it may be called and who enters into an agreement with a producer of sugar to supply sugarcane;

(2) "Sugar year" means the year commencing on the 1st day of October and ending with the 30th day of September in the year next following;

(3) "Ethanol" means anhydrous ethyl alcohol of minimum 99% strength, produced directly either from sugarcane juice or B-Heavy molasses or both;

(4) When a sugar factory manufactures ethanol directly from sugarcane juice or B-Heavy molasses, then every 600 liters of ethanol so produced directly from sugarcane juice or B-Heavy molasses shall be taken as equivalent to one ton production of sugar.

37.6. ***Distribution and movement of sugarcane :-***

Clause 6. Power to regulate distribution and movement of sugarcane.—(1) The Central Government may, by order notified in the Official Gazette.—

(a) reserve any area where sugarcane is grown (hereinafter in this clause referred to as 'reserved area') for a factory having regard to the crushing capacity of the factory, the availability of sugarcane in the reserved area and the need for production of sugar, with a view to enabling the factory to purchase the quantity of sugarcane required by it;

(b) determine the quantity of sugarcane which a factory will require for crushing during any year;

(c) fix, with respect to any specified sugarcane grower or sugarcane growers generally in a reserved area, the quantity or percentage of sugarcane grown by such grower or growers, as the case may be, which each such grower by himself, or, iwhich each such grower by himself, or, if he is a member of a co-operative society of sugarcane growers operating in the reserved area, through such society, shall supply to the factory concerned;

(d) direct a sugarcane grower or a sugarcane growers' co-operative society, supplying sugarcane to a factory, and the factory concerned to enter into an agreement to supply or purchase, as the case may be, the quantity of sugarcane fixed under paragraph (c);

(e) direct that no khandsari sugar or sugar shall be manufactured from sugarcane except under and in accordance with the conditions specified in the licence issued in this behalf;

(f) prohibit or restrict or otherwise regulate the export of sugarcane from any area (including a reserved area) except under and in accordance with a permit issued in this behalf.

(2) Every sugarcane grower, sugarcane growers' co-operative society and factory, to whom or to which an order made under paragraph (c) of sub-clause (1) applies, shall be bound to supply or purchase, as the case may be, that quantity of sugarcane covered by the agreement entered into under the paragraph and any wilful failure on the part of the sugarcane grower, sugarcane growers' co-operative society or the factory to do so, shall constitute a breach of the provisions of this Order:

Provided that where the default committed by any sugarcane growers 'co-operative society is due to any failure on the part of any sugarcane grower, being a member of such society, such society shall not be bound to make supplies of sugarcane to the factory to the extent of such default.

37.7. ***Restriction on setting up of two sugar factories :-***

Clause 6-A. Restriction on setting up of two sugar factories within the radius of 15 kms.—

Notwithstanding anything contained in Clause 6, no new sugar factory shall be set up within the radius of 15 kms of any existing sugar factory or another new sugar factory in a State or two or more States:

Provided that the State Government may with the prior approval of the Central Government, where it considers necessary and expedient in public interest, notify such minimum distance higher than 15 kms or different minimum distances not less than 15 kms for different regions in their respective States.

Explanation 1.—An existing sugar factory shall mean a sugar factory in operation and shall also include a sugar factory that has taken all effective steps as specified in Explanation 4 to set up a sugar factory but excludes a sugar factory that has not carried out its crushing operations for last five sugar seasons.

Explanation 2.—A new sugar factory shall mean a sugar factory, which is not an existing sugar factory, but has filed the Industrial Entrepreneur Memorandum as prescribed by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry in the Central Government and has submitted a performance guarantee of rupees one crore to the Chief Director (Sugar), Department of Food and Public Distribution, Ministry of Consumer Affairs, Food and Public Distribution for implementation of the Industrial Entrepreneur Memorandum within the stipulated time or extended time as specified in Clause 6-C.

Explanation 3.—The minimum distance shall be determined as measured by the Survey of India.

Explanation 4.—The effective steps shall mean the following steps taken by the concerned person to implement the Industrial Entrepreneur Memorandum for setting up of sugar factory.—

(a) purchase of required land in the name of the factory;

(b) placement of firm order for purchase of plant and machinery for the factory and

payment of requisite advance or opening of irrevocable letter of credit with suppliers;

(c) commencement of civil work and construction of building for the factory;

(d) sanction of requisite term loans from banks or financial institutions; (e) any other step prescribed by the Central Government, in this regard through a notification.

37.8. *Delegation of powers :-*

Clause 11. ***Delegation of powers***.—3[(1)] The Central Government may, by notification in the Official Gazette, direct that all or any of the powers conferred upon it by this Order shall, subject to such restrictions, exceptions and conditions, if any, as may be specified in the direction, be exercisable also by.—

(a) any officer or authority of the Central Government;

(b) a State Government or any officer or authority of a State Government.

(2) Where all or any of the powers conferred upon the Central Government by this Order have been delegated in pursuance of sub-clause (1)(b) to any officer or any authority of a State Government, every order or direction issued by such officer or authority in exercise of that power may be amended, varied or rescinded by the State Government to whom the officer or authority is subordinate either suo motu, or on application made within a period of thirty days from the date of the order or direction:

Provided that no order revoking a licence or a permit issued to a person shall be made without giving such person an opportunity to make representation.

FIRST SCHEDULE

[See Clause 5(1)]

The amount to be paid on account of additional price (per maund or quintal of sugarcane) under Clause 5 by a producer of sugar shall be computed in accordance with the following formula, namely:—

$$\frac{X\ (P-T-S-R)}{100} \times \frac{}{M} = Y$$

Explanation.—In this formula—

(1) 'X' is the percentage cost of sugarcane to the total cost of sugar (excluding taxes) as determined by the Central Government from time to time on the basis of the recovery and duration of season of the factory for the year :

Provided that the cost of sugar (excluding taxes) shall be worked out on the basis of the relevant schedule of costs given in the report of the Tariff Commission (1959) on the Cost Structure of Sugar and

Fair Price payable to the Sugar Industry, subject to the adjustment of such rise in cost subsequent to the Tariff Commission enquiry in 1959 as in the opinion of the Central Government cannot be absorbed by the margin for contingency included in the relevant schedule and the consequent rise in return.

(2) 'P' is the sum of (i) the average ex-factory price (per maund or quintal) realized by a producer of sugar and adjusted to ISS Grade D-29 according to the price differentials fixed by Government, (ii) the money realized by the producer of sugar from the sale of molasses, press-mud and baggase, in relation to each maund or quintal of sugar, and (iii) any amount realized by the producer of sugar by way of refund or exemption of excise duty or cane cess or cane purchase tax, or by way of grant of subsidy given by the Central Government or a State Government in relation to each maund or quintal of sugar: Provided that out of the rebate of excise duty granted to a producer of sugar by virtue of the notification of the Government of India in the Ministry of Finance Nos. GSR 706, dated the 25th June, 1960 and GSR 664, dated the 4th May, 1961, only 75 per cent of such rebate shall be included.

(3) 'T' is the amount paid in relation to each maund or quintal of sugar on account of excise duty, cane cess, cane purchase tax, commission paid to co-operative societies or cess imposed on sugar or sugarcane by the Central Government or a State Government or by any authority and any sum spent on approved schemes of sugarcane development.

(4) 'S' is the actual amount of commission paid in relation to each maund or quintal of Sugar:

Provided that such amount shall not exceed seventy-five naye paise for every sum of rupees one hundred of sugar sold:

Provided further that no commission shall be taken into account in respect of sugar sold directly by a producer of sugar or in pursuance of any order of the Central Government.

(5) 'R' is such allowance per maund or quintal of sugar for the factory as may be deemed reasonable by the Central Government, having regard to the amount actually spent by the factory on rehabilitation during the year and the amount transferred as reserve to a special rehabilitation account during the year.

(6) 'M' is the weight in maunds or quintals of sugarcane required to produce a maund or quintal of sugar and such weight shall be calculated by dividing the total weight of the sugarcane purchased by the weight of the sugar produced therefrom and for this purpose, the weight of sugarcane purchased shall be the sum of the total weight of sugarcane crushed plus actual driage, subject to a ceiling of one per cent on the weight of sugarcane purchased at centres other than the factory gate.

(7) 'Y' is the total sum of (i) the minimum price of sugarcane per maund or quintal fixed by the Central Government under sub-clause (1) of Clause 3 of the Sugarcane (Control) Order, 1955, (ii) any extra price paid by the producer for sugarcane in addition to the aforesaid minimum price, and (iii) the premium, if any, paid for any approved variety of sugarcane or under any scheme approved by the Central Government for payment of price of sugarcane on the basis of quality:

Provided that rebates, if any, allowed in the minimum price aforesaid (excluding a rebate allowed on account of transport charges) shall be deducted from the total sum aforesaid.

SECOND SCHEDULE

[See Clause 5-A]

The amount to be paid on account of additional price (per quintal of sugarcane) under Clause 5-A by a producer of sugar shall be computed in accordance with the following formula, namely—

$$R - L + A - B \; X = \frac{}{2C}$$

Explanation.— In this formula—

(1) 'X' is the additional price in rupees per quintal of sugarcane payable by the producer of sugar to the sugarcane grower.

2[(2) 'R' is the amount in rupees of sugar produced during the sugar year excluding the excise duty paid or payable to the factory by the purchaser.

(3) 'L' is the value in rupees of sugar produced during the sugar year, as calculated on the basis of the unit cost per quintal ex-factory, exclusive of excise duty, determined with reference to the minimum sugarcane price fixed under Clause 3, the final working results of the year and the Cost Schedule and return recommended by the 3[such authority as the Central Government may specify] from time to time.]

(4) 'A' is the amount found payable for the previous year but not actually paid [vide sub-clause (9)].

(5) 'B' is the excess or shortfall in realisations from actual sales of the unsold stocks of sugar produced during the sugar year, as on 30th day of September [vide item 7(ii) below] which is carried forward and adjusted in the sale realisations of the following year.

(6) 'C' is the quantity in quintals of sugarcane purchased by the producer of sugar during the sugar year.

4[(7) The amount 'R' referred to in Explanation 2 shall be computed as under, namely—

(i) the actual amount realised during the sugar year; and

(ii) the estimated value of the unsold stocks of sugar held at the end of 30th September, calculated in regard to free sugar stocks at the average rate of sales namely during the fortnight 16th to 30th September and in regard to levy sugar stocks at the notified levy prices as on the 30th September.]

Explanation.—In this Schedule "Sugar" means any form of sugar containing more than ninety per cent sucrose.]

THIRD SCHEDULE

[See Clause 9(aa)]

Cane Price Arrears :

Name of the Producer of sugar or his agent

Plant Short Name

Plant Code No.

Sugar Season

Fortnight ending Date:

Particulars	Fortnight	To date	Total
	Gate/Own	Gate/Own	
	Estate/Out	Estate/Out	
	Station	Station	
1. Quantity of Cane purchased (in quintals)			
(a) Sugar rich variety			
(b) Other varieties			
(c) Total			
2. Rate at which cane is purchased (in rupees per quintal) during the month	Sugar rich varieties	Ordinary varieties	
(a) at the gate			
(b) at the purchase centre			
3. (i) Cane price due (in lakh Rs.)			
(a) Sugar rich variety			
(b) Other varieties			
(c) Total			
(ii) Interest due at the rate of 15%per annum on delay in payment beyond 14 days of delivery of sugarcane (in Rs.)			
Particulars	Fortnight	To date	Total
	Gate/Own	Gate/Own	
	Estate/Out	Estate/Out	
	Station	Station	

4. (i) Cane price paid (in lakh Rs.)
(a) Sugar rich variety
(b) Other varieties
(c) Total
(ii) Interest paid out of the amount specified in 3(ii) (in Rs.)
5. (i) Arrears (in lakh Rs.)
(a) Sugar rich variety
(b) Other varieties
(c) Total
(ii) Interest arrears (in Rs.)
6. Reasons for delay in payment
7. Arrears of cane price for previous season
8. Arrears of cane price for earlier seasons: (excluding current and previous season) (in lakh Rs.)

Date : (To be signed by Producer of sugar
Place : Or his agent or authorised signatory).

CHAPTER NO. 38
MAHARASHTRA OWNERSHIP FLAT ACT, 1963

38.1. ***Objects & Purpose :-*** Due to shortage of Housing many of the people started considering the constructions of house and then sell to different people the flats in the same building. The person carrying on this type of activities is called builders or developers. The following problems and malpractices were noticed in the building activities.

1. It was found that builders were taking undue advantages of flats takers.
2. The building plans shown to the flats takers were different then actually from the plans according to which the building was constructed.
3. There was delay in giving possession of the flat to the purchaser.
4. There was also delay in conveying title of land and building to the organisation of flat purchaser.
5. The builders were careless in rectifying the defects in construction.
6. Building were constructed without proper plan and approval from the competent authorities.
7. Building were constructed on the land having imperfect title etc.

Considering the above malpractices of the builders/ developer, the State government appointed a committee under the chairmanship of Mr. B. B. Paymaster to report to it on malpractice.

After receipt of the report of the above committee the assembly passed the Maharashtra Ownership Flat Act, 1963, providing adequate measures for curbing the malpractice of the builders/ developers. The Act provides for punishment for not complying with the provision of the Act.

Thus the main purpose of enactment of this Act is to protect the flat purchasers from the malpractice of the builders and to recognize their rights in the land and building in which flat is taken. The Act attempts to protect and regulate the rights of flat takers.

The obligation of builder do not end, on completion of construction. Title of flat takers is not complete merely on taking the flat. The Ownership Flats Act imposes an obligation on the builder to form any one of organisation of flat taker such as Co-op. Society, Association of apartments or a company.

We have discussed the obligations of the builder/ promoter regarding the formation of the society and the conveyance of land and building in favour of the society. There are various provisions and protection given to the individual flat/ shop purchasers against the builder/ promoter.

Following are some of the mandatory provisions of Maharashtra Ownership Flat Act, 1963

1. Promoter to take steps for formation of co-operative society or company. [Section 10] : A duty has been cast upon the promoter to submit an application to the Registrar for registration of Co-operative Society or a company. As per Rule 8 of the Maharashtra Ownership of Flats Rules a builder-promoter has to submit the application within four months from the date on which minimum number of persons required to form such organisation have taken flats. The minimum number of persons who have taken flats should be 60% of the total number of flats for the purpose of registration of co-operative society. This section made it obligatory upon the promoter to formulate the proposal for registration of Co-operative Housing Society as soon as 60% of total number of flats are sold.
2. Promoter to convey title, etc., and execute documents, according to agreement [Section 11]: The obligation of the Promoter is not complete only by formation and Registration of Society. The Promoter is required to convey the right title and interest in favour of the organisation formed. Section 11 of the Maharashtra Ownership Flats Act 1963 provides that, 'A Promoter shall take all necessary steps to complete his title & convey to the organisation of Persons who take flats,

which is registered either as a co-operative society or as a company as a foresaid, or to an Association of flat takers or Apartment owners, his right title and interest in the land & building and execute all relevant document there for in accordance with the agreement executed under Section 4 & if no period for execution of the conveyance is agreed upon, he shall execute the conveyance within the prescribed period and also deliver all documents of title relating to the property which may be in his possession or power. As per Rule 9, if no period is agreed in the agreement, the Promoter shall execute the conveyance within four months from the date of Registration of Society, Company or Association.

3. After the expiry of statutory period of 4 months of formation of legal entity, the conveyance deemed to have been granted and the Competent Authority (District Deputy Registrar) after hearing the parties , grant the deemed conveyance order and executes the conveyance of land and building in favour of the society by stepping into the shoes of the promoter i.e land owner and the builder.
4. Definition of Promoter [Section 2(C)] : Promoter means a person who constructs or causes to be constructed a block or building of flats or apartments for the purpose of selling some or all of them to other persons, or to a company, or co-operative society or other association of persons, and includes his assignees; and where the person who builds and the persons who sells are the different persons, the term includes both.

   In other words Promoter means a builder or a developers who constructs the building of many flats and sells the same to others.
5. Punishment for failing to comply with above provisions [Section 13] : If any promoter without reasonable excuse fails to comply with or contravenes the mandatory requirement of Section 10 (formation of Society/ Association) and Section 11 (execution of Conveyance deed) then, as provided in Section 13 of the said Act, a promoter can be punished with imprisonment for a term which may extend to 3 years or with fine or both.

   Thus under the Maharashtra Ownership Flats Act, if the promoter does not comply with these obligations there are serious consequences to follow including a prosecution.

38.2. ***Delivery of Documents :-*** The Promoter is also enjoined to deliver all document of title relating to the property which may be in his possession or power.

38.3. ***Complete his title :-*** This obligation pre-supposes that if the title of the promoter is defective or incomplete in any respect, the same defect or deficiency must be disclosed in the title report of the advocate or attorney as laid down in section 3 of M.O.F. Act 1963. Such defects should be cured before conveying the title.

CHAPTER NO. 39

MAHARASHTRA HOUSING AND AREA DEVELOPMENT ACT, 1976

MHADA is an apex public body constituted under MHAD ACT 1976, established in 1977 under Housing Department Government of Maharashtra and integrated the activities and functions performed by statutory bodies to provide comprehensive, co-ordinate approach to the problems of housing.

The Maharashtra Housing Board formerly called "Bombay Housing Board" was established in year 1948 and had a jurisdiction over the entire State of Maharashtra except Vidharbha region. This body undertook construction of residential buildings under various housing schemes for different sections of the society.

The allotment and maintenance of these buildings was being looked after by it.On the re-organization of the State, the Vidharbha Housing Board was established in the year 1960 as a successor body to the erstwhile Madhya Pradesh Housing Board. Its functions were similar to those of the Maharashtra Housing Board, except that it also advanced loan to co-operative housing societies, institutions and local authorities for the construction of houses.

The Bombay Buildings Repairs and Reconstruction Board was constituted in 1971. It was created to deal with the problems faced by tenants residing in dilapidated buildings in the Island City of Bombay and undertook its structural repairs and reconstruction, so as to make them structurally sound and safe for habitation.

The Maharashtra Slum Improvement Board was constituted in 1974, with intention to provide basic amenities, such as water taps, drainage, pathways, latrines and streetlights etc. in slums. To begin with, its activities were confined to the Mumbai City and Mumbai Suburban Districts. These activities were later extended to the other parts of the State.

The Maharashtra Housing & Area Development Authority (MHADA) has been established by the Maharashtra Housing and Area Development Act, 1976. It came into existence on 5th December 1977.

The erstwhile Mumbai Housing and Area Development Board was restructured by a Government Resolution dated 5.11.1992 and split into three separate Boards viz. Mumbai Housing and Area Development Board, Mumbai Building Repairs and Reconstruction Board and Mumbai Slum Improvement Board Under the Government Resolution No. 2679/B, dated 22.7.1992

At present MHADA is cordinating and controlling the activities of seven regional housing boards, setup for each revenue division in the state viz. Mumbai, Konkan, Pune, Nashik, Nagpur, Amravati, Aurangabad and two special purpose boards viz. Mumbai Building Repairs and Reconstruction Board and Mumbai Slum Improvement Board.

Separate Registrar for registration and management of Cooperative Societies for Mumbai and Thane District has been deputed by the Co-operative Department at the Mhada office.

CHAPTER NO. 40

MAHARASHTRA APARTMENT OWNERSHIP ACT, 1970

This Acts provides for the ownership of an individual apartment in a building and to make such apartment heritable and transferable property.

An Apartment means an part of property intended for any type of independent use, including one or more rooms or enclosed spaces located on one or more floors in a building intended to be used for residence, office, practice of any profession or for carrying on any occupation, trade, or business or for any other type of independent use and with a direct exit to a public street, road or highway or to a common area leading to such street, road or highway.

In respect of apartment ownership, the legal title of the flat as an object, along with a proportionate share in the common areas of the building and also proportionate share in the land on which the building stands, vests in the apartment owner. That means, the building belongs to jointly but each apartment owner has an independent right to his apartment to the exclusion of others. Whereas, in the case of ownership flat, the title to the building and the land vests in a co-operative housing society or a limited company and the flat owner is not a owner of the flat in real sense but he has only a right to occupy the flat. This is a species of property, which is heritable and transferable.

In case of Maharashtra Ownership Flat Act there should be at least 10 members for forming Co-op Society and in Apartment Ownership there should be 5 apartments in one or more building. In case of Ownership Flat Act or Co-op Societies Act, the assessment of the flats will be in the name of Owner of the Land or Builder or the Society, however in case of Apartment Ownership Act there will be separate assessment in respect of each Apartment and its percentage of undivided interest in common areas and facilities. In case of Ownership Flat Act, there will be registration of Co-op Society or Pvt. Ltd Company as contemplated under Section 10 of MOF Act and in case of Apartment Ownership Act, declaration is required to be made in prescribed form before the Magistrate as required under the Act.(See Rule 2).

All transfers of Apartments by the sole owner or all the owners of the property (being an owner or owners who has or have executed and registered a declaration in form “A”) to an apartment owner and subsequent transfers from an apartment owner to his transferee shall be by a Deed of Apartment.

In the case of the first Deed of Apartment the party of the first part shall be either the sole owner or all the owners of the property who has or have executed and registered the Declaration in form “A” and the party of the second part shall be the apartment owner. In the case of subsequent Deeds of Apartment, the party of the first part shall be the apartment owner and the party of the second part shall be his transferee

CHAPTER NO. 41

FOREIGN TRADE (DEVELOPMENT AND REGULATION) ACT, 1992 AS AMENDED BY THE FOREIGN TRADE (DEVELOPMENT AND REGULATION) AMENDMENT BILL, 2010

41.1. *Objects :-*

a) To empower the government to regulate trade in goods.
b) To bring in 'services' and 'technology' within the purview of this Act.
c) To impose Quantitative Restrictions and to bring in provisions for more stringent control for trade of dual-use goods and technologies.
d) To regulate the export and import on 'specified goods or services or technology'.

41.2. *Definitions :-*

1) "import" and "export" means, -

(i) in relation to goods, bringing into, or taking out of, India any goods by land, sea or air;
(ii) in relation to services or technology, - supplying, services or technology-
   a. from the territory of another country into the territory of India.
   b. in the territory of another country to an Indian service consumer;
   c. by a service supplier of another country, through commercial presence in India;
   d. by a service supplier of another country, through presence of their natural persons in India; supplying, services or technology –
      1. from India into the territory of any other country;
      2. in India to the service consumer of any other country;
      3. by a service supplier of India, through commercial presence in the territory of any other country
      4. by a service supplier of India, through presence of Indian natural persons in the territory of any other country; Provided that "import" and export" in relation to the goods, services and technology regarding Special Economic Zone or between two Special Economic Zones shall be governed in accordance with the provisions contained in the Special Economic Zones Act, 2005'.

2) 'Service' to include service of any description which is made available to potential users and includes all the tradable services specified under the General Agreement on Trade in Services entered into by India and other countries;

3) 'Specified goods or services or technology' to mean the goods or services or technology, the export, import, transfer, re-transfer, transit and transhipment of which is prohibited or restricted because of imposition of conditions on the grounds of their being pertinent or relevant to India as a Nuclear Weapon State, or to the national security of India or to the furtherance of its foreign policy or its international obligations under any bilateral, multilateral or international treaty, covenant, or agreement relating to weapons of mass destruction or their means of delivery to which India is a party;

4) 'Technology' to mean any information (including information embodied in software i.e floppy disc, compact disc or any other medium), other than information in the public domain, that is capable of being used in :

(i) the development, production or use of any goods or software;
(ii) the development of, or the carrying out of, an industrial or commercial activity or the provision of service of any kind.

5) "service supplier" means any person who supplies a service and who intends to take benefit under the foreign trade policy;

6) For the words "Export And Import Policy" the words "Foreign Trade Policy" have been substituted.

7)"licence" means a licence toimort or export and includes a customs clearance permit and any other permission issued or granted under this Act;

8) Definition of word "licence", has been now widened to include within its meaning licence, certificate, scrip or any instrument bestowing financial or fiscal benefits".

41.3. ***The Importer Exporter Code ('IEC') Number :-*** The Importer Exporter Code ('IEC') Number shall be necessary only when the service or technology provider is taking benefits under the foreign trade policy or is dealing with specified services or specified technologies;

41.4. ***Quantitative restrictions on import :-*** The Central Government has been granted a power to impose restrictions on import of any goods into India, in case the goods are coming into India in such increased quantities which may cause injury to domestic industry. Such restriction would not be applicable in case the goods are coming from a developing country and the share of imports of such goods from that country does not exceed 3% or in case of more than one developing country, the aggregate should not exceed 9% of the total imports of such goods into India.

No person shall export any material, equipment or technology knowing that the same is to be used in the design or manufacture of a biological weapon, chemical weapon, nuclear weapon or other nuclear explosive device or in their missile delivery system.

41.5. ***Penal Consequences :-***

a) No export or import shall be made by any person except in accordance with the provisions of this Act, the rules and orders made there under and the foreign trade policy for the time being in force.

b) Where any person makes or abets or attempts to make any export or import in contravention of any provision of this Act or any rules or orders made there under or the foreign trade policy he shall be liable to a penalty of not less than ten thousand rupees and not more than five times the value of the goods or services or technology in respect of which any contravention is made or attempted to be made, whichever is more.

c) Where any person signs or uses, or causes to be made, signed or used, any declaration, statement or document submitted to the Director General or any officer authorised by him under this Act, knowing or having reason to believe that such declaration, statement or document is forged or tempered with or false in any material particular, he shall be liable to a penalty of not less than ten thousand rupees or more than five times the value of the foods or services or technology in respect of which such declaration, statement or document had been submitted, whichever is more.

d) Where any contravention of any provision of this Act or any rules or orders made there under or the foreign trade policy has been, is being, or is attempted to be made, the goods (including the goods connected with services or technology) together with any package, covering or receptacle and any conveyances shall, subject to such conditions and requirement as may be prescribed, be liable to confiscation by Adjudicating Authority.

CHAPTER NO. 42

FACTORIES ACT, 1948 AS AMENDED BY THE FACTORIES (AMENDED) ACT, 1987

The Factories Act, is a social legislation which has been enacted for occupational safety, health and welfare of workers at work places.

This legislation is being enforced by technical officers i.e. Inspectors of Factories, Dy. Chief Inspectors of Factories who work under the control of the Chief Inspector of Factories and overall control of the Labour Commissioner, Government of National Capital Territory of Delhi

42.1. ***Applicability :-*** It applies to premises covered under the Factories Act, 1948 as follows :-

(i) The industries in which ten (10) or more than ten workers are employed on any day of the preceeding twelve months and are engaged in manufacturing process being carried out with the aid of power or

(ii) Where twenty or more than twenty workers are employed in manufacturing process being carried out without the aid of power

(iii) Also Government has made this act applicable to power looms, saw mills, certain industries which use hazardous chemicals, and certain processes carried out using flammable solvents by publishing a notification, even if the number of workers are less than 10.

42.2. ***Factory Act Licence is a must :-*** Occupier is not allowed to use any premises as a 'factory' unless he has obtained a valid factory Act licence.

42.3. ***Circumstances in which the licence under the Act needs to get amended :-***

a. If there is change in name of the factory.

b. If there is change in number of workers, or change in Horse power,

Application for amendment in licence has to be made in form no. 2 with 10 Rs court fee stamp duly affixed.

Form No. 5 is required to be submitted if there is change in Manager.

42.4. ***Returns, an occupier of a factory is required to submit under the Act :-***

a. Annual Return in Form No. 27 on or before 1st Feb every year for the past calendar year.

42.5. ***Registers / documents a manager of factory has to maintain under Factories Act, 1948 :-***

Sr. No.	Subject	Form No.
1	Register of adult workers	Form 17
2	Muster Roll	Form 29
3	Accidents and dangerous occurrences register	Form 30
4	Leave with wages register	Form 20
5	Record of lime washing, painting etc.	Form 8
6	Register of workers attending to machinery	Form 10
7	Inspection Book	Form 31
8	Health Register	Form 8

Notice of period of work for adult workers in form 16 has to be displayed on the notice board and two copies are required to be sent to factories Inspector office.

42.6. ***Definition of worker under the Factories Act :-*** Worker means a person employed (directly or by or through any agency including a contractor), with or without the knowledge of the principal

employer, whether for remuneration or not in any manufacturing process or in cleaning any part of the machinery or premises used for a manufacturing process or in any other kind of work incidental to or connected with the manufacturing process or the subject of the manufacturing process (but does not include any member of the armed forces of the Union)

42.7. ***Some provisions under Factories Act ,1948 regarding working hours of workers :-***

a) No worker shall be allowed or required to work in a factory unless his/her name is entered in the register of adult workers.
b) Workers shall be allowed/required to work as per the notice of period of work.
c) No child shall be allowed to work in a factory unless he has completed 14 years.
d) No child shall be employed or permitted to work, in any factory :
   a. for more than four and a half hours in any day
   b. During the night.
e) An adolescent (15 to 18 years of age) who has been granted a certificate of fitness by a certifying surgeon to work in a factory as an adult under clause (b) of sub- section (2) of section 69 and who while at work in a factory carries a token giving reference to the certificate, shall be deemed to be an adult.
f) No adult worker shall be required or allowed to work in a factory for more than forty-eight hours in any week unless any exemption is obtained from Industrial Safety & Health.
g) The periods of work of adult workers in a factory each day shall be so fixed that no period shall exceed five hours and that no worker shall work for more than five hours before he has had an interval for rest of at least half an hour.
h) The periods of work of an adult worker in a factory shall be so arranged that inclusive of his intervals for rest, the shall not spread over more than ten and a half hours in any day.
i) Female workers shall not be allowed or required to work between 7 p.m. to 6 a.m.
j) No overtime shall be allowed or required to be carried out unless exemption is obtained under Rule 102 of The Maharashtra Factories Rules 1963
k) Workers shall be paid double of their normal wages for the period worked as overtime.
l) Industries in which female workers and young persons are prohibited :-

Lead battery, Glass, lead manufacturing, shot blasting, leather tanning, chromic acid, nitro amino compounds, dangerous insecticides, manganese, benzene, paint industries which is uses carcinogenic compounds etc.

42.8. ***Criteria to avail annual leave with wages under Factories Act :-*** Every worker who has worked for a period of 240 days or more in a factory during the calendar year shall be allowed during the subsequent calendar year, leave with wages for a number of days calculated at the rate of :

a) if an adult, one day for every twenty days of work performed by him during the previous calendar year
b) if a child , one day for every fifteen days of work performed by him during the previous calendar year

Explanation 1 – For the purpose of this sub section :-

- Any days of lay-off by agreement or contract or as permissible under the standing orders ;
- In the case of a female worker, maternity leave for any number of days not exceeding twelve weeks ; and
- The leave earned in the year prior to that in which the leave is enjoyed;Shall be deemed to be days on which the worker has worked in a factory for the purpose of computation of the period of 240 days or more, but he shall not earn leave for these days.

Explanation 2 – The leave admissible under this sub-section shall be exclusive of all holidays whether occurring during or at either end of the period of leave.

A worker whose service commences otherwise than on the first day of January shall be entitled to leave with wages at the rate laid down in clause(i)or, as the case may be , clause(ii) of sub-section(1) if he has worked for two-thirds of the total number of days in the remainder of the calendar year.

If a worker is discharged or dismissed from service or quits his employment or is superannuated or dies while in service or quits his employment or is superannuated or dies while in service, during the course of the calendar year, he or his heir or nominee, as the case may be, shall be entitled to wages in lieu or the quantum of leave to which he was entitled immediately before his discharge, dismissal, quitting of employment, superannuation or death calculated at the rates specified in sub-section (1), even if he had not worked for the entire period specified in sub section (1) or sub section (2) making him eligible to avail of such leave , and such payment shall be made :-

a) where the worker is discharged or dismissed or quits employment before the expiry of the second working day from the date of such discharge, dismissal or quitting; and
b) where the worker is superannuated or dies while in service , before the expiry of two months from the date of such superannuation or death.

Management of the Factory has to maintain all the details about annual leave with wages in the leave register in Form NO. 20 and has to issue leave cards in Form NO. 20 to the eligible workers before 28th February.

42.9. ***As per Factories Act, the Safety Officers are required to be appointed in every factory :-***

a) Wherein 1000 or more workers are ordinarily employed or
b) Where in, in the opinion of the State Govt., any manufacturing process or operation is carried on, which process or operation involves risk of bodily injury poisoning or disease, or any other hazard to health, to the persons employed,
c) Government may make this provision applicable to factories having less than 1000 workers by special notification.

42.10. ***Welfare provisions for workers under the Factories Act :-*** The management of the factory has to provide following facilities depending on the no of workers.

Sr. NO.	NO. **of Workers**	**Provisions**
1	150	Rest room, Lunch room
2	More than 250	Canteen
3	500 or more than 500	Welfare officer, Ambulance
4	30 or more than 30 female workers	Crèche facility
5	1000	Safety Officer

42.11. ***Penalties :-*** This Act provides for a maximum punishment up to two years and or a fine up to Rs. One lakh or both for infringement of provisions of the Act.

CHAPTER NO. 43

CENVAT CREDIT RULES (CCR), 2004

43.1. ***Applicability :-*** Cenvat Credit Rules 2004 apply to whole of India except Jammu and Kashmir. Credit means claim of set-off of something paid earlier. Cenvat credit means use of excise duty, service tax and custom duty (which is paid on input, input services and capital goods) paid earlier against service tax and excise duty payable on rendering of services and clearance of manufacturing of goods. CCR, 2004 deals with credit of service tax and excise duty. It means service tax and excise duty are interchangeable ie. to pay excise duty one can use the input of service tax or input excise and vise versa.

43.2. ***CENVAT Credit :-*** CENVAT Credit is a credit of duty paid on raw materials, capital gods and services used in relation to manufacture of excisable goods or in relation to services provided on which Service Tax is payable. This credit is available on input goods, input services and capital goods.

A manufacturer or producer of final products or a provider of taxable service shall be allowed to take credit (hereinafter referred to as the CENVAT credit) of -

(i) the duty of excise specified in the First Schedule to the Excise Tariff Act, leviable under the Excise Act;

(ii) the duty of excise specified in the Second Schedule to the Excise Tariff Act, leviable under the Excise Act;

(iii) the additional duty of excise

(iv) the National Calamity Contingent duty leviable

(v) the Education Cess on excisable goods

(vi) the service tax

(vii) the Education Cess on taxable services

Provided that a provider of taxable service shall not be eligible to take credit of such additional duty;

The CENVAT credit may be utilized for payment of –

a. any duty of excise on any final product; or

b. an amount equal to CENVAT credit taken on inputs if such inputs are removed as such or after being partially processed; or

c. an amount equal to the CENVAT credit taken on capital goods if such capital goods are removed as such; or

d. an amount under sub rule (2) of rule 16 of Central Excise Rules, 2002; or

e. service tax on any output service:

Provided that while paying duty of excise or service tax, as the case may be, the CENVAT credit shall be utilized only to the extent such credit is available on the last day of the month or quarter, as the case may be, for payment of duty or tax relating to that month or the quarter, as the case may be

43.3. ***Recent changes in CENVAT Rules : -***

Rule 4(1) - Cenvat credit in respect of input to be claimed within six months from the duty paying document with effect from 01.09.2014.

"Provided also that the manufacturer or the provider of output services shall not takeCENVAT credit after six months of the date of issue of the documents specified in rule 9(1)".

Also Cenvat credit was available only on receipt of Inputs in the factory of the manufacturer or in the premises of the provider of output service.

***w.e.f.* 1.3.2015** , following amendment have been made in Rule (4)(1) :

(i) CENVAT credit can be taken immediately on receipt of inputs in the premises of job worker, where the inputs are sent directly to the job worker premises on the direction of the manufacturer or to the provider of the output service.

(ii) in terms of amended third proviso to rule 4(1) , time limit for availing of input has been increased from 6 months to one year from the date of issue of duty paying documents specified in rule 9(1).

As per Rule 4(7) - in case of an input service where service tax is paid on reverse charge by the recipient of the service, the CENVAT Credit in respect of such input service shall be allowed on or after the day on which payment is made of the value of input service and the service tax paid or payable as indicated in the invoice, bill or as the case may be, challan referred in Rule 9.

w.e.f.* 01.4.2015** *in case of input service where whole or part of service tax is liable to be paid by the receiver of service, credit of service tax shall be allowed only after the payment of* ***service tax.

CHAPTER NO. 44

CENTRAL EXCISE ACT, 1944

Central Excise is a levy (tax), **levied on a commodity (manufactured within the country)** by the Union Government by an Act of Parliament (usually in the Finance Bill) by notifying under a Tariff.

It is an indirect tax paid by the manufacturer, who passes its incidence to the customers.

"Excise Duty" is levied the moment the process of manufacture is complete.

44.1. *Nature of Excise Duty :-*

- Government has constitutional powers to levy Excise Duty.
- Power to impose excise on alcoholic liquors, opium, and narcotics is granted to State Government. It is called as State Excise Duty.
- Power to impose excise on other items is granted to Central Government , which is referred to as Central Excise.

44.2. ***Basic Conditions for Excise Liability :-*** Following four conditions must be satisfied to levy Excise Duty on any article :

1. Duty is on goods (movable and marketable).
2. Goods must be excisable (included in CETA, 1985).
3. Goods must be manufactured or produced.
4. Manufacture or production must be in India.

- ✓ Levy means imposition and assessment but does not include collection of tax. Thus, duty is levied as soon as taxable event occurs, but collection can take place anytime - before, at the time or even after the taxable event.
- ✓ Taxable event is manufacture or production in India.
- ✓ Duty is payable by the manufacturer or producer of excisable goods. In case where goods are allowed to be stored in a warehouse without the payment of duty, the duty liability is of the person who stores the goods.
- ✓ Rate of duty is as applicable on date of removal i.e. clearance from factory
- ✓ Goods have to be classified and valued in the state in which the goods are removed from the factory. Any further processing done afterwards is not relevant.
- ✓ Duty liability arises even when goods are not sold or free replacements are given during warranty period.
- ✓ Duty is payable even when not collected from consumers.
- ✓ Duty is payable even if duty was paid on raw materials.
- ✓ Duty can be levied on Govt. undertakings.
- ✓ Duty is considered as a manufacturing expense and is included as an element of cost for inventory valuation, like other manufacturing expenses.
- ✓ The duty is applicable in case of SSI units after value of clearances during the F.Y. exceeding the threshold limit , which is presently Rs. 1.50 Cr. The threshold limit depends upon the value of clearances in the earlier financial year.

44.3. *Types of Excise Duty :-*

1. Basic Excise Duty (BED) or CENVAT
2. Special Excise Duty (SED)
3. Excise Duty on clearances by EOU / SEZ in Duty Tariff Area
4. National Calamity Contingent Duty (NCCD)
5. Duties under other Acts
6. Cess under other Acts

44.4. ***Excisable Goods :-*** Section 2(d) of Central Excise Act defines Excisable Goods as "Goods specified in the First Schedule and Second Schedule to Central Excise Tariff Act, 1985 as being subject to a duty of excise." Thus, unless the item is specified in the CETA as subject to duty, no duty is levied.

The explanation to Section 2 (d)states that the goods includes any article , material , or substance which is capable of being bought and sold for a consideration and such goods shall be deemed to be marketable . Thus there is concept of Deemed Marketability.

44.5. ***Valuation of Goods :-*** Excise duty is payable on one of the following basis -

1. Specific duty, based on some measure like weight, volume, length, etc.
2. Duty as a % of Tariff Value fixed u/s 3(2)
3. Duty based on Maximum Retail Price printed on carton after allowing deductions
4. Compounded Levy Scheme
5. Duty as a % on Assessable Value fixed u/s 4 (ad valorem duty)

44.6. ***Summary of Procedures :-***

- Every person who produces or manufactures excisable goods is required to get registered unless exempted. If there is any change in information supplied in form A-1, the same should be supplied in form A-1.
- Manufacturer is required to maintain Daily Stock Account (DSA) of goods manufactured, cleared and in stock.
- Goods must be cleared under Invoice of assessee, duly authenticated by the owner or his authorized agent. In case of cigarettes, invoice should be countersigned by Excise officer.
- Duty is payable on a monthly basis through TR-6 challan / Cenvat credit by 5th of following month except in March. SSI units have to pay duty on monthly basis by 15th of following month.
- Cenvat records and return is required to be submitted by 10th of following month.
- Monthly return in form ER-1 should be filed by 10th of following month. SSI units have to file quarterly return in form ER-3. EOU / STP units to file monthly return in form ER-2.
- Assessees paying duty of Rs. 1 Cr or more per annum through PLA are required to submit Annual Financial Information Statement for each financial year by 30thNovember of succeeding year in prescribed form FR-4.
- Every assessee is required to submit information relating to Principal Inputs every year before 30th April in form ER-5 to Superintendent of Central Excise. Any alteration in principal inputs is also required to be submitted to Superintendent of Central Excise in form ER-5 within 15 days. Only assessees manufacturing goods under specified tariff headings are required to submit the return. Even in case of assessees manufacturing those products, only assessees paying duty of Rs. 1 Cr or more through PLA are required to submit the return.
- Every assessee who is required to submit ER-5 is also required to submit monthly return of receipt and consumption of each Principal Input in form ER-6 to Superintendent of Central Excise by 10th of following month.
- Every assessee is required to submit a list in duplicate of records maintained in respect of transactions of receipt, purchase, sale or delivery of goods including inputs and capital goods.
- Every assessee is required to inform change in boundary of premises, address, name of authorized person, change in name of partners, directors of Managing Director in form A-1 to the Central Excise Department having jurisdiction over him.
- Export of goods without payment of duty or under claim of rebate is also allowed.
- There is certain procedure to be followed in the case of receipt of goods for repairs / reconditioning
- Receipt of goods at confessional rate of duty for manufacture of excisable goods is also possible.
- Payment of duty under Compounded Levy Scheme

44.7. *Letter of Undertaking :-* In relation to Central Excise, following are the concessions / incentives for exports :

- ✓ Exemption from duty on final product (or refund or duty paid)
- ✓ Exemption / refund of excise duty paid on inputs.

For exports under bond, the manufacturer exporter can furnish a letter of undertaking (LUT) in form UT-1. The manufacturer exporter need not execute a bond. The LUT once given is valid for 12 calendar months. It is not necessary to submit LUT for each consignment. Though manufacturer exporter is not executing bond, submission of proof of export is required. The LUT will not be discharged unless proof of export is submitted or duty is paid upon deficiency in interest.

44.8. *Refund :-* An assessee can claim refund of duty if due to him. Normally refund can be filed for various reasons like -

- Excess payment of duty due to mistake
- Forced by department to pay higher duty
- Finalization of provisional assessment
- Export under claim of rebate
- Duty paid under protect / pre-deposit of duty for appeal (appeal decided in favor of assessee)
- Refund of Cenvat credit if final product is exported
- Unutilized balance in PLA

44.9. *Excise Audit :-* Most of factories are under "Self Removal Procedure" and there is no physical control over production and clearance of goods. Assessment is mainly based on returns submitted by assessee. Department has evolved various checks and counter-checks to ensure that excis duty is not evaded.

For Central Excise purpose, Audit means scrutiny of the records of the assesses and the verification of actual process or receipt, storage, production and clearance of goods with a view to check whether the assessee is paying the Central Excise duty correctly and is following Central Excise procedures.

44.10. *Types of Excise Audit :-*

1. Departmental Audit
2. Central Excise Revenue Audit (CERA)
3. Special Audit (Valuation Audit and Cenvat Credit Audit).

CHAPTER NO. 45

MULTISTATE CO-OPERATIVE SOCIETIES ACT, 2002

45.1. ***Section 1 :-*** This Act extends to whole state.

45.2. ***Section 2 :-*** This Act applies to all Co-operative societies with objects not confined to one state.

45.3. ***Section 22 :-*** Conversion of Co-operative society into a Multi-state co-operative society. A co-operative society by making amendments in byelaws extend its jurisdiction and convent itself into multistate co-operative society. Amendment of byelaws will be valid when it has been registered by Central Registrar. As per Section 11(2), amendment to the byelaws of multistate society shall be made by resolution passed by 2/3 majority of members present and voting at general meeting of society. 15 days clear notice of proposed amendments should be given to the members. Application to register such amendments shall be made to the Central Registrar along with copy of resolution and statement containing specified particulars.

If Central Registrar is satisfied after consulting Registrar of State concerned that such amendments fulfills requirements of members beingfrom more than one state and is in accordance with provisions contained in sub section 4 of Section 11, he may register the amendment within a period of 6 months from date of receipt thereof by him.

45.4. ***Section 25 :-*** Following persons can becomemembers of multistate co-operative society.

(i) Individual competent to contract.
(ii) Any co-operative society or multistate co-operative society.
(iii) Central Government.
(iv) State Government.
(v) NCDC
(vi) Any corporation owned and controlled by Central Government.
(vii) Government company.

45.5. ***Disqualification for member :–*** No person shall be eligible for being member of multistate co-operative society if –

(i) His business is in conflict or competitive with its business of society.
(ii) He used for two consecutive years services below minimum level specified in byelaws.
(iii) He has not attended three consecutive meetings and such absence has not been condoned by members in general meeting.
(iv) Has made default in payment of aany sum to the society.

45.6. ***Section 39 – Annual General Meeting ;–*** Board of every multistate co-operative society shall call Annual General Meeting within 6 months from close of year.

45.7. ***Section 41 – Board of Director :–*** Members of multistate co-operative society shall elect directors by resolution in general meeting. Maximum number of directors shall not exceed 21. Board may co-opt two directors in addition.

45.8. ***Section 45 – Election of members of board :–*** Conduct of election of board of multistate co-operative society shall be responsibility of existing board. Election shall be held by secret ballot. Election of members of board shall be held in general meeting of members. Term of board shall be five years.

Where board fails to conduct the election, the central registrar shall hold election within period of 90 days from the date when such election become due.

Board shall meet at least once in every quarter. (Section 50).

45.9. ***Section 59 – Exemption from compulsory registration of instruments :–*** Nothing in Clause (b) & (c) of sub section (1) of Section 17 of Registration Act, 1908 shall apply to

a) Any instrument relating to shares.

b) Any debentures issued by society.

c) Any endorsement upon transfer of any debenture issued by any such society.

45.10. ***Section 61 – Government aid to multistate co-operative society :–*** On receipt of request from society, Central Government or State Government may

a) Subscribe to the share capital

b) Give loans

c) Guarantee the repayment of principal and interest on debentures issued by society

d) Give financial assistance in any other form including subsidies.

45.11. ***Section 70 – Appointment of Auditors :–*** Every multistate co-operative society shall, at each annual general meeting appoint an auditor to hold office from conclusion of that meeting until conclusion of next annual general meeting and shall within 7 days of appointment give intimation thereof to auditor so appointed.

Such auditor may be appointed from panel of auditors, approved by the Central Registrar or for panel of auditors maintained by multistate society.

VOLUME No. III

Audit of Different Types of Societies

CO-OPERATIVE AUDIT MANUAL
VOLUME No. III
AUDIT OF DIFFERENT TYPES OF SOCIETIES

CHAPTER No. 1

REGARDING SPECIAL INSTRUCTIONS

1.1. ***GENERAL :–***

1. In this Chapter, an attempt is made to explain the special features of the working of different types of societies and the more importantly the points, which are required to be borne in mind during the course of their audit. The general principles of auditing with special stress on the audit of co-operative societies have already been explained in detail in volume I of this manual.

In this volume of the manual, provisions of the Maharashtra Co-operative Societies Rules, 1961, relating to the Constitution, management, funds of societies, maintenance of accounts and arrangements made for their audit have been explained in detail. Provisions of other Acts, both Central and State, which are of importance to the auditors have also been explained in volume II. With this theoretical grounds and knowledge of cooperative laws and working knowledge of other laws, the auditor should be able to discharge his duties efficiently.

However, during the last few decades, there has been a vast expansion of activities of co-operative societies and a number of activities undertaken to assist the common man and free him from being exploited by unscrupulous middlemen, which were never thought of by the pioneers and sponsors of the co-operative movement century ago. Moreover, some serious financial irregularities were observed during the course of audit. An attempt has been made in this Section to give special instructions for conducting audits of some of the important co-operative institutions.

2. Unlike the Memoranda of Association of joint stock companies, which are extremely wide in scope and permit the company to undertake any commercial or industrial activity, byelaws of co-operative societies restrict the scope of their activities. One main activity and a few other incidental activities are considered necessary for the furtherance of the object for which the society has been formed. The Registrar has framed model byelaws for different types of societies and promoters of societies are generally required to adopt entire byelaws with few modifications as possible as are considered necessary in the case of any particular society or the requirements of its members. It is the duty of the auditor to see that the transactions of the society are permitted under the byelaws of the society. The constitution of membership and management, manner of raising funds and their investments are also governed by the byelaws. After 97th Constitutional amendment, the Maharashtra Cooperative Societies Act has also been amended, to provide the societies to improve their management and work independently as well as on sound financial principles. It is the duty of the auditor to see that the society consists of only such persons who are qualified to become its members and also that the funds of the society have been applied only to such purposes as are permissible under the Act, Rules and the byelaws of the society.

3. The Registrar has issued a number of circulars regarding the manner in which the audit of different types of societies is to be carried out. These circulars should be very carefully studied. Particularly, it should be noted that wherever test checking or percentage checking has been suggested, the quantum specified or the percentage mentioned is the minimum and the auditor cannot put in the plea that he carried out the instructions of the Registrar. Wherever, the nature or the number of irregularities warrants, the percentage or the quantum of checking work and examination of details should be increased, and if more time is required for completion of the audit, the Registrar should be requested to allot additional time for completion of the audit or test audit or re-audit, as the case may be.

4. The Registrar has also issued a number of circulars laying down criteria for awarding audit classification to different types of co-operative societies. While laying down various criteria, the Registrar has also specified certain norms for judging the achievements of the societies and their efficiency in conducting their operations. These norms or standards laid down by the Registrar should also assist the auditor in acquainting himself with the nature of the activities of various types of societies whose accounts he has to audit and also the manner adopted by the societies for conducting their activities and also the manner of its adoption by the various societies whose accounts have to be audited.

5 While auditing the following types of societies, special points discussed herein are required to be borne in mind as they are based on the circulars issued from time to time.

A) CO-OPERATIVE BANKING SECTION - BANKING IN GENERAL –

CHAPTER No. 2

DISTRICT CENTRAL CO-OPERATIVE BANKS

2.1. *INTRODUCTION : -*

1. The District Central coop banks have a distinct role in the Cooperative movement. These banks plays role of the central financing agencies. Audit of these banks has manifold effects, and considering the role, department for these banks had introduced continuous audit, which has now been discontinued after 97th amendment in constitution and accordingly amendments in the Maharashtra Cooperative Societies Act 1960.

2. The auditors auditing these banks are responsible not only for the completion of the statutory audit in time to enable the banks to hold their annual general meetings within the time prescribed in the Act, but they will also have to resume responsibility to keep close and careful watch over the proper functioning of the system of internal control. The auditor of the bank has to examine critically the system of internal control in existence with a view to finding out loopholes in the system and suggest improvements. It should also be possible for the auditor to suggest scientific internal operating procedures and sound lending policies and also watch over the due compliance of these procedures. The duties and responsibilities of the various officers of the bank, specified in the byelaws and resolutions of the general body and the Board, should be ascertained. With the assistance and cooperation of the officers of the bank, audit work can be so arranged so as to ensure maximum output of audit work without dislocating the routine work of the bank's staff and avoiding any waste of time of the auditor and his assistance. There should be complete understanding, close cooperation and require exchange of ideas between the senior officers of the bank and the Audit staff. As far as possible, all minor irregularities should be got rectified on the spot without reducing them into writing and unnecessary correspondence should be avoided. The auditor should also explain points arising during the course of his audit including serious irregularities and important policy matters and offers practical suggestions for improvement.

3. Besides being familiar with the provisions of the Coop. Societies Act, and the Rules made thereunder, auditors in charge of these banks will have to study carefully, the Banking Regulation Act, Central and State Stamps Act, Registration Act, the Reserve Bank of India Act, The NABARD Act, Negotiable Instruments Act, Transfer of property Act, Income tax Act, Prevention of Money Lauddering Act and the other statutes which apply to the operations of these banks. The byelaws of the bank and the various rules and regulations framed by it for conduct of its business will have to be carefully studied. Number of circulars regulating the operations of these banks have been issued by the Registrar and the Reserve Bank of India. The Reserve Bank of India and National Bank issues Master Circulars from 2006. In the month of July every year these are revised, which are available on their respective web sites. Auditors should get well acquaintaned with them, and update the guidelines issued by them. These should also be studied carefully. It will be the responsibility of the auditors to see that the lending and investments policies, deposit structure, interest rates, maintenance of fluid resources, avoidance of over-trading, and maintaining of CRAR, CRR and SLR. etc., are in accordance with the policy directives issued by the Department of Co-operation, NABARD and the Reserve Bank of India. A comprehensive audit covering all the aspects of the working of the bank should be drawn up so as to ensure that the audit work is carried out methodically and all important points receive due and adequate attention. This program should be revised during the progress of audit as and when considered necessary, but it should be ensured that no important part of work is omitted or given less attention.

CHAPTER No. 3

DEPOSITS

3.1. Instructions contained in this section dealing with audit of urban banks may be noted while conducting audit of District Central Cooperative Banks. However, in view of the special position occupied by these banks in the provision of banking facilities in rural areas and the important role allotted to them for the development of cooperative movement and holding them responsible for providing finance to the different types of cooperative institutions affiliated to them. There are certain important points which call for special attention during the course of audit of banking operations. These have been dealt with the following paragraphs.

3.2. ***Over-trading and maintenance of Fluid Resources :-***

1. It should be seen that the bank does not indulge in over-trading and maintains adequate fluid resources as required under Sections 18 and 24 of the Banking Regulation Act, 1949 (Applicable to Co-operative Societies) It should further be seen that instructions issued by the Reserve Bank of India and the Registrar in this regard are duly complied with.

2. ***Over-trading :-*** The Bank is required to invest its fund in advances and investments as per Sections 6 of the Banking Regulation Act. The Provisions of Sections 18 and 24 of the Banking Regulation Act restrict the lending operations for keeping fluid resources. The investment in lending is restricted by this to the extent of percentage with the deposits. Accordingly, the Reserve Bank of India and the Registrar have issued various instructions for maintaining Credit Deposit Ratio, specified by them from time to time, as explained elsewhere in the manual, . The auditors are required to verify that the banks have followed the instructions strictly.

3.3. ***Opening of Accounts :-***

1. Institutional Accounts :- Under Section 70 of the Maharashtra Cooperative SocietiesAct, all cooperative societies are required to open accounts and deposit their funds with the District Central Cooperative Bank if they have "A" audit class for 3 consecutive years, otherwise as per instructions in notification issued in December 2013 by the Government, specific permission of the registering authority has to be obtained. Since these Cooperative societies are corporate bodies, their accounts are to be opened under specific resolutions of the managing committees or Board of Directors. Their accounts are also required to be operated by particular officers of the society who are either elected or appointed to these posts and cease to hold office after periods for which they have been elected or appointed. Special instructions regarding operations of the accounts will have to be seen by the auditors. These would be mostly in the form of resolutions. Certified copies of these resolutions will have to be obtained and kept on record. Provisions contained in the bye-laws of these societies and resolutions passed by their managing committees or Board of Directors will have to be seen in order to be satisfied that their operations are in order. Every time there is a change in the office bearers, fresh specimen signatures of the officers authorised to sign cheques and operate the accounts will have to be obtained and properly filed. All documents furnished to the bank should have been duly authenticated.

2. Special Reserve Fund deposits :- The affiliated societies are also permitted to invest their reserve funds with the central bank to which they are affiliated. These are special deposits and their withdrawals require specific sanction from the Registrar and Annual General Body meeting. These deposits also carry a special rate of interest.

3. Deposits of the local bodies :- Accounts of Zilla Parishads and Panchayat samities are also required to be opened with the District central banks of the districts concerned as per provisions contained in the Zilla Parishads and Panchayat samities Act. The RBI in its circular No. RPCD No. RF. DIR. BC .2.53/D.1-87-88 Dated 2 November 1987 has issued detailed instructions in this regard. The Reserve Bank of India in its circular No. RPCD. No. RF. Dir. BC.30/07/07.38.01 /2000-01 dated 17.10.2000

has prohibited opening of savings account of Government departments/ local bodies who are dependent upon budgetary allocations / grants for performance of their functions. Such accounts are only opened after obtaining exemption from RBI. Regarding operations of the bank accounts, the instructions issued by the State Government and the Accountant General will also have to be seen

4. Deposits of Trusts :-

Various Trusts are also permitted to invest their funds in the Few Urban cooperative Banks and District Central Banks. However, the Banks are required to obtain approval from the Registrar/ Charity Commissioner concerned to accept the deposits.

4. Deposits of the proposed societies :- Under clause (d) of section 146 of Maharashtra Co-operative Societies Act, persons collecting money in the name of proposed co-operative societies are required to deposit the moneys collected by them into the State Co-operative Bank, District Co-operative Banks or an urban Co-operative Bank or into the Postal Savings Bank, or as notified by the Government in December 2013. Most of the promoters of proposed societies prefer to open account with the District Central Co-operative Bank concerned. The Registrar has issued instructions as to how such accounts are to be opened and how they are to be operated. The manner in which transactions in the name of the proposed society are to be recorded have also been laid down in his circular. These instructions will have to be carefully noted.

5. Personal Accounts :- The Reserve Bank of India has issued various instructions in its circulars, while opening personal accounts for deposits of various kinds. That the main instructions regarding photos and introduction by the account holder, are being scrupulously followed by the bank should be seen by the auditor. The Reserve Bank has prohibited opening account through clearing in its circular No.BSD.1.PCB.4 /12.0500/2002-03 dated 20.7.2002 and circulars dated 3.12.93, 19.10.94, 28.6.95, 9.11.2000.The auditor should verify that no such accounts are opened during the course of audit. The branches are required to report to HO, opening of accounts, which have been opened by cash, or by transfer of T.T. amounting to Rs.One lakh and above (the limit was subsequently enhanced to Rs.5 lakh).

6. Accounts of the minors :- Reserve bank in its circular has restricted the opening of accounts of the minor, and using the account to operate for his benefit only.

7. ***Know your customer norms :-*** The Reserve Bank of India has made applicable KYC norms to District Central Banks and other cooperative banks and has issued detail instructions in its latest Master circular No. ***DBOD. AML. BC.*** No.***22/ 14.01.001/ 2014-15 July 1, 2014.*** The auditor should verify that directives given in this circular are complied with. Mainly accounts of terrorist groups, suspicious accounts are to be verified and whether the bank has reported such accounts to the concerned authority should be seen. Various compliances are suggested in this circular, such as proof of residence, photo identity, etc. which should be checked.

3.4. ***Nominations to Accounts :-*** Under section 45 of the Banking Regulation Act, the Nominations of account holders are required to be obtained. Accordingly, the auditor should instruct the banks for obtaining the nominations while opening the accounts & care to be taken after the death of the depositor. Provisions in The Co-Operative Banks (Nominations) Rules, 1985 may also be taken into consideration.

3.5. ***Operations in deposit accounts :-***

1. The operations in deposit accounts should be operated as per deposit rules framed by the bank's Board of Directors. Generally these rules contain minimum balance required to be maintained, permissions for number of withdrawals, maximum amount that can be withdrawn, charges that can be levied for non-operation in accounts, safe guards to be taken while operating accounts, The auditor is required to study the rules framed by the bank carefully and to verify that they are strictly adhered to by the bank, and are in accordance with the Reserve Bank of India's guidelines .The Reserve Bank of India has prohibited some operations in deposit accounts in its various Circulars issued from time to time. Auditors are required

to study them carefully and to verify that the bank is following them strictly. These instructions deal with opening of accounts with huge amounts, account opened by an illiterate person. "Person" include, accounts opened by the trust under charitable trust act, society under societies registration act 1864, company under companies registration act, partnership firm, firm, public limited company, liquidator, clubs.

2. The auditor should carefully study the rules regarding power of attorney for operating of accounts, attestation of illiterate person's thumb impressions, Muslim women in burakha, 'stop payment' of cheques, bouncing of cheques as per section 138 of Negotiable Instruments Act.

3.6. ***Period of deposits :-*** Banks can accept deposits for a short interval of 7 days as per Reserve Bank of India circular. The RBI has suggested to the banks in circular that they should not accept deposits for a period longer than 10 years except in the case of death of depositer and not claimed due to legal heirs' dispute, or if the court has ordered the bank to accept deposit for longer period.

3.7. ***Renewal of deposits :-*** Term of deposit, which is exhausted, should be renewed as per circular instruction of Reserve Bank of India. Interest should be given as per term of deposit extended and rate prevailing at that time for the period it is renewed, or as per bank's policy consistent with RBI directives. If the account holder does not renew the term of deposit, no interest should be paid for the period from completion of term to the date of withdrawal by the depositor.

3.8. ***Premature withdrawal of deposit :-*** Interest should be payable for the period the deposit is retained in the bank, and not for the period for which it is deposited, or for the period of maturity. The RBI in its circular has given instructions to the banks for charging less interest to customers case by case.Interest rate should not be reduced for the premature payment of deposits after the death of the account holder when the amount is refunded to its nominee, or if deposits are withdrawn for reinvestment in the bank, or are being withdrawn as per order of the competent court.

3.9. ***Duplicate deposit Receipts :-*** When the account holder has lost original deposit receipt, no duplicate receipt should be issued. However, bank can issue a letter certifying there is deposit in bank, after obtaining indemnity bond from the account holder.

3.10. ***Special features of the deposit :-***

1) Deposits are non-transferable and not negotiable. Deposits can be transferred only by assign-deed as per Transfer of property Act. This deed is required to be registered with Bank for payment or transfer.

2) A person may gift fixed Deposit by mention in his will. As per specific instructions of the account holder or otherwise,after his / her death, it will be refunded to the legal heir after due procedure is completed. Procedure for payment to heir is explained in RBI Circular.

3) If there is lien on the deposit, it should be adjusted in the loan concerned, before payment of the same. Fixed Deposit Receipt is not pledged, if the Income Tax Authorities forfeit it. In this case claim should be lodged as per Section 60 of Civil Procedure Code for the recovery of loan or other lien.

4)The Banks are required to obtain PAN/GIR number of the depositor opening an account with an initial deposit of Rs.50,000/- and above.

3.11. ***Brokerage and commission :-*** The Reserve Bank of India in its circular NO. RPCD. NO. RF. Dir. BC. 23 B / 07.38.01/ 2000-01 dated 6.10.2000, has prohibited banks from paying brokerage on deposits in any form to any individual, firm, company, association, institution or any other person. It has also prohibited appointing of direct sales agents through certain companies after entering into an agreement with them for mobilisation of deposits.

CHAPTER NO. 4
BILLS BUSINESS

4.1. The District Central Banks are now permitted to purchase bills of genuine nature, and business bills. Regular business of collecting bill for collection is also done by the District Central Banks .The Reserve Bank of India has issued various circulars for regulation and precautions to be taken for bills transactions. Auditor auditing these bills has to take at utmost care, as this area is more fraud prone. Kite flying, fishing and accommodation bills are the areas where there are more chances, where the banks have been deceived and misuse of banking channel is done by the customers with the help of the Bank Officers.

4.2. ***Kite flying :-*** The customer or customer's of the bank or branch opens current account on their name and /or their sister concern's name in various branches. Groups of cheques are issued on from one branch to another. They are discounted by way of purchase, and amount is withdrawn. Another group of cheque is issued and withdraws the cash to meet the obligations of bills previously discounted. Issuing higher amounts cheques without having balance in the current accounts makes a chain of such bills and misuse of banking channel is done. The auditors have to take at most care where the bills purchasing facility is offered to any customer. The Reserve bank has issued precautions that may be taken while purchasing the bills in its circulars NO.UBD/ I/ L/ 21-J-1-98-88, dated 20th July 1987 and NO. UBD/ I & L/ 29/ J-1/ 90.91 dated 25th November 1991. NABARD in its circular NO. NB/INSP/POL/ 2448/ E 1/ CCB/ E3/ RRB/ 94-95 dated 29th June 1994 has advised to take care for avoiding the kite flying. Reserve Bank of India's Circular NO. RPCD/ NB.BC.124 /RRB .16.90-91 dated 29th May 1991, the DCCB's are advised not to issue Demand Draft's above Rs. 50000 in cash, but by only crediting the customer's account. The Auditor has to carefully study these circulars & have to take note of following points.

Care while checking Bills transactions :- Care should be taken while checking these transactions, as there are some cases of misuse of banking channel, in cooperative sector. The auditor should check these transactions on the points mentioned below.

1) Check from the bills Register if there is a specific party issuing cheques of the same amount in-groups more frequently.
2) The Bank Manager has granted some concessions to these parties to present these cheques discounting them prior to collection of the same.
3) These parties are granted Bills Discounting Facility for trade transactions and the genuine trade bills are not attached with bills.
4) The cheques are self-drawn or drawn on the same party on another branch or bank or drawn on sister concerns of the party in the same branch, another branch of the same bank, or another bank's branch, and these cheques are cleared or presented in such a manner that the fate days of these branches are covered for clearing.
5) There is no reporting on daily basis of these transactions by the Branch Manager to Head Office; neither is there a query from HO or Internal auditor.
6) The Board of Directors has sanctioned the bills limit after observing necessary care has been taken in case of sanction of loan, that is, creditworthiness of the party, satisfactory business in accounts, submission of stock statements, submission of financial statements, documents to pledge business property, security for the facility.

4.3. ***Accommodation bills :-*** While doing business, the traders issue bills for trading transactions for the goods supplied by them to other parties, which are genuine trade transactions and are supported by the bills or goods advice. These bills are presented through the banks for collection. Some traders issue bills on another party without genuine trade transactions for meeting their financial requirements and do not support any bill or advice for goods supplied; such bills are called accommodation bills. Such bills are

not allowed to be discounted by the banks as per instructions issued by the Reserve Bank of India in its circulars. As these bills are not supported by genuine trade transactions and are clean bills, auditors have to take care that such bills business is not operated by the bank.

Some of the features indicative of such accommodation bills are as under.

a) Bills may be drawn on connected firms i.e., borrowers' own branch, or associate firm.
b) Place of activity of the drawee may not be in locality where similar trade activities are undertaken.
c) The business of drawer and drawee may be totally unconnected.
d) The movement of goods may not represent the goods which are normally traded in by the customer, and
e) There are instances of suspicious telegraphic transfers/ remittances by customers to the drawee that have to pay the bills.

The auditors should verify the detailed confidential / market reports of the entire drawee and if bills on such parties are repeatedly drawn, it will be preferable to have sub-limit. Care is to be taken while auditing these transactions. In the recent past there have been a few instances, where, the customers have misused the banking channel.

Accommodation bills : Auditor should see the following points carefully :-

a) Check whether a group of cheques is issued by the party on specific banks with regular frequency and the same amounts are nearly constant or increasing for the purpose of discounting the same.
b) Cheques above Rs. 50000 must be discounted with joint signature of Branch Manager and Accountant or Cashier as authorised by the bank management.

4.4. ***Processes regarding bills business :-*** The banking business runs with some processes relating to the various types of documents. Especially, the cheques and bills are cleared through the clearinghouse; they are adjusted through the branch adjustment section as well, and for cooperative banks through the Mutual Arrangement Scheme, which is provided by the State Cooperative Banks. It is better for the Auditors to get acquainted with these procedures to conduct audit effectively.

The Reserve Bank of India had issued master circular on bills business in 2006 and thereafter in the month of July every year it is modified; the auditors should study the circulars and accordingly necessary remarks should be offered in their audit report.

4.5. ***Clearing Difference :-*** Sometimes there are differences in clearing due to reasons given below and banks show them under the head "Sundry Debtors or other receivable or payables head" as 'Clearing Suspense' or 'Clearing Difference'. The auditors should specifically mention these differences and suggest to the bank to clear these differences, as these lead to frauds and embezzlements.

1) Name of the bank is entered incorrectly in bank Patti
2) Incorrect date is entered in bank patties.
3) Incorrect amount of document is entered in bank patties.
4) Total of bank Patti is taken incorrectly.
5) The document is incorrectly entered in another bank's Patti.
6) Entries of bank patties do not tally with the document enclosed with it.

4.6. ***Mutual Arrangement Scheme :-*** The Maharashtra State Coop. Bank has introduced this scheme for the cooperative banks in the State. In this scheme, the Coop. Banks have to open current accounts with the MSCB. From this account, the cheques, D.D.'s, T.T.'s, and M.T. are adjusted for these accounts. Previously, every branch's account was opened with SCB; however the SCB bank has discontinued this practice. This scheme works on the same principles of clearing house. The auditors have to take the same care as is taken while auditing the transactions of clearing house. The pending entries

must be cleared and adjusted within a period of three months, otherwise banks have to provide for them as per Prudential Norms. The auditors should mention in their audit report the long pending entries and reasons thereof. The bank on monthly basis should prepare the reconciliation statement. Reasons for pending entries are somewhat the same as stated in the branch adjustment paragraph below.

4.7. *Branch Adjustment :-*

1. Requirement :- DCCB's have many branches in their respective Districts. There are many transactions which take place between them. The branch adjustment account is opened mainly to clear the entries that take place between its own branches, maintaining accounts of every branch at Head Office level. All entries that take place between branches are adjusted through this account. The transactions that are normally routed through this account are realization of cheques , D.D.'s , M.T.'s , remittance of cash by and to the branches , expenses and incomes that are transferred to H.O., and assets and liabilities that are transferred to the branches and by the branches to other branches.

2. Procedure :-

1) When the sum is transferred to another branch, the HO credits one branch and debits another one. The receiving branch makes entry in its branch adjustment account (i.e. A/c.) by issuing credit or debit advice respectively. The advices are recorded by another branch in its HO A/c.
2) When sum is transferred by HO to Branch or Branch to HO. The HO issues debit or credit advice as required and the branch confirms this transaction with the advice.

3. Reason for reconciliation :-

Branch adjustment account is required to be reconciled by both at branch level as well as HO level and confirmations to that regard must be sent to HO on monthly or fortnightly basis. This helps in clearing of pending entries due to various reasons and preventing of frauds or irregularities in advance.

The auditor must check entries above 3 months' duration with reasons for pendency and correspondence made to clear the entries. The reasons for pending entries are given below. The auditors should see that there are no reasons like frauds or otherwise for these pending entries other than those that are narrated below;

1) HO or Branch records the entries prior to date of Balance Sheet or after the Balance Sheet date.
2) Branch transferring sum has issued advice, but HO or the receiving branch does not receive the same.
3) Advice issued by one branch is recorded by another branch, or HO has issued its credit or debit advice to the branch, which is not related with the specific transactions.
4) An amount of debit and credit advice is not matching with the transaction amounts.
5) The details in advice are incorrect or incomplete for recording the transaction.

CHAPTER No. 5

INVESTMENTS

5.1. As per Banking Regulation Act 1949 (AACS), the DCCB's have to invest their resources to comply with the provisions of the section 18 and 24 for Liquidity and cash reserve purposes. Apart from these investments, there are surplus funds available with the banks after disbursing loans, called surplus funds. In its various circulars issued from time to time, the Reserve Bank of India has permitted these funds to be invested in various forms, but with certain restrictions.

5.2. ***Investment for Liquidity Purposes :-***

1. As per section 18 & 24 of BR Act (AACS), the DCCB's are required to maintain Cash Reserve Ratio (CRR) and Statutory LiquidityRatio (SLR) of Net Demand and Time Liabilities (NDTL) as per the directions given by the Reserve Bank of India. Every DCCB has to maintain liquidity register. The auditor is required to verify this register, and confirm that the Bank has maintained CRR and SLR at required percentage.

2. **Objects of CRR and SLR :-** The CRR and SLR were initially evolved as means of safeguarding the interests of the depositors, but later developed into instruments of credit control. The cash reserve ratio and statutory liquidity ratio are direct instruments of monetary policy which are used by RBI for changing the amount of cash reserves of banks and thus affecting their credit creation capacity and cash flow in banking system.

3. As per Reserve Bank of India's circular no. RPCD / BC no.16 dated 21-07-2014, all STCBs and CCBs are required to invest 5% of NDTL in approved securities from 31-03-2015, 10% from 31-03-2016 and entire SLR on 31-03-2017.

In interim period, balance maintained and CCBs with STCBs of State concerned and term deposit held by STCB / CCB with public sector banks will be considered eligible for being reckoned for SLR purpose upto 31-03-2017.

As per Reserve Bank of India's circular no. RPCD / BC no. 110 dated 05-06-2014, CRR for non scheduled SCBs and all CCBs is 4% of NDTL on par with STCBs w.e.f. 12-07-2014.

SLR for all STCB and CCBs will be 22.50% of NDTL w.e.f. 12-07-2014.

Term deposit held by SCB and CCBs with public sector banks will be eligible for being reckoned for SLR purpose in interim period upto 31-03-2015.

Balance kept with SCBs and term deposit with public sector banks will not be eligible for being reckoned for SLR purpose w.e.f. 01-04-2015.

4. RBI describes the calculation of NDTL in their circular. Terms such as NDTL, Banking system, liabilities in India, Demand liabilities, time liabilities are explained in the manual of Urban Banks. Auditors have to study the circulars, terminologies, and method of calculation for verification of correctness of the CRR and SLR to be maintained by the DCCB's. The Bank has to submit details of assets and liabilities in Form IX as per section 27(1) and rule 9 of the Banking Regulation Act 1949 (AACS) and in Form No. "I" for maintenance of CRR and SLR.

5.3. ***Investment Portfolio Management :-*** Reserve Bank of India, in its circular No. RPCD No. RF. BC. 17 /A.4-92/93 Dated 4.9.92 has issued detailed instructions regarding Investment portfolio management. The instructions have been modified there after in Master Circulars issued from time to time.

1. Investment policy :- The DCCB's who are transacting on behalf of portfolio management scheme (PMS) clients have to prepare policy for investment in securities. As per this circular, the policy should contain the objectives of investment; define the authority to put the deals through, procedure to be followed for obtaining the sanction of appropriate authority, procedure to be followed for putting through deals, various prudential limits, and the reporting system. The Reserve Bank of India has instructed that the following instructions be observed while laying down investment policy.

a) Ready forward (buy back) deals are totally prohibited except treasury bills of all maturity, and no such transactions have taken place

b) All double ready forward transactions including treasury bills are strictly prohibited, and no such transactions have taken place.

c) No ready forward or double ready forward transactions have taken place in any other securities, such as public sector undertakings, and units and no such transactions have taken place.

d) No ready forward or double ready forward transactions should be put through in any security including Government securities on behalf of PMS client's accounts, or on behalf of constituents including brokers, and no such transactions have taken place.

e) All transactions in Government Securities for which SGL facility is available should be put through SGL Accounts only and no such transaction has taken place.

f) The banks have taken care prior to issuing SGL transfer form so that there is sufficient balance in SGL Account; no transfer form should bounce for want of balance. The auditors should check that there is no bounce on this ground and the RBI has not imposed penalty. The thrice bounce of SGL forms results in the bank being barred from SGL transactions; auditors are required to check these transactions very carefully.

g) The purchasing bank has issued cheques only after receipt of SGL transfer form.

h) SGL transfer form is signed by two authorities, whose signatures are recorded with public debt office.

i) The SGL forms are in specified form prescribed by RBI and on semi-security paper with serial number.

j) The selling bank has immediately debited the SGL account after receipt of SGL form.

k) Bank receipts : No bank receipts are issued by the banks under any circumstances in respect of transactions in Government Securities for which SGL facility is available. In other cases, BR should be issued only for ready forward transactions, subject to condition that the scripts are yet to be issued by the issuer and the bank is holding the allotment advice and the security is physically held at a different centers and the bank is in a position to physically transfer the security and give delivery thereof, within a short period. ***The DCCB's are not allowed in transactions of BR.***

2. Investment :- ***Internal control system.***

1) There should be clear separation of functions of trading, Settlement, monitoring, control and accounting.

2) There should be separation of trading (front office) and back office functions relating to banks on accounts and Portfolio Management System (PMS) client's accounts and other constituents and their client's accounts.

3) The banks are required to follow the guidelines mentioned in ***annexure I*** of the above-mentioned circular for the portfolio management on behalf of the clients.

4) The banks should get this investment portfolio audited from the external auditor.

3. Dealing Procedure :- The dealing procedure is explained in the Master Circular dated 4.9.92, on Investement, and then after Master circulars issued every year in the month of July, the auditors should carefully study the procedure and verify that the bank has strictly followed the procedure.

4. Dealing through Brokers :- Dealing through the broker should be restricted to bringing the two parties to the deal together. The broker should not disclose the party during negotiations, but can disclose at conclusion of the deal. Fund settlement and delivery of security should be directly done between banks, and broker should have no role to play as the process is through demat account only. Banks are required to prepare a panel of brokers with the approval of Board of Directors of the Bank. Bank should not deal through a select few brokers only. The RBI has fixed the limit of 5% of total transactions entered into by

a bank during a year as contract limit for each approved broker in circular No. RPCD.No. BC. 53/ 07.02.08/ 93-94 dated 20.10.93. This circular is revised in the month of July every year as a master circular; auditor should see them while auditing and pass remarks in his audit report accordingly.

5. Audit, Review and reporting :- Banks are required to take quarterly review and audit from external auditor of investment portfolio and put up the same before Board of Directors / audit committee within one month. A copy of the review report should be forwarded to RBI as well as to the Inspection department of NABARD.

6. Government securities investment / CSGL/SGL Accounts :-

1. The RBI in its circular No. RPCD. RF. No. BC 78/ 07.37.02 /2001-02 dated 16.4.2002 has restricted investmentto government securities only in SGL accounts with RBI or CSGL with SCB, commercial banks, Depositories and Stock Holding Corporation of India.

2. The RBI has givenfollowing guidelines in its circular No. RPCD.RF.BC 98/ 07.37.02 / 2001-02 dated 20.5.2002 and 20.5.2002

(vii) G

(i) All DCCB's have to open SGL/ CSGL account with RBI/ SCB

(ii) All purchases and sales of Government securities should be done through the CSGL/SGL / Demat account with effect from 1.7.2002.

(iii) No transactions should be undertaken in physical form.

(iv) Banks should ensure that the brokers approved by bank are registered with debt market segment of National Stock Exchange, Mumbai Stock Exchange, and Over-the-Counter Exchange of India Ltd.

(v) Only one CSGL or dematerialized account should be opened.

(vi) vi)The designated funds accounts should be opened with the bank having CSGL account only.

(vii) The bank should ensure availability of clear funds in designated funds accounts for purchases and sufficient securities in the CSGL account for sales before putting through the transactions.

3. The RBI has directed banks to conduct separate audit of investment transactions by internal auditors and results of audit should be submit before CEO of bank every month, and placed before board of directors in every quarter. This report should be forwarded to the RO of RBI/ NABARD. The auditors have to certify that the securities are actually owned / held by the bank and are evidenced by physical securities orthe custodian's statement. (Circular No. RPCD. RF. BC. No. 107/ 07.02.03/ 2001-02 dated 18.6.2002.

5.4. *Investment of surplus Funds :-*

1. The RBI has permitted the DCCB's to invest their surplus funds to the extent of 10 % of *their genuine surplus fund* in PSU bonds (circular No. RPCD No. BC.46/ 07.02.03-94 /95 dated 6.10.94). The RBI has laid down the following conditions for this investment,

1) The bank should have and continue to comply with the ***minimum involvement***, requirement of ***NODC*** discipline stipulated by NABARD.
2) All legitimate credit needs of the cooperatives in district should have been fully met.
3) There should not be defaults in repayment of dues to NABARD and in the maintenance of the stipulated CRR and SLR.
4) If there is a provision in State Coop. Societies Act, necessary permission of the Registrar should be taken.
5) The RBI has permitted investment in PSU bonds for a period not exceeding 90 days.Letter of request seeking permission to make this investment may be forwarded for consideration to RBI.
6) The RBI in its circular No. RPCD. RF. BC.29/ 07.02.03/ 2001-02 DATED 29.9.2001 permitted the DCCB's to invest in equity/ bonds of All India Financial Institutions within the overall ceiling of 10 %.

2. The NABARD has advised in its circular NO. HO.NB. PCD (OPR) 3437 / A.13094-5 dated 4.1.95 to invest surplus funds of DCCB's in;

1) Certificate of deposits issued by scheduled / commercial banks and IDBI.
2) Fixed deposits of IDBI/ EXIM bank,
3) Indira Vikas Patra / UTI units 1964, units scheme 1995[circular NO. NB PCD (OPR) 1.130/ 95-96 dated 6.10.95] and
4) Bonds issued by Public Sector undertakings, with the prior approval of RBI.

3. The NABARD has illustrated the method of arriving at 5% of surplus funds for discretionary investment for deployment of surplus funds as below. (Circular NO. NB. PCD/ 30/98-99 dated 12.1.99);

a) Monthly average working funds of CCB During the preceding cooperative year
b) Less- Monthly average outstanding loans and Advances for the same period
c) Less- 35 % of monthly average of DTL for the same period.
d) 5% of net surplus available for discretionary

4. **Investment by the bank** :- The RBI has prohibited DCCB's from investing their surplus funds in Urban Cooperative banks in its circular NO. RPCD.RF.BC.92/ 07.02.03/ 2001-02 dated 8.5.2002.

5.5. ***Guidelines :-*** RBI/NABARD gives the auditors of DCCB's responsibility of certifying the Investment portfolio of the banks. For the guidance of auditors and banks. NABARD has issued detail guidelines in his circular NO. NB. Dos. HO. POL/ 948/ j.1 / 2002-03 {circular No, 140/ Dos-13/2002}) dated 19.6.2002. The auditors should study this and other circulars with ***annexure I to IV*** enclosed with them. The annexure includes guidelines on following topics.

Annexure I - Important instructions on investment for SLR and NON-SLR surplus funds.
Annexure II - Transactions in securities.
Annexure III - Securities trading.
Annexure IV: Government securities.

CHAPTER No. 6

INTERNAL CHECKS AND CONTROLS IN COMPUTERISED ENVIRONMENT

6.1. ***Electronic banking*** **:-** allows banks to expand their markets for traditional deposit mobilization, credit extension activities and to offer new products and services to their customers. Computerization of banking operations leads to improvement in the way the banking business is conducted, but this is not without attending risks. Risks associated with computer are varied. Operational risks may be the most important risk category in electronic banking and electronic money activities. Operational risk arises from the potential for loss due to loss of important data, computer abuses/ frauds caused by outsiders or employees, improper protection of hardware and software. Significant deficiencies in computer system reliability, integrity, unauthorized access, use of information, loss of integrity of information on account of unauthorized/ intentional change or manipulation of data etc. These type of risks can also arise from inadequately designed or implemented electronic banking system.

6.2. ***Need :-*** There is, therefore, an urgent need for banks to have a good EDP system with proper audit/ control over such system. It must be insured that the accuracy of data, timeliness, effectiveness and reliability are consistently maintained in order to safeguard assets. It is also necessary that banks exercise necessary checks and controls, which would minimize the risks involved and lead to risk management. It is essential that banks have a comprehensive risk management process in place that is subjected to appropriate review by the Board of Directors and senior management.

6.3. ***Areas :-*** The controls broadly need to be exercised are as under: -

(i) System development / maintenance controls.

(ii) Data security / access controls.

(iii) Database controls.

(iv) Telecommunications controls.

(v) Contingency planning through back-up recovery and redundancies and

(vi) System software controls.

For security of computerized environment, the Information Technology Act has suggested various safeguards in the Act. Banks should follow them keeping in mind the risk prone areas.

6.4. ***Requirements :-*** Major factors which lead to security violations in computers are absence of security policies and measures, inadequate or incomplete system design, programming errors, weak or inadequate logical access controls, absence of procedural controls, ineffective employee supervision and management controls.

6.5. Measures :- A few other measures that would be of help in this regard are indicated below :-

a) Duties of system programmer are segregated from person operating the system and there should be separate persons to perform the above two functions.

b) Appropriate control measures involving physical, logical and procedurs should be devised and documented to protect system from attacks of unscrupulous elements within and outside the organizations.

c) Screening employees prior to induction in EDP application areas and keeping watch on their behavioral pattern.

d) Senior management may communicate to key staff how the provisional electronic banking is intended to support overall goals of the bank. The technical staff should also communicate to senior management how systems are designed to work, as well as strength and weaknesses of system. To ensure adequate internal communications, all policies and procedures should be provided in writing. Senior management should adopt corporate policies of on going education and upgrading skills and knowledge in order to limit operational risks.

e) Banks rely on external sources for providing system and software services and therefore should adopt policies to limit risk arising from reliance on outside service providers, as security of bank's sensitive information is of critical importance. Bank management should evaluate the ability of the service provider to maintain the same level of security as though the activities were conducted in-house, through the review of service provider's policies and producers' aimed at protecting sensitive data.

f) A bank can limit the risk of disruptions in internal processes or in service or product delivery by developing contingency plan that establish its course of action in the event of disruption. The plan may address data recovery, alternative data processing capabilities, emergency staffing and customer service support.

g) In order to ensure a consistent and reliable system for inputting, processing and generation of output data, the following check should be introduced.

(i) Test to identify erroneous processing.

(ii) Tests to assess the quality of data.

(iii) Tests to identify inconsistent data.

(iv) Tests to compare data with physical forms and

(v) Confirmation of data with outside sources.

h) Periodical inspection / audit of these areas need to be ensured with the help of component personnel. Inspection / audits provides an important independent control mechanism for detecting deficiencies and minimizing risk in the provision of electronic banking, wherein two approaches may be followed . One is to examine output in relation to the input without going into details of processing involved in such applications. This procedure may be adopted where the system is simple and the system has generalized software that is well tested and used by many users. The other approach is to use computer to test logic and controls existing within the system and also records produced. Inspection / audit using computer is done where:-

(i) Application system consists of processing of large volume of input and producing large volume of output and where direct examination of input / output would be difficult.

(ii) Logic of the system is complex.

i) During concurrent audit, auditor may collect audit evidence at the time of processing of application system. The evidence is recorded in a file created in the system and periodically printed for analysis and evaluations.

j) The role of inspection / audit is to ensure that appropriate standards, policies and procedures are developed and that the bank consistently adheres to them. Computer abuses/ frauds can be minimized by verifying all the security aspects of system, inputting, processing and generation of output critically and suggesting immediate steps for removing any laxity in controls. Entire domain of EDP activities (from policy to implementation) should be brought under security of inspection / audit department. Senior management at periodical intervals should review financial outlay as well as activities to be performed by EDP department. During audit / inspection, all stoppages / disruptions in computer operations from the last audit period till the current date in order to access breach of security, if any, which could have resulted in such stoppages/ disruptions should be examined in detail. All failures due to human errors should be documented for preventing recurrences in future. It must also be ensured that the security aspect of data preserved under back-up arrangements is kept under proper security/ custody.

6.6. *Audit trails* :- In all application systems, there should be system of generating ***exception report*** which is automatically triggered when a control point is violated and such reports should form a part of ***MIS report*** so that deviations could be brought to the notice of senior management for ratification /

rectification ongoing basis. The EDP auditor should verify whether all the exception reports have been put up before immediate senior management and ratification is obtained for such deviations. He should verify whether ratification is done in a manner or enough care is taken for minimizing deviations in future.

Reserve Bank had established a committee under the Chairmanship of Dr.R.B.Barman, Executive director and he has submitted his report for EDP Audit. The report should be carefully studied by the auditors, mainly for prevention of frauds and errors in computerised environment.

6.7. *Computerised system audit (Information System audit) :-*

1. What is Information System audit :- The committee has defined this audit as "***auditing is a systematic independent examination of the information systems and the environment to ascertain whether the objectives, set out to be met, have been achieved***". Auditing is also described as continuous search for compliance. The auditors may not necessarily examine the entire system. They may examine a part of it only. Auditing covers primarily the following broad major areas of activity:

a) Gathering of information
b) Comparison of information and
c) Asking why?

2. The committee has described the following types of audit

1) Adequacy audit (systems audit)
2) Compliance audit
3) Internal audit, external audit and Extrinsic Audit
4) Financial audit,
5) Information systems Audit and Operations Audit.

3. Risks connected audit :- The deployment of information technology in banks and financial institutions, both in the front and back office operations, has facilitated greater systemic efficiency in the banking and financial sectors. It has, at the same time, introduced new areas of risk. Risk is inherent in the traditional banking and financial activities. However, risk in a computerised and networked environment is multifarious such as operations risk, reputation risk, legal risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk which are elaborated elsewhere in this manual. The auditor is required to study them and while auditing search for the same and suggest the internal control measures to minimize them.

4. Financial audit :- This report elaborates the system of financial audit in various phases. In the first phase, the auditors have to draw up an audit plan. Second phase will consisting of internal controls, which have been set up by the bank, and tests thereof. Third phase includes detailed drill-down tests conducted by scrutiny of the individual transactions, selected from a fairly large sample of the business transactions.

5. Compliance Audit :- The committee has related this audit with compliance of variety of laws and regulations that the organization has to comply with. The violation of these laws and regulations would result in imposition of huge fines and penalties. The committee also describe this audit in three phases: 1) planning of compliance audits 2) test and control phase and 3) sample of transactions testing.

6. Information systems (IS) Audit :- IS audit is systematic process of objectively obtaining and evaluating evidence/ information regarding the proper implementation, operation and control of information and the Information System resources, IS audit could be considered a part of Financial Audit. The lack of physical procedures, which can be easily verified and evaluated, injects a high degree of complexity into IS audit. Therefore, a logical framework for conducting an audit in the IT environment is critical to the auditor in identifying all-important processes and data files.

7. IT audit's three phase :- This audit is conducted in 3 phases.

1) Planning
2) Security controls testing
3) Substantive testing of individual transactions.

8. Planning :- The auditor must identify the various risks and exposures and the security controls, which provide safeguards against exposures. The test in regard to these is planned in the first phase.

9. Security controls testing :- control activities are divided into two parts, viz.

1) Computer controls and
2) Physical Controls.

These control activities are policies and procedures used by the bank to ensure appropriate action to be taken to deal with the identified risks. Computer controls and security control include general controls and application control. General controls mean the control over the data center, database control, system development control, program maintenance control, and applications control is concerned with the application software control. Physical control includes access control, transaction authorization, and segregation of duties, supervision, accounting records and independent verification. The auditors are required to verify these areas and confirm about the security controls.

10. Substantive test :- There are computer assisted audit tools and techniques available in the computer systems, built in as audit trails. The auditor should check the individual transactions as well as parameters set for the transactions in the software on test basis. The *Computer aided audit tools and techniques* (CAAT) software is also available to the auditors for test checking which are based on five basic approaches.

1) Test Date method
2) Base case system evaluation
3) Tracing
4) Integrated test facility and
5) Parallel simulation.

11. Test data method :- This method is used to establish application integrity by processing specially prepared sets of input data. The results of each test are compared with the predetermined expected results.

12. Base test case system evaluation :- Under this method, a base test set of transactions is prepared along with expected results. This set of transactions is comprehensive and all possible transactions are included. Whenever testing is done, the results are compared with the results of the base test data results, which were obtained initially.

13. Tracing :- Under this method, the test data does a virtual walk through the application logic. The test data prepared for tracing is run and the result shows the exact listing of the programmed instruction, executed while the test data was processed.

14. Integrated test facility :- This is an automated test technique, where the audit module is designed in the application program itself to be run in the normal course of operation by the application program with a specific choice of test data, and where the application program distinguishes between the actual transactional data and test transaction data for simultaneous integrated audit and normal operations.

15. Parallel simulation :- This requires the auditor to write a program that simulates the key features and processes of the application. The program is run on the pre-processed actual transactional data and the results obtained are compared with the actual results obtained.

6.8. *The IS Audit :-* is required to be done by the Chartered Accountant as per the Reserve Bank of India circular NO. POT. PCB .30/ 09.96.00/ 2001-02 dated 12 February 2002. The auditors should verify whether the bank has complied with the points raised by the Information System Auditor.

6.9. Verification by auditor :- The Statutory auditors are required, for their satisfaction and for accuracy of the financial statement, to test check some parameters with the help of the software consultant and for physical and other controls; the questionnaire below is required to be filled by the auditors. This questionnaire is not an exhaustive one as the banks use different software.The auditors should modify the questionnaire and add necessary questions. The auditors in their audit notes should include this questionnaire.

Check list for Information System Audit of Bank as recommended by RBI

Legend on Asterisk - - in the Serial Number Column (signifying Severity)

*** (One Asterisk) indicates a Weak Control.**

**** (Two Asterisks) indicate an observation with Fair significance.**

***** (Three Asterisks) indicate that this is a Crucial Observation.**

Sr.No. / Severity * ** ***	Control Check	Obser-vation	Recomm-endation
1	2	3	4
1	**Business Strategy**		
1.1	Whether the business strategy is documented and business objectives have been defined and the role of IT has been clearly spelt out in the Business Strategy.		
1.2	Whether information technology issues as well as opportunities are adequately assessed and reflected in the organization's strategy, long term and short term plans.		
1.3	Whether assessments are made periodically by the bank to ensure that IT initiatives are supporting the organization mission and goals.		
1.4	Whether major developments in technology (hardware, software, communication etc.) are assessed for their impact on the business strategy and necessary corrective steps, wherever needed, are taken.		
2.	**Long Term IT Strategy**		
2.1	Whether long term IT strategy exists and is documented.		
2.2	Whether the Long Term plan covers --Existing and Proposed Hardware & Networking Architecture for the Bank and its rationale --Broad strategy for procurement of hardware, software solutions, vendor development and management --Standards for hardware / software prescribed by the proposed architecture --Strategy for outsourcing, in-sourcing, procuring off the shelf software, and in-house development --Information Security architecture --IT Department's organizational structure --Desired level of IT Expertise in Banks human resources, plan to bridge the gap, if any --Strategies converted into clear IT Initiatives with a broad time frame --IT Costs and cost management --Plan for transition, if any		
2.3	Whether the Long Term plan is approved by the Board.		
2.4	Whether organization structure of IT has been made part of the IT plan.		
2.5	Whether IT long-range plan is supporting the achievement of the organisation's overall Mission and Goals.		
2.6	Whether a structured approach to the long-range planning process is established.		
2.7	Whether the plan is covering ***what, who, how, when and why of IT.***		
2.8	Whether, prior to developing or changing the long term information technology plan, management of the information services function have assessed the existing information systems in terms of degree of business automation, functionality, stability, complexity, costs, strengths and weaknesses in order to determine the degree to which the existing systems support the organization's business requirements.		

1	2	3	4
2.9	Whether organizational model and changes to it, geographical distribution, technological evolution, costs, legal and regulatory requirements, requirements of third-parties or the Checklists for IS Audit Committee on Computer Audit market, planning horizon, business process re-engineering, staffing, in or out sourcing etc. are taken into account at the time of planning process.		
2.10	Whether plan refers to other plans such as the organizational plan and the information risk management plan.		
2.11	Whether process exists for implementation of timely and accurate modification of the long range IT plan taking into account changes to the organization's plan and in business and information technology conditions.		
2.12	Whether a security committee, comprising of senior functionaries from IT Department, Business Group, IT Security Department and Legal Department has been formed to provide appropriate direction to formulate, implement, monitor and maintain IT security in the entire organization.		
3.	**Short Range IT Plans**		
3.1	Whether long-range IT plans are converted to short-range IT plans regularly for achievability.		
3.2	Whether the IT Short range plan covers the following: --Plan for initiatives specified in the Long range plan or initiatives that support the long range plans --Systemwise transition strategy --Responsibility and plan for achievement		
3.3	Whether adequate resources are allocated for achieving the short-range plans.		
3.4	Whether short-range plans are amended and changed periodically as necessary in response to changing business and information technology conditions.		
3.5	Whether assessments are made on a continuous basis about the implementation of short range plans.		
3.6	Whether clear-cut responsibilities are fixed for achieving the short range IT Plan.		
4.	**IS Security Policy**		
4.1	Whether a well-documented security policy is available.		
4.2	Whether Inventory of IT assets are made part of the policy? Whether inventory of IT assets is kept at branch / office level.		
4.3	Whether policies related to IT activities are listed in the security policy.		
4.4	Whether the policy takes into account the business strategy / plan for the next 3 – 5 years.		
4.5	Whether the policy takes into account the legal requirements.		
4.6	Whether the policy takes into account the regulatory requirements.		
4.7	Whether the policy is approved and adopted by the Board of Directors / Top Management.		

1	2	3	4
4.8	Whether the policy is communicated to all concerned and is understood by them.		
4.9	Whether the following major security areas are covered in the policy : - PC and LAN, MAN and WAN security - Physical Security to IS establishments - Handling of confidential information - Handling of security incidents - Privacy related issues for outside entities - E-mail security - Application security - Interface Security - Password Security - Operating system security, web site security - Database security - Antivirus and piracy policy - Archived and Backed up data security - Procedures for handling incidence of security breach - Disaster Recovery Plan - Use of cryptology and related security - Persons responsible for implementing security policy and consequence for willful violation of the Security Policy		
4.10	Whether a review process is in place for reviewing the policy at periodic intervals and /or on any other major event.		
5.	**Implementation of Security Policy**		
5.1	Whether documented security policy is made available to all the levels of users to the extent relevant to them.		
5.2	Whether continuous awareness programs are conducted for security awareness.		
5.3	Whether the role of information Security Officer with responsibilities for implementation of the Security Policy has been assigned.		
5.4	Whether detailed procedures for each policy statement are developed.		
5.5	Whether suitable methodologies are adopted for implementation.		
5.6	Whether suitable security tools are selected for implementation.		
5.7	Whether the roles of the implementers are clearly defined.		
5.8	Whether the budgetary allocation for implementation of IS security is assessed and documented.		
5.9	Whether periodic security audits are carried out.		
5.10	Whether on the basis of audit reports or any other vital information suggestions for updating the security policies are conveyed to the right / appropriate management.		
5.11	Whether management demonstrates adherence to the Security Policy.		
5.12	Whether new entrants are given adequate exposure to the security policy.		

1	2	3	4
5.13	Whether in case breaches of security policy the root cause is analyzed and preventive and corrective actions are taken.		
5.14	Whether incidence-reporting procedures have been followed.		
5.15	Whether the Information Security Officer is made responsible for reporting non-compliance with the approved policy and incidents of security breaches to the Top Management, and initiating and effecting corrective action.		
6.	**IS Audit Guidelines**		
6.1	Whether documented and approved IS Audit guidelines are available.		
6.2	Whether IS audit guidelines are consistent with the security policy.		
6.3	Whether the IS audit responsibilities have been assigned to a separate unit which is independent of IT Department.		
6.4	Whether periodic external IS audit is carried out.		
6.5	Whether independent security audit is conducted periodically.		
6.6	Whether contingency planning, insurance of assets, data integrity etc. is made part of external audit.		
6.7	Whether vulnerability and penetration testing were made part of external audit.		
6.8	Whether the major concerns brought out by previous Audit Reports have been highlighted and brought to the notice of the Top Management.		
6.9	Whether necessary corrective action has been taken to the satisfaction of the Management.		
6.10	Whether adequate training facilities are provided to IS audit teams so as to enable them to conduct audits effectively.		
6.11	Whether IS audit team is encouraged to keep themselves updated.		
6.12	Whether IS auditors exchange their views and share their experiences internally.		
7.	**Acquisition and Implementation of Packaged Software** Note:-Procurement and implementation of packaged software has various stages in the entire process. The information system auditor (SA) has to familiarize himself with the policies and practices of the bank with regard to software procurement and implementation. The IS Auditor should have prior discussion with the IT Department and should gain the following knowledge before commencing audit work of this area --IT Infrastructure and environment in the Bank --Resources available in the IT Department of the Bank --Software Products procured and implemented during the period --Status of the implementations --Problems if any faced by the users after implementation --Errors noticed in processing transactions in the procured system --Any errors resulting in financial loss, regulatory / compliance issues, serious customer complaints etc.		

1	2	3	4
	Note : This check list does not address commercial consideration for which regular audit guidelines have to be applied. This checklist is divided into the following Areas : (a) Requirement Identification & Analysis (b) Product & Vendor Selection Criteria (b) Vendor Selection Process (c) Contracting (d) Implementation (e) Post Implementation Issues		
	(a) Requirement Identification and Analysis		
7.1	Is there an annual plan covering areas requiring computerisation approved by Top Management?		
7.2	Is plan in line with the Banks overall IS Strategy?		
7.3	Has a functional manager or a committee been identified as responsible sponsors for an area requiring computerisation?		
7.4	Have the costs of computerisation been budgeted and included in the overall IT Budget of the Bank?		
7.5	Has a detailed plan been made by the IT Department, clearly providing the date of commencement, activities involved, target date of final implementation and estimated costs for each area identified?		
7.6	Has this plan been approved by the Sponsor?		
7.7	Has a document been prepared clearly detailing the following requirements : Functionality		
7.8	In case of replacement, the problems faced in the existing system and need for replacement, Performance, Security, Operations Risk Mitigation, Acceptance Criteria for the System, Changes in the operating procedures required to implement the proposed system and persons responsible and plan for effecting the changes, Transition / Migration from existing to proposed plan for a smooth transition, Interface requirement with Other Computer Systems.		
7.9	Have the requirements been graded as Vital, Essential and Desirable? Has the Sponsor approved the requirement document?		
	b) Vendor Selection Criteria		
7.10	Has the Requirement Document been translated clearly into product acceptance criteria? Has Acceptance Criteria been classified into: 'Show Stoppers' 'Allowable Customisations' 'Desirable positive features'		
7.11	Does the IT Department have a technology standard for product selection?		
7.12	Does the Technology standard cover: --Architecture --Open Database standards --Interfaces and API Standards --Security Standards		

1	2	3	4
7.13	Are the Product Selection criteria consistent with the IT platform of the Bank? Does the Bank have clearly laid down and approved guideline for selection of product vendors?		
7.14	Does the Vendor Selection guideline address the following: --Market Presence --Years in operation --Technology alliances --Desired size --Customer base and existing implementation --Support --Possibilities of partnership or strategic alliance --Source code availability --Local Support in case of foreign vendors		
7.15	Has the selection criteria been decided by the IT Department in consultation with User Departments?		
7.16	Has the Sponsor approved the Selection Criteria?		
7.17	Does the policy of the bank permit beta-site installations? If yes, are criteria for selection distinctly different from regular guideline?		
7.18	Does the IT Department use scoring model for evaluating the products and vendor?		
7.19	Do the scoring criteria consider the following factors: --Extent of customization and work around solutions --Security Features --Technology fit --Performance & Scalability --No. of installations --Existing customer reference --Cost? --Vendor Standing		
	(c) Vendor Selection Process		
7.20	Does the IT Department have a system to identify potential vendors for an area (such as subscription to magazines; rating reports and reports of specialized agencies such as Gartner, IDC, Data Quest etc.,)?		
7.21	Are reports of specialized independent rating agencies used for short listing vendors?		
7.22	Does the Bank have a system of floating formal RFP (Request for Proposal) for systems with estimated budget exceeding a certain amount?		
7.23	Is there a core team comprising personnel from IT Department, Functional Departments and Internal Audit Department in charge of vendor selection and implementation?		
7.24	Is the process of selection for each area approved by the Sponsor?		
7.25	Are Meetings of the Core Team documented?		

1	2	3	4
7.26	Does Team use prepared check lists for: (a) Product Evaluation (b) Site Visits (c) Customer Reference		
7.27	Is final evaluation and selection fully documented and approved by the Sponsor?		
7.28	Does the document clearly reflect the rationale used for the selection?		
	(d) Contracting		
7.29	Does the bank have approved terms and conditions for Product Licensing Agreements?		
7.30	Do the Licensing terms contain: a) Escrow mechanism for Source codes b) Facilities for minor customisation c) Maintenance and Upgrades		
7.31	Does the Bank have a Service Level Agreement with Product Vendors for Support andMaintenance?		
7.32	Where the contract is entered with a Distributor or Reseller, is there a commitment to ensure that the actual owner would support the Bank in case of relationship between the owner and the reseller breaks?		
7.33	Does the contract clearly segregate duties and responsibilities of the Bank and the Vendor?		
7.34	Does the contract include a clause to protect the Bank from the Vendor using the bank data?		
7.35	Does the contract clearly specify the product base lines?		
	(e) Implementation		
7.36	Is gap analysis between the requirement and the selected product carried out and documented?		
7.37	Does this document act as the basis for further implementation plans?		
7.38	Does the Bank's policy provide for parallel run of previous system during the implementation period?		
7.39	Is there an agreed plan for implementation? Has the plan been approved by the Sponsor,Vendor and IT Department?		
7.40	Does the implementation plan clearly identify product customization requirements, user acceptance criteria and test for such customization?		
7.41	Does the implementation plan address data migration from previous systems?		
7.42	Does the implementation cover the following : a) User Departments' involvement and their role b) User Training c) System Administration Training d) Acceptance Testing e) Role of Vendor and period of Support f) Required IT Infrastructure plan g) Risk Involved and actions required to mitigate risks		

1	2	3	4
7.43	Does the responsibility for accuracy of key parameters / Static Data rest with the functional department?		
7.44	Is there a list of areas which will be controlled by the Vendor during the implementation phase?		
7.45	Does Bank have a test environment to simultaneously allow familiarization during the implementation process? Have errors identified during the implementation phase been documented and the root cause of the errors analysed and confirmed by the Software Vendor?		
7.46	If there are bugs and errors due to design flaws, are they escalated to higher levels in Software Vendors' organization and the bank?		
7.47	Has a Test pack been developed by user groups for testing customization delivered by the vendor?		
7.48	Is there a clearly identified data integration strategy during customization period? (If customization involves additional elements of data to be captured)		
7.49	Is the result of testing properly documented?		
7.50	Are necessary changes to System documents carried out on customization?		
7.51	Are all following documents handed over by the Vendor? --System Documentation covering Design and Program Documentation --Data Dictionary --Installation Manual --User Manual --Trouble Shooting		
7.52	Does the IT Department have a proper archival system for these documents?		
7.53	In cases where source code is given by the Vendor, has the IT department done a technical conversion and issued a confirmation of satisfactory compilation / performance?		
7.54	Is there a system to issue formal Acceptance Certificate signed off by User Department, IT Department and the Sponsor?		
	(f) Post Implementation Issues		
7.55	Has the IT Department taken the required consequential action for Backups, DisasterRecovery and Performance Tuning?		
7.56	If Source codes are delivered, are the source codes baselined as per IT Department Procedures?		
7.57	Has the IT Department in consultation with User Department worked out Database Controls?		
7.58	Has IT Department introduced a system to track problems reported by users, escalation to Vendor and their resolution?		
7.59	Is there a system of measuring vendors' support with the agreed service levels?		
7.60	Is there an identified System Administrator who is responsible for managing access to the system, back up and ensuring data base controls?		

1	2	3	4
8.	**Development of software – In-house and Out-sourced Audit framework for Software developed in-house Software Audit Administration**		
8.1	Is the software audit (SA) conducted using pre-designed formats at three levels viz. a) Program Level, b) Application Level and c) Organization Level		
8.2	Has IT department adopted any Standardised quality processes such as ISO, SEI CMM etc., for Software development?		
8.3	Is Non-compliance reported in such quality audit properly attended to and rectified?		
8.4	Is there a system in place to reveal the outcome of the audit to the staff of the Bank at Respective levels?		
8.5	Whether a structure is in place for effective Software Audit so that reliable results can be Obtained?		
	Software Audit Process ***Audit at Program Level***		
8.6	Are the programs developed by drafting the formal specifications, defining scope, application, input data elements, output requirements, process work flow etc.?		
8.7	Is software tested for quality assurance?		
8.8	Is quality assurance team different from development team?		
8.9	Are data / test results preserved for future reference?		
8.10	Are there temporary patches developed by just copying a few sets of legacy programs? If so, are they tested properly before deployment and limitations and conditions, which such programs cannot handle, are communicated to users and appropriate control procedures are put in place?		
8.11	Do all the program source codes contain a Title area, specifying the author, date of creation, last date of modification and other relevant information?		
8.12	Are there adequate input validation checks built into data entry programs?		
8.13	Whether the following manuals are prepared? Systems operations / Installation Manual User Manual		
8.14	Are there well-established testing procedures? Does the testing procedures cover --What, When and How to Test? --Positive (Test done by processing valid data and checking if the results are accurate) and Negative Testing? (Test done by processing invalid data and checking if the program generates necessary error messages) --Performance and scalability? --Recording and maintaining test results?		

1	2	3	4
8.15	Whether parallel testing at a few pilot installations done after completion Pre-implementation Testing?		
8.16	Whether programs successfully implemented have passed the test for accuracy of outputs generated?		
8.17	Whether the source code location with ownership for future up-gradation is well established?		
8.18	Whether every patch / update is authorized by a competent authority?		
8.19	Whether the development considers security requirement as per approved security policy?		
	Audit at Application Level		
8.20	Are operational controls such as distinct user passwords in place and are they enforced?		
8.21	Whether necessary 'Regulatory Compliance' requirements have been taken into account by the user?		
8.22	Whether Standard Regulatory System (SRS) has taken into account the Error / Fraud / Disclosure / Interruption / Organizational Risks etc.?		
8.23	Whether input / output controls are in place?		
8.24	Are validation controls in place, viz. Field / Transactions / File with appropriate error reporting?		
8.25	Are appropriate data classifications with security in place, viz. Read only for users, Read / Write for authorized persons?		
8.26	Is audit trail built into the systems?		
8.27	Does the system provide for 'exception reporting'?		
8.28	Whether adequate firewalls set up to ensure that any outside access being provided is limited in scope and does not intrude on sensitive data areas?		
8.29	Whether user acceptance is recorded along with test plan data / test data / test results forFuture reference?		
8.30	Whether the user signs off have been obtained?		
	Audit at Organizational Level		
8.31	Is updated organizational chart being kept?		
8.32	Are the duties of developers and operators of the system distinctly segregated?		
8.33	Is job rotation in place?		
8.34	Whether software implementation plan has been approved by the controlling authority?		
8.35	Whether provision has been made for maintenance of software library?		
8.36	Is there a system in place for software distribution?		
8.37	Are errors reporting and control mechanisms in place?		
8.38	Is there a system for post completion 'Review Audit'?		
8.39	Is there a standard and secure procedure for up-keep of source / object code?		

1	2	3	4
8.40	Are security controls including Disaster Recovery in place?		
8.41	Is the data conversion audited?		
8.42	Are all changeovers from one system to another system authorized by a competent authority?		
8.43	Are the training requirements for users properly identified?		
8.44	Is the Disaster Recovery Plan (DRP) in place at all operating offices?		
8.45	Are documentations available at operational stage to facilitate formal changeover of jobs?		
	Audit framework for Software Outsourcing		
8.46	For software development outsourcing, are there laid down criteria for selection of vendors?		
8.47	Whether formal outsourcing strategy for necessary interface with the vendor is in place?		
8.48	Is the outsourcing activities evaluation based on the following practices? What is the objective behind Outsourcing? What are the in-house capabilities in performing job? What is the economic viability? What are the in-house infrastructure deficiencies and the time factor involved? What are the Risks and security concerns? What are the outsourcing arrangement and fall back method? What are arrangements for obtaining the source code for the software?		
8.49	Is there formal approval system in place from the Head of the user department?		
8.50	Does the user department representative 'Expert Officer' visit the vendor's premises for reviewing the capability and quality of software development activities?		
8.51	Does the vendor present the progress of software development at periodic intervals?		
8.52	Is there a formal product hand over and project completion system in place?		
8.53	Is there an Agreement entered by the Bank with the Vendor for completion of the software development in time. Whether any penalty clause exists for delayed completion of work?		
9.	**Physical Access Controls**		
9.1	Whether there is a policy regarding physical access control and is a part of the security policy of the organization?		
9.2	Whether there is a mechanism to review the policy regularly?		
9.3	Whether the policy on the following are appropriate: - Layout of facilities - Physical and Logical Security - Safety - Access - Maintenance - Signage		

1	2	3	4
	- Visitors - Health - Safety and environmental requirements - Entrance and exit procedures - Regulatory requirements - Legal requirements		
9.4	Whether the Information System facility is located in a place which is not obvious externally?		
9.5	Whether the facility is located in least accessible area or / and access is limited to approved Personnel only?		
9.6	Whether the physical access control procedures are adequate for employees, vendors, equipment and facility maintenance staff?		
9.7	Whether 'Key' management procedures and practices are adequate? Whether review and updates are carried out on a least access needed basis?		
9.8	Whether the access and authorization policies on the following adequate? Entering / Leaving Escort Registration Visitor passes Surveillance cameras		
9.9	Whether the policies laid down are implemented?		
9.10	Whether periodic review of access profiles is carried out?		
9.11	Whether revocation, response and escalation process in the event of security breach appropriate?		
9.12	Whether security for portable and off-site devices adequate?		
9.13	Whether control of visitors adequately addressed? Whether issues like registration, pass, escort, logbook for check in and checkout handled properly?		
9.14	Whether fire prevention and control measures implemented are adequate and tested periodically?		
9.15	Whether computing facilities are situated in a building that is fire resistant and wall, floor and false ceiling are non-combustible?		
9.16	Whether smoking restrictions in computing facilities are in place?		
9.17	Whether smoke / heat-rise detectors installed and connected to the fire alarm system?		
9.18	Whether fire instructions are clearly posted and fire alarm buttons clearly visible? Whether emergency power-off procedures are laid down and evacuation plan with clear responsibilities in place?		
9.19	Whether fire drill and training are conducted periodically?		
9.20	Whether computing facilities are located above ground level? Whether water leakage, seepage etc. are prevented?		
9.21	Whether air-conditioning, ventilation and humidity control procedures in place, tested periodically and given adequate attention		
9.22	Whether security awareness is created not only in IS function but also across the organisation?		
9.23	Whether physical security is continually addressed and whether physical security is ensured at suppliers facilities also in cases where organisation's assets either physical or data are processed at supplier's facilities?		

1	2	3	4
9.24	Whether UPS is available? If so, is it covered under maintenance?		
9.25	Whether alternate or re-routing telecommunication lines are available?		
9.26	Whether alternative water, gas, air-conditioning and humidity resources are available?		
9.27	Whether all access routes are identified and controls are in place?		
9.28	Whether the computer room is locked and access is restricted?		
9.29	Whether appropriate holidays and vacation are availed by the IT staff?		
9.30	Whether hazardous commodities are not stored in the IS area?		
9.31	Whether appropriate access controls like password, swipe card, bio-metric devices etc. are in place and adequate controls exist for storing the data / information on them?		
9.32	Wherever access to the I S facility is enabled through ID cards / badges, etc., are there controls to ensure that the issue and re-collection of such access devices are authorised and recorded.		
9.33	In case of outsourced software, whether all maintenance work is carried out only in the presence of / with the knowledge of appropriate bank staff?		
9.34	Based on criticality of the IS facility, are there video surveillance equipments to monitor the movements of the personnel inside the facility? If so, check whether continuity of video recording is ensured.		
9.35	Whether access violations are recorded, escalated to higher authorities and appropriate action taken.		
10.	**Operating System Controls** **Adherence to licensing requirements**		
10.1	Whether the Branch / Office hold the original license from the Head Office / Vendor for using the operating system software?		
10.2	Whether the original Operating System Media supplied by the vendor is available in the Branch / Office?		
10.3	Verify all the manuals and user guides provided by the vendor at the time of supply of the system and ensure whether all are physically available. Ensure that proper library records are maintained by the Branch / Office for all the manuals / books received along with the package.		
10.4	Ensure whether the number of licenses used in the Branch / Office is less than or equal to the number of user licenses mentioned by CPPD/ Vendor in the license		
	Version Maintenance and application of patches		
10.5	Verify the system configuration such as Memory, Clock speed, Hard Disk size, OS version, etc. and ensure that they are as per order or terms stipulated by CPPD / IT Dept. at the time of procurement.		
10.6	Ensure that the latest OS version is running at the site. Check whether latest updates / patches released by the OS vendor have been applied.		
	Network Security		
10.7	Check if the system being audited trusts other hosts for providing log on access to similar user accounts (same user account in the system being audited and the host system) in both the systems without supply of password. If so, ensure that it has been implemented in accordance with IT / CPPD guidelines only.		

1	2	3	4
10.8	Check if remote logon is enabled and if so, whether it is as per the guidelines of CPPD / IT Department. Ensure that the users logging on from remote locations are identifiable by terminal IDs / IP addresses.		
10.9	Check if remote logon through services such as ftp, telnet, etc. is disabled. If not, ensure that the same has been implemented as per IT security policy of the Bank.		
	User Account Maintenance		
10.10	Each and every user ID in the operating system level should have been created only after specific approval of the Branch Manager / Department head in writing on a request form signed by the respective user. Verify whether such approval is in place for all the active user IDs.		
10.11	Apart from the approved request forms, the Branch / Office should be maintaining a user profile register with details such as, --Employee Name --Designation --Employee Number --Date of joining the Branch / Office --User ID allotted --Date of creation of user ID --Date of deletion of user ID --Signature of the user --Initials of the Data Base Administrator (DBA) --Initials of the Branch Manager (BM) Verify whether the above mentioned register is maintained. All the entries in the register should be accounted for in the list of active user IDs obtained from the operating system.		
10.12	Check that with the exception of reserved user accounts created for the internal use of the operating system, RDBMS, Application system, etc., all other user accounts are uniquely identifiable by the respective users' personal name. In other words, generic user accounts, which cannot be attributed to any individual, should not be allowed. Verify this and comment.		
10.13	Check the operating system user IDs which have security equivalence to Super User and ensure whether they are permissible as per CPPD / IT Department guidelines.		
10.14	Check whether the entire user IDs are protected with passwords.		
10.15	With the exception of Super User account, check whether all default system login accounts are disabled. In other words, ensure whether all default vendor accounts shipped with the Operating System have been disabled. This should be checked after each upgrade or installation.		
10.16	Check the list of active user groups and ensure that general users are not members of sensitive / privileged user groups which have higher privileges.		
	Logical Access Controls		
10.17	Ensure that access to operating system command prompt is disabled for general users in the Branch / Office.		

1	2	3	4
10.18	If some or more of the system administration related activities are driven through a menu-based utility assigned to any user ID, which is privileged, ensure that such ID(s) cannot be used to bypass login security and access the command prompt.		
10.19	Ensure that the file pertaining to each user containing login parameters cannot be modified by the respective user.		
10.20	Ensure that any user other than the Super User cannot modify the system activity log file.		
10.21	Check whether access rights to system files, application executable program files, application data files, utilities, application parameter files, system / database configuration / initialization files, etc. have been adequately controlled to allow read / write / execute / modify, etc. as the case may be to appropriately authorised users on need to know, need to do basis.		
10.22	Obtain a list of world writable (directories / folders with access to every user) directories / folders in the system and ensure that they have been set only in accordance with IT / CPPD guidelines.		
10.23	Verify the access rights settings for the users' home directories and ensure that they are not owned by any ID other than the actual user. Also, ensure that user's home directory cannot be accessed by any other user.		
	System Administration		
10.24	Ensure that the facility to logon as Super User is restricted to system console for security reasons.		
10.25	Check the password definition parameters included in system and ensure that minimumpassword length is specified according to the IT security policy of the Bank (ideally, at least 6 characters).		
10.26	Ensure that the maximum validity period of password is not beyond the number of day permitted in the IT Security policy.		
10.27	Check whether the parameters to control the maximum number of invalid logon attempts has been specified properly in the system according to the security policy.		
10.28	Check whether password history maintenance has been enabled in the system to disallow same passwords from being used again and again on rotation basis.		
10.29	Verify if the parameters to control the password format has been properly set according to security policy of the Bank.		
10.30	Verify the parameters in the system to control automatic log-on from a remote system and ensure whether they have been properly set according to security policy.		
10.31	Verify the parameters in the system to control the number of concurrent connections a user can have simultaneously from different terminals and ensure that it is restricted as per CPPD / IT Department guidelines.		
10.32	Examine the terminal inactive time allowable for users and verify if the time set is in accordance with the guidelines.		
10.33	If minimum password validity period is not set properly, verify the latest date of change of privileged passwords including Super User and ensure that the password is not too old, in any case not older than a month.		

1	2	3	4
10.34	Check whether automatic logging of user activities is enabled.		
10.35	Check for unexpected users logged on to the system at odd times.		
	Maintenance of sensitive user accounts		
10.36	Ascertain as to who is the custodian of sensitive passwords such as Super User and verify if he/she is maintaining secrecy of the password, whether he/she has preserved the password in a sealed envelope with movement records for usage in case of emergency.		
10.37	From the log file, identify the instances of use of sensitive passwords such as Super User and verify if records have been maintained by the Branch / Office with reason for the same. Ensure that such instances have been approved by IT Department and whether Branch Manager, Password Custodian and DBA have signed the record.		
11.	**Application Systems Controls**		
	The application system, before being implemented has to be reviewed by the auditor to see if various controls suggested by Users are incorporated in the application system. The various controls, which have to be included in the system are as follows:		
	--Logical Security		
	--Input Controls		
	--Processing Controls		
	--Output Controls		
	--Authorisation Controls		
	--Interface Controls		
	--Data integrity / File continuity Controls		
	Logical Access Controls		
11.1	Does the software allow creation of user-IDs in the same name more than once?		
11.2	Does the software encrypt the passwords one way and store the same in encrypted form?		
11.3	Does the software display the password as it is keyed in?		
11.4	Does the software lock the user-ID if it is used for 3 unsuccessful times to logon to the system?		
11.5	Does the software force the User to change the password at set periodical intervals?		
11.6	Does the software maintain password history *i.e.,* does not allow the same password to be used again on rotation basis?		
11.7	Is there any audit trail for the maintenance of User profiles?		
11.8	Does the software have provision to create and maintain user-IDs based on users' designations and positions held?		
11.9	Can DBA change other's password? If so is it reflected in the audit trail?		
11.10	If a User-Id record is deleted, does the software delete it physically or logically? Does the software capable of producing a report of logically deleted User-IDs?		

1	2	3	4
11.11	Does the software have provision to restrict different menu options to different user-IDs based on user level (based on designation / powers, etc.)?		
11.12	Does the software have provision for defining access rights to users such as, Read Only, Read and Write, Modify, Delete, etc.?		
11.13	Verify who can do the User Profile Maintenance? Does the system give facility to general users also to do user profile maintenance?		
11.14	Does the software tag each and every transaction with the user-IDs of maker and checker?		
11.15	Does the software allow the same user to be both maker and checker of the same transaction? If so, does the software produce an exception report of transactions with Same maker and checker IDs?		
11.16	Are the User-IDs reflected in the contents of the report printed?		
11.17	Does the software allow automatic logical deletion of inactive users after certain period of time?		
11.18	Does the system maintain password length to be of minimum 6 or 8 characters or as indicated in the password policy?		
11.19	Can the user-IDs be created without passwords?		
11.20	Does the system limit the maintenance of system control parameters to privileged userlevel having sufficient authority only?		
	Input Controls		
11.21	Whether each transaction is recorded in such a way that it can be subsequently established that it has been input (*e.g.,* Tran ID etc)?		
11.22	Does the software have controls to ensure that all recorded transactions are, 22.1 Input to the system and accepted once and only once. 22.2 If transactions are rejected, they are reported.		
11.23	Are there adequate procedures to investigate and correct differences or exceptions identified? Are there adequate procedures to investigate and if necessary, correct the following : - --Missing and possible duplicate transactions disclosed by the input control --Rejected items		
11.24	If corrections are made to rectify differences, exceptions, duplicate transactions, missing transactions and rejected items, are they approved (*e.g.,* maker/ checker, exception report, etc.)?		
11.25	If the input of data is through batch upload, does the software have controls to ensure that all the entries in the batch have been uploaded without any omission/ commission (*e.g.,* reconciliation of control totals, etc.)?		
11.26	Does the software have adequate controls to ensure that, data have been accurately input (*e.g.* range checks, validity checks, control totals, etc.)		
11.27	Verify the controls to ensure compatibility of data when they are input at two or more modules and are correlated. (*e.g.* if the customer category in customer master is stated as "Staff", the rate of interest in the account master for the same customer should have appropriate code applicable to staff and system should not allow other codes).		

1	2	3	4
11.28	Verify the consistency / concurrency of user inputs, if two users are accessing the same record at the same time.		
11.29	Verify if the inputs can be captured for various conditions. (*e.g.* if signatures can be captured for single A/c, Joint A/c etc).		
11.30	Verify the controls over system-generated transactions through user processes (*e.g.* verification of outputs containing system generated transactions and authentication by branch officials).		
11.31	If user controls are relied upon to ensure the controls over complete and accurate input of data, are these controls adequate and operative continuously?		
	Processing Controls		
11.32	Does software have adequate controls to ensure that all transaction inputs have updated the files?		
11.33	If user controls are relied upon to ensure the controls over complete and accurate updateof files with data, are these controls adequate and operative continuously?		
11.34	Are there adequate procedures for investigation and correction of differences or exceptions identified by the controls over update for completeness and accuracy?		
11.35	Are such corrections approved?		
11.36	List out the events that cause the transaction to be generated (*e.g.* input of a parameter such as a date, attainment of a condition, etc.), the key data used as a basis for the Generation and the programmed procedures that perform the generation. (*e.g.,* in the interest calculation process, generally, the user will run the interest run job and the system will take the customer balances (key data) and apply interest rates (key data) and debit/credit the interest. The program, which performs these activities, should be logically sound so that no processing errors are introduced).		
11.37	For the key data outlined above, are there adequate controls to ensure that the key data used as a basis for the generation of data are complete and accurate?		
11.38	Where applicable, whether the key data is authorised by appropriate level of users and kept secure?		
11.39	For the programmed procedure that generates the data, if user controls are relied on to check the accuracy of the generation process, are these controls adequate?		
11.40	Are there adequate procedures to investigate and correct any differences or exceptions identified by the controls over the completeness and accuracy of generation? Are the corrections approved?		
11.41	Is there any restart facility for batch jobs if they terminate abruptly? Are there controls to ensure that no errors are introduced during restart?		
11.42	Is the User-ID of the person who executes the batch job embedded in the transactions?		
11.43	If the process has to be done only once, does the software ensure that the process is not executed more than once?		
11.44	Is there any day-begin, day-end process? If so, are these processes logically sound to carry out the designed objectives completely and accurately?		

1	2	3	4
11.45	Are the transactions for the day identifiable?		
11.46	Does the software ensure sequencing of processes i.e., does the software ensure that processes are not initiated out of sequence?		
11.47	If certain processes are compulsory, does the software ensure that all such processes are completed before triggering the day-end process?		
11.48	Verify if there is an event log for the batch processes.		
11.49	Verify if the application is able to handle processing at peak times (*e.g.* is the application capable of handling progressively increasing volumes).		
11.50	Verify if software maintains audit-trail to uniquely trace any modification/ deletion/addition with user-ID.		
11.51	If updates occur in more than one file or table, if the process interrupts, verify if there is a roll back.		
11.52	Verify if the application maintains adequate control over security items such as DDs / Pay Orders / Branch advices, etc. Are they reconciled and exceptions identified and reported?		
	Output Controls		
11.53	Verify the format, contents, accuracy and utility of the reports generated by the system.		
11.54	Verify if there is any provision for generating exception transactions statement from the system.		
11.55	If the output has more number of pages and if printing is interrupted, is there any provision to restart the printing from that page.		
11.56	Verify if outputs can be viewed / generated by users only on need to know basis. In other words, check whether outputs cannot be generated by all and sundry users in the system.		
11.57	Check the controls exercised by the user (Branch / Office) on the generation, distribution, authentication and preservation of computer outputs and comment on the adequacy of the same.		
11.58	Check whether the application is keeping adequate controls over computer generated outputs lying in print queue / spool.		
11.59	Does the output contain key control information necessary to validate the accuracy and completeness of the information contained in the report such as last document reference, period, etc.?		
	Interface Controls		
11.60	If the data has to be transferred from one process to another process, verify if no manual intervention is possible and no unauthorised modification to data can be made.		
11.61	Verify the mode of transfer of data from one process to another *i.e.* through floppy or through mail.		
11.62	Verify the effect when one process is down and the interface is working		
11.63	Is there a periodic system of ensuring consistency of data from process from which it is transferred to the process to which it is transferred?		
	Authorization Controls		
11.64	If the transaction is authorised by software itself under specific conditions, are the programmed procedures logically sound to ensure that all authorizations take place as expected only?		

1	2	3	4
11.65	Does the software prevent the same user from performing both the functions of entering a transaction and verifying the same?		
11.66	If transactions are authorized manually, are there controls to ensure that a) they are properly authorized by an independent and responsible official and b) no unauthorized alterations are made to authorized transactions?		
11.67	If manually approved transactions are authenticated by the input of a password, are Passwords adequately controlled?		
11.68	Do access rights reflect the appropriate authority limits?		
11.69	If the transaction is identified by the system as requiring supervisory approval and is, therefore, routed to a queue file pending review and release by a responsible official, are the procedures for identifying 'items needing approval' adequate to identify all such transactions?		
	Data Integrity / File Continuity Controls		
11.70	Whether hash total is used to verify the continued integrity of data? Is the total of the items on data file regularly reconciled to an independently established total (*e.g.* agreement to a manual control account or computer agreement to a control record) on a suitable timely basis to ensure that there is no tampering of data.		
11.71	Are there adequate procedures to investigate and correct differences disclosed by the above-mentioned reconciliation?		
11.72	Verify if the entire record after commit can be physically deleted (it should not be allowed).		
11.73	If the software keeps record of security items, are there adequate controls to ensure the complete and accurate recording of security items in the system?		
11.74	Are the programmed procedures, which utilise the security items in the system, logically sound so that there are no errors?		
11.75	Are all asset movements supported by suitable written authorizations?		
12.	**Database Controls**		
	It is important to ensure the following with reference to databases:		
	--Database is physically secure and free of any corruption		
	--Access to the database is restricted and permitted only to authorized personnel		
	--Referential Integrity of the data is ensured at all times		
	--Accuracy of the contents of the database is verified periodically		
	--Database is also technically verified periodically, in terms of storage space, performance tuning and backup		
	--Backups of the database are periodically retrieved and ensured that they are in order		
	This checklist is divided into following areas		
	--Physical access and protection		
	--Referential Integrity and accuracy		
	--Administration and House Keeping		

1	2	3	4
	Physical access and protection		
12.1	Is there a list of databases with the names of administrators which the bank recognizes: (a) Mission Critical Systems such as Internet Banking, Core Banking etc., ATM Base 24 Database (b) Essential Systems such as Credit Card Processing Systems (Which operate on the near online mode) (c) Reporting Systems such as Data Warehouse, EIS Reporting		
12.2	Is there joint responsibility of the user department and the IT Department for administration of mission critical databases?		
12.3	Does IT Department identify and segregate hardware hosting these databases and whether these hardware resources have been year marked?		
12.4	In case the same hardware is used at branches or other locations is there clear partition between application area and data area?		
12.5	Does the IT Department have a laid down standards / conventions for database creation, storage, naming and archival?		
12.6	Are Database administrators at responsible levels in the bank?		
12.7	For database access, is the OS level file and directory permissions restricted as required for the application?		
12.8	Are users denied access to the database other than through the application?		
12.9	Whether use of triggers and large queries monitored to prevent overloading of database and consequent system failure?		
12.10	Are direct query / access to database restricted to the concerned database administrators?		
12.11	Are all vendor-supplied passwords to the default users changed? Have all demo user and demo databases removed?		
12.12	Are there controls on sessions per user, number of concurrent users etc?		
12.13	Is creation of users is restricted and need based? Are the rights granted to various users reasonable and based on requirement?		
12.14	Is the database configured to ensure audit trails, logging of user sessions and session auditing ?		
12.15	Does the administrator maintain a list of batch jobs executed on each database, severity of access of each batch job and timing of execution?		
12.16	Are Batch Error Logs reviewed and corrective action taken by the Administrator periodically?		
12.17	Is there a separate area earmarked for temporary queries created by power users or database administrator based on specific user request?		
12.18	Are temporary sub-databases created removed periodically or after the desired purpose is achieved?		
12.19	Does the design or schema of all tables / files in database contain fields for recordingmakers, checkers and time stamp?		
12.20	Are database administrators rotated periodically?		

1	2	3	4
12.21	In cases where customer data is provided to external service providers does the bank have confidentiality undertakings from these service providers?		
	Referential Integrity and Accuracy		
12.22	Are there standard sets of database control reports designed in consultation with the user department for ensuring accuracy and integrity of the databases? *e.g.* : a) Total of transactions and balances; b) Record Counts c) Hash Totals		
12.23	Are these reports run directly from the back end database periodically and the results, both positive and negative, communicated by the Administrators to Senior Management Personnel?		
12.24	Are these reports run periodically and taken directly by the User Department themselves to ensure accuracy?		
12.25	In case of automated interface between systems, is there a system of reconciliation between the source and receiving system for critical information?		
12.26	Is there a system of periodic reconciliation between Sub databases and the GL Databaseof the bank?		
12.27	In cases where data is migrated from one system to another, has the user department verified and satisfied itself about the accuracy of the information migrated?		
12.28	Is there a formal data migration report?		
12.29	Are there entries directly made to the back end databases? If they are made under exceptional circumstances, is there a system of written authorization?		
12.30	If entries in the database are updated / deleted due to any exceptional circumstances (*e.g.* during trouble shooting, etc.), are they approved in writing and recorded?		
	Administration and House Keeping		
12.31	Does the System Administrator periodically review the list of users to the database? Is the review documented?		
12.32	Are inactive users deactivated?		
12.33	Is there back-up schedule?		
12.34	Are databases periodically retrieved from the back up in test environment and accuracy ensured with the physical environment?		
12.35	Are senior personnel from the user department involved in testing backup retrieval?		
12.36	Is there periodic purging / archival of databases?		
13.	**Network Management Process :-**		
13.1	Is there an Information Security guidelines document, which defines the minimum Configuration for any device/link on the bank's network, including levels of encryption?		

1	2	3	4
13.2	Are all platforms/links/devices in compliance with the guidelines? If not, has an appropriate level of management reviewed the non -compliant parts of the network to ensure that the risk levels are acceptable?		
13.3	For all items supported by external vendors, does the vendor or the manufacturer verify that all cryptographic functions in use by the product/ service, such as encryption, message authentication or digital signatures, use Corporate IT Department approved cryptographic algorithms and key lengths?		
13.4	Wherever applicable, whether background and reference checks for both internal andoutsourced vendor staff who perform security-related functions for the product/service under review are carried out. This includes job applicants who have accepted a job offer, temporaries, consultants, full time staff as well as the outsourced vendor who is involved in product/service management and operations.		
	Risk Acceptance (deviation) :		
13.5	Does the Bank have a Risk Acceptance process wherein all the identified risks are documented and approved for any non-compliant issue that cannot be remedied andwhere effective compensatory controls exist?		
	Authentication :		
13.6	Does the product/service authenticate (verifies) the identity of users (or remote systems) prior to initiating a session or transaction? Have these Authentication mechanisms been approved by then Bank's IT Department? (These include Personal Identification Numbers (PINs), passwords (static and dynamic), public keys and biometrics.)		
13.7	Does the Bank verify that the initial authentication has used a mechanism that is acceptable for the application? Has the approach been approved by IT Department and required compensating controls have been implemented?		
	Passwords :		
13.8	Does the Bank have a comprehensive password construction, implementation and management policy?		
	Personal Identification Numbers (PINS) :		
13.9	Does the Bank have a policy for the Personal Identification Numbers, used by various set of customers who access the Banks systems directly using channels like ATM, Phone banking, Internet banking, Mobile banking etc?		
	Dynamic Passwords :		
13.10	Do the Products/services using dynamic passwords for authentication, use an IT Department approved authentication server to validate the password?		
	Public Key Infrastructure (PKI) :		
13.11	Do the Products/services using Public key (or asymmetric) cryptography for authentication either on a session basis (peer authentication) or on a per message / transaction basis (digital signatures) use approved security protocols to comply with the Public key technology standard?		
13.12	For products/services that use PKI, private keys which are stored in hardware or software must be protected via an approved mechanism. The protection mechanism includes user authentication to enable access to the private key.		

1	2	3	4
13.13	For products/services that use PKI, an approved process for verifying the binding of a user identity to the public key (e.g., digital certificate) is required for any server relying on public key authentication.		
	Biometrics Authentication :		
13.14	Do the Products/Services utilizing biometrics authentication only use biometrics for local authentication?		
	Access Control :		
13.15	Is the access to highly privileged IDs (e.g., system administration access) strictly controlled, audited and limited in its use?		
13.16	Does the product/service support the need to perform a periodic entitlement review? A Periodic entitlement review process should validate access privileges.		
13.17	Does the product/service support the requirement to limit individual user sessions to a maximum of X minutes of inactivity using either session time out or a password protected screen saver.		
13.18	Is there a process in place to ensure that access rights reflect changes in employee or job status within X hours of the change? This includes physical access tokens and dial-in capabilities as well as any systems or applications.		
13.19	Does the product/service support the ability to disable external customer user IDs after X months of inactivity and deleted after Y months of inactivity unless they are extended through the explicit written approval of the business?		
13.20	For any products/services, which have been outsourced, is there a process in place to ensure that all platforms, services and applications are configured to meet Bank's Information Security Standards?		
13.21	Does the product/service display the (A) date and time of last successful login and (B) the number of unsuccessful login attempts since the last successful login?		
13.22	Does the product/service support a periodic process to ensure that all user IDs for employees, consultants, agents, or vendors are disabled after X days and deleted after Y days from the day they were not used unless explicitly approved by the business?		
	Cryptography :		
13.23	Is there a cryptography / encryption policy for various types of classified information that travels/gets stored within and outside the Bank's network(s)?		
	Network Information Security :		
13.24	Have the Network data monitoring tools (e.g., sniffers, data scopes, and probes) utilized by the product/service been approved by the Bank's IT Department?		
13.25	Is the approved Legal Affairs banner being displayed at all entry points where an internaluser logs into the product /service? An automated pause or slow roll rate is in place to ensure that the banner is read. The Legal Affairs Banner usually carries the followingkind of text: "You are authorized to use this system for approved business purposes only. Use		

1	2	3	4
	for any other purposes is prohibited. All transactional records, reports, e-mail, software and other data generated or residing upon this system are the property of the Company and may be used by the Company for any purpose. Authorized and unauthorized activities may bemonitored." NOTE : This is required for all mainframe, mid-range, workstation, personal computers, and network systems.		
13.26	Has dial-in connectivity been prohibited on network-connected machines (server and workstation) except where documented and explicitly approved in writing by Business Management and the IT Department? When explicitly approved, the modem must, as a minimum control, prohibit answer or pickup until after the 5th ring.		
13.27	Have the remote control products used in a dial-in environment been approved by the IT Department explicitly?		
13.28	Is it ensured that only software (applications / operating systems etc.) supported by the vendors only are used? (Unsupported software could be vulnerable to attacks since the vendors would not come up with the relevant patches)		
13.29	Is the Anti-Virus software configured to check viruses even from the floppy drive / CD ROM drive?		
	E-mail and Voice mail Rules and Requirements :		
13.30	Is there a policy that covers e-mail & voice mail transmission of data?		
13.31	Whether there are procedures, which require that all the incoming e-mail messages be scanned for virus to prevent virus infection to the Bank's network?		
13.32	Whether all e-mails are identified with a user's name or e-mail ID to facilitate tracking? Whether e-mail ID allotted to a user is prevented from being used by another user?		
13.33	Ensure that users do not forward the e-mail messages automatically without prior Approval.		
13.34	Whether there are procedures to ensure that users do not send confidential or sensitive information via e-mail? Whether the information transmitted through e-mail is encrypted?		
13.35	Whether all e-mails sent and received by employees via Bank's network are treated asBank's records? Is there procedure to monitor them?		
	Information Security Administration :		
13.36	Is there an approved document clearly outlining the Information Security Administrator's (ISA) responsibility?		
13.37	Are all the administrative actions (*e.g.,* adding/deleting users, changes to entitlements / passwords) backed up by an independent review?		
13.38	Does the ISA function review all security audit logs, incident reports, and on-line reports at least once per business day?		
13.39	In case of Wide Area Networks (WAN), are the router tables maintained securely in Routers?		
13.40	Are router login IDs and passwords treated as sensitive information and managed by authorised administrators?		

1	2	3	4
13.41	Are all changes to router table entries logged and reviewed independently? Are access violations taken note of, escalated to higher authority and acted upon in a timely manner?		
13.42	Is there a process to report all unusual or suspicious activity? (Reporting to IT Department, investigating immediately, and bringing the case to closure without delay)?		
13.43	Does the ISA function assess compliance with their security procedures quarterly and reports their results to the IT Department?		
13.44	Have all the all security related administrative procedures under the control of the ISA been documented and approved by management (annual exercise)? At minimum procedures should include : Information Ownership Data Classification User registration/Maintenance Audit Trail review Violation logging and reporting Sensitive activity reporting Semi-Annual Entitlement Reviews Password resets Escalation reporting		
	Microcomputer/PC Security :		
13.45	Does the LAN servers, mail servers, and microcomputers have IT Department approved anti-virus products installed?		
13.46	Are all product/service specific microcomputers/PCs secured against removal and theft commensurate with the value of the computer and information it holds along with a process to report any thefts to the IT Department?		
13.47	Are microcomputers / PCs having sensitive information protected with power on password to prevent unauthorized access?		
13.48	Are sensitive data in such microcomputers / PCs backed up and preserved properly withrecords to ensure recovery in case of failure?		
	Audit Trails :		
13.49	Does the audit trail associate with the product/service support the ability to log and review all actions performed by systems operators, systems managers, system engineers, system administrators, highly privileged accounts and emergency IDs?		
13.50	Do the financial transactions as well as additions, changes and deletions to customer's demographic data/important statistics, get recorded in the product/service audit trail?		
13.51	Does the audit trail for product/service record all identification and authentication processes? Also Is there a retention period for the Audit trails		
13.52	Does the audit trail associate with the product/service log all actions by the ISA?		
13.53	Is there a process to log and review all actions performed by systems operators, systems managers, system engineers, system administrators, security administrators, and highly privileged IDs?		

1	2	3	4
13.54	Is there a process in place to log and review actions performed by emergency IDs associated with the product /service?		
	Violation Logging Management :		
13.55	Whether the product/service is capable of logging the minimum criteria specified to log and report specific security incidents and all attempted violations of system integrity		
13.56	Are the product/service owners aware of their responsibilities with respect to Securityincident reporting?		
	Information Storage and Retrieval :		
13.57	Has all the media (File/Floppy/Disks etc) under the control of the product /service owner been marked with the classification and securely stored with access restricted to authorized personnel only.		
13.58	Is there a process in place to ensure that all media under the control of the product/service owner containing critical information is destroyed in a manner that renders it unusable and unrecoverable?		
13.59	Is there a procedure in place that enforces and maintains a clean desk program, which secures all critical information from unauthorized access?		
	Penetration Testing :		
13.60	Is it ensured that products/ services that use the Internet for connectivity or communications have undergone a successful penetration test prior to production implementation?		
13.61	Is there a penetration test process that verifies whether modifications to the product /service that uses the Internet for connectivity or communication have been reviewed to determine whether a subsequent penetration test is warranted?		
13.62	Is there an intrusion detection system in place for all the external IP connections?		
14.	**Maintenance**		
	Maintenance will include the following : -		
	1. Change Request Management and version control 1.1. Software developed in-house 1.2. Software purchased from outside vendor 2. Software trouble shooting 3. Backup and recovery 4. Hardware maintenance 5. Training		
	Wherever Application Service Provider, who owns the Hardware and maintains the OS/ application software, processes the data for the User, detailed Service Level Agreement should cover entire maintenance.		
	Change Request Management and Version Control *Software developed in-house*		
14.1	Check whether requests for changes are initiated by users in a structured change request form (CRF) with pre-printed numbers.		
14.2	Are these change requests inwarded in a manual / electronic register with CRF number before initiating the change.		
14.3	Are the change requests subjected to feasibility study?		

1	2	3	4
14.4	Verify whether the change request is approved by the Management before effecting the changes in the software and the same is recorded on the CRF.		
14.5	Verify whether the changes are made only in the test environment and not in the live environment (separation of test and production libraries).		
14.6	After making changes, are they tested adequately before implementation (unit testing, Integrated testing, regression testing, etc.)? All these testing procedures should happen only in the test library.		
14.7	Once the programs are ready after testing, are they approved by a senior programmer /Departmental Head? Are such approvals recorded on the CRF?		
14.8	After approving the changes, are the changed programs transferred to production library by an independent person who does not have programming / development responsibilities?		
14.9	Does the production library have both sources and executables of the latest version of the programs?		
14.10	Check whether the programmers are not given access in the production library. Similarly, check whether the access to the test library is restricted to programmers only.		
14.11	Verify if the changes are updated in the user, technical, operations and all other relevant manuals to reflect the current state of the software. Is the CRF updated to this effect?		
14.12	Verify if implementation guidelines are prepared by the programmers for properly implementing the changes in the user sites. Are they approved?		
14.13	Verify if the changes are implemented at the Users' sites in accordance with the implementation guidelines. Is the CRF updated to this effect?		
14.14	After completing all these steps, is the open entry in the change request register rounded off for the relevant CRF number, to bring it to a logical conclusion?		
14.15	Is the completed CRF filed along with the system documents?		
14.16	Are there procedures to review and monitor all the pending change requests and initiate timely action to resolve the same.		
	Version Control		
14.17	Verify the procedure of roll out of software to the Users sites. Check who is creating the executables from the changed source code for implementation in the user sites. Ensure that that such person(s) is / are independent of development activities.		
14.18	Verify if the access to the compilers is restricted to only authorized persons who are empowered to create the executables from the source code.		
14.19	Check whether identity of different programs is maintained between any two software release and each release contains all the changes to different programs from the previous release.		
14.20	Check whether each release is given a version number.		
14.21	Verify if proper records are maintained to reflect the different version numbers of the software, their composition and location. The latest version should be easily differentiated when compared with the older versions.		

1	2	3	4
14.22	If possible, take the latest version of any one program in the test library and arrange to compile the same to arrive at the new exe file. Note down the byte size of the new 'exe' file and compare whether the byte size of the exe program in the live area in the user site is the same as the size noted.		
14.23	If multiple User sites are there, verify the control mechanism to ensure whether the same software is being implemented in all such user sites.		
14.24	If there are exceptions to certain Users, verify if those exception modules of the software are kept in the central control library from where the software is rolled out.		
14.25	Verify if there are any register /database containing the information about which site has which version.		
14.26	Check and ensure if backup of all versions of the software are held both onsite and offsite in fire-resistant cabinets with proper records.		
	Software procured from outside vendor		
14.27	Verify if there is Annual Maintenance Contract for software and check whether it is currently in force.		
14.28	Check if requests for changes are initiated by users in a structured change request form(CRF) with pre-printed numbers.		
14.29	Verify if the change request is approved by Management before asking the vendor to effect the changes in the software.		
14.30	Are these change requests (CRFs) inwarded in a manual / electronic register before sending it to the vendor for their making changes?		
14.31	For all the changes effected and implemented by the vendor, check whether release notes have been provided for all such patches / releases. If so, do the release notes given by the vendor contain the CRF number submitted by the Bank?		
14.32	Check whether the release notes have been circulated to all the users?		
14.33	Check whether the open entry in the inward register having the CRF number attended by the vendor is rounded off to reflect the latest pending position.		
14.34	Check whether the vendor has updated the user's and operations' manuals to reflect the current state of the software and delivered the same to the Bank.		
14.35	Check the procedure for marking off the entries in the inward register for CRFs maintained at CPPD/ IT and ensure whether the current list of outstanding requests arecomplete and accurate.		
14.36	Is there procedure to review and monitor all the pending change requests and initiate timely action to get the same resolved by the vendor in a time-bound manner.		
14.37	Verify Service Level agreement (SLA) with the vendor. Does it lay down the basis of billing, say, based on 'x' number of lines of coding or based on 'y' man hours of effort, etc. Check whether the billing made by the vendor is in accordance with the SLA. Test check whether the billing raised is accurate.		
14.38	Does the SLA have penalty clause for delay on the part of the vendor to deliver the changes after submitting the CRF? If so, for any delays on the part of the vendor, doesthe Bank invoke the penalty clause and charge penalty?		

1	2	3	4
14.39	Verify if any escrow arrangement exists for the source code. If so, check who is the escrow party and inspect their site and check whether a copy of the latest version of the source code is stored there in proper condition with records.		
14.40	Check whether one copy of full set of the latest documentation of the software is also kept with the source code in the Escrow's location.		
14.41	Check and ensure that Escrow party cannot have unilateral access to the source code and documentation without the knowledge of the software vendor and the Bank.		
14.42	Check and ensure if backup of the latest version of the software provided by the vendor is held both onsite and off-site in fire resistant cabinets with proper records.		
	Software Trouble Shooting		
	Help Desk		
14.43	Check if user calls are logged in a register (manual or electronic) in the Help Desk with a unique identification number for each call. Preferably, the numbering should be serial and unique for each user site.		
14.44	Is this number recorded in a Help Desk register in the user's site with nature of the call, date and time of call?		
14.45	Does the Help Desk register in the user site reflect all the call identification numbers serially without any missing number in between?		
14.46	Is the date and time of resolving the trouble recorded in the Help Desk register? Does it correspond and tally with the records maintained at the Help Desk?		
14.47	Are the calls attended to in a timely manner?		
14.48	Does Help Desk issue call sheet with solution given duly signed by the user?		
14.49	If the trouble shooting is attempted by the Help Desk personnel remotely, check whether any sensitive password was divulged by the user to the Help Desk. This should have been recorded in the Help Desk register both at user site and at Help Desk.		
14.50	If sensitive password is revealed to the Help Desk, check the system and application logsand ensure whether the changes made are appropriate to the trouble reported by the user.		
14.51	Check whether command log is printed and submitted to the user site, duly signed by theHelp Desk official and authenticated by the Help Desk in-charge.		
	File / Data reorganization		
14.52	If the software works on a RDBMS, check whether file / database reorganisation is carried out at the user site on time to avoid any processing error.		
14.53	If any addition to datafile / tablespace is made, are they approved and in accordance with the software implementation guidelines?		
14.54	If operating system / database fine tuning is carried out, are they documented in the errorlog / Help Desk register?		
14.55	As most of these activities require sensitive passwords, does the usage of the same recorded in the password usage register duly signed by the support personnel and user?		

1	2	3	4
14.56	Verify the command logs and ensure that the command and command results are appropriate to file / database reorganization / fine tuning, etc.		
14.57	Verify if due to O/S upgrades any constraint is there in the application software.		
14.58	Verify if the interface software is properly tested and implemented if the User is using 2 or 3applications and data is transmitted through this interface application		
	Backup and recovery		
	Software		
14.59	Verify if the latest copy of backup of software (Operating System, RDBMS, application, etc.) is taken and preserved at the user site.		
	Data		
14.60	Verify if different types of data backup are taken periodically at specified intervals as advised by the software developer / vendor.		
14.61	Are there proper records for noting the media in which different data backups are stored, data type, location where it is stored, date of backup, due date for recycle, etc.		
14.62	Is one copy of data backup kept in an offsite location with proper records?		
14.63	Does the database / system administrator at the user site carry out restoration testing ofthese backups periodically? Is it recorded and authenticated?		
14.64	Are users involved in such restoration testing?		
	Purging of data		
14.65	Verify if there is an archival policy and data housekeeping is as per this policy.		
14.66	Verify if this archival data can be read as and when required		
14.67	Verify if these archival data is stored in safe place.		
14.68	Verify if archived data is deleted from the current running system.		
14.69	Verify if the printed reports are deleted from the system.		
	Hardware maintenance		
14.70	Verify if there is any Service Level Agreement between the hardware vendor and CPPD / IT Department.		
14.71	Check and ensure that the AMC with the vendor for maintenance of hardware equipments is active and currently in force.		
14.72	Verify if the network diagram is available at the user site.		
14.73	Does the user site have the names and photographs of the service personnel and are they identified by the users before allowing them to handle the hardware.		
14.74	Verify if the hardware inventory is maintained at the user site. Ensure whether the physical stock of hardware items matches with the hardware inventory.		
14.75	Verify if the hardware maintenance register is maintained, with full details of nature of trouble, date and time of reporting, name of the vendor, Engineer's name, date and time of resolution, signature of DBA, signature of Engineer, Initials of Head of the user site.		

1	2	3	4
14.76	Verify if there is a databank of malfunctions of hardware. If so, examine whether similar types of hardware errors are recurring. Check the steps taken by the users / CPPD / IT to arrest this trend.		
14.77	In case hardware are taken by the vendors for servicing / repair, does the user site ensure that the equipment does not contain sensitive live data?		
	Training		
14.78	Verify if the Users are given adequate training on the application systems functionalities.		
14.79	Verify if the Technical persons are given adequate training in the technical details of the application system, to provide necessary trouble shooting help to users.		
14.80	Verify if the Users are aware of the steps to be taken in case of contingency due to non-availability of systems.		
15.	**Internet Banking**		
	Information Systems Security Framework		
15.1	Is there a security policy duly approved by the Board of Directors? Is there segregation of duty of Security officer /Group dealing exclusively with information systems security and Information Technology Division which actually implements the computer systems? Is the role of an Information Security Officer independent in nature?		
15.2	Is the role of an information system auditor independent in nature? (It should be independent of Operations and Technology Unit)		
15.3	Bank should ensure that Information Systems Auditor forms part of in Internal Audit Team.		
15.4	Bank should acquire tools for monitoring systems and the networks against intrusions and attacks. These tools should be used regularly to avoid security breaches. Bank should review their security infrastructure and security policies regularly and optimize them in the light of its own experiences and changing technologies. It should educate its security personnel and also the end-users on a continuous basis.		
15.5	Bank should subscribe for the Systems Alerts/Patches. Information Systems Auditor should ensure that all vulnerable patches are applied on a periodic to prevent outsiders exploiting the Bank's systems.		
15.6	Under the present legal requirements there is an obligation on Banks to maintain secrecy and confidentiality of customer's accounts. In the Internet banking scenario, the risk of Banks not meeting the above obligation is high on account of several factors. Despite all reasonable precautions, banks may be exposed to enhanced risk of liability to customers on account of breach of secrecy, denial of service etc., because of hacking/ other technological failures. Does the bank, therefore, institute adequate risk control measures to manage such risks?		
15.7	In order to address the risk of liability to customers on account of breach of secrecy, denial of service etc., does the Bank follow a privacy policy?		
15.8	Some of the indicated areas which all Banks need to include as part of the Privacy Policy is given below - Banks should safeguard, according to strict standards of security and confidentiality, any information customers share with them.		

1	2	3	4
	- Banks will not reveal customer information to any external organization unless they have previously informed the customer in disclosures or agreements, have been authorized by the customer, or are required by law or our regulators. - Whenever Banks hire other organizations to provide support services, they should require them to conform to our privacy standards and to allow us to audit them for compliance.		
	Web Server		
15.9	Is the web server configured to be a stand-alone unit without any membership to any domain inside the Bank's IT architecture?		
15.10	Ensure whether the web server is ported with latest versions of patches and service packs. Specifically, the OS vendor releases patches and service packs with appropriate fixes to prevent Denial of Service attack. These should have been applied to prevent such attacks on the web server.		
15.11	All security settings applicable to the operating system in which the web server operates should have been implemented as per IT security policy. Check and ensure this.		
15.12	With regard to Super User account :- - Check whether the super user account in the web server is enabled for login only on the system console and not from across the network. Perhaps this is applicable to all user accounts in the web server. - Check if appropriate parameters are implemented in the operating system of the web server so that the super user account will lock out if too many unsuccessful attempts are made across the network, but remain unlocked at the system console.		
15.13	Check if sensitive operating system related executable program files and data files on the web server are not stored on public area but in any other secure location with audit duly enabled.		
15.14	IP routing should be disabled in the web server. Check and confirm this.		
15.15	Ensure that unauthorized ports for e.g., UDP port No.443 are not allowed inside the web server. Also, ensure that unnecessary services like ftp, messenger, SMTP, telnet, etc. are not installed and active on the web server.		
15.16	The facility to shutdown the machine should be restricted to the system console on the web server. Check and ensure this.		
15.17	Access to floppy drive, CD-ROM drive, etc. should be restricted in the web server to interactive only to prevent these devices from being shared by all processes on the system. Check and ensure this.		
	Logs of activity		
15.18	Ensure that auditing is enabled in the web server's operating system and whether the logs are reviewed and authenticated by authorized officials periodically.		
15.19	Check if audit trail is enabled on the firewall to log the changes made to the rule base settings and verify whether the logged entries are approved by higher authorities in the IT Department.		

1	2	3	4
15.20	Whether the system administrators are monitoring the logs produced by the Intruder Detection System (IDS) (An intrusion detection system helps in recognizing Security threats and is capable of scanning packets for vulnerabilities. It ensures that distributed denial of service attacks are prevented) and escalating the access violations to the attention of senior management in IT department for guidance. Are these documented and appropriate corrective actions taken?		
15.21	Check whether audit trails are enabled for administration activities and whether entries logged in the audit trail are in accordance with process flow chart and no unauthorized activity has been carried out.		
	De-militarized zone and Firewall		
15.22	Are all Internet connections routed through a Firewall? Does a dedicated team manage the Firewall? Are the ports opened only on a "need to have" basis?		
15.23	Is there an Intruder Detection System (IDS) implemented?		
15.24	Are the application and database servers kept separated from the web server in the demilitarized zone?		
15.25	Is the de-militarized zone separated from the Internet cloud by means of a Firewall? (Firewall procurement should be through an approval mechanism, which ensures that only firewalls of highest standards are procured).		
15.26	If the de-militarized zone is connected to the Intranet within the Bank, it should be separated by a Firewall. Check and ensure the same.		
15.27	Check whether the Firewall rule base is treated as a sensitive information and knowledge of the same is restricted to only authorized officials in the IT / Computer operations department.		
15.28	Ensure that the decision to open specific firewall ports/rule base is approved in accordance with IT Security Policy (IT Security Policy should list out such ports) e.g. firewalls should block unwanted ports running services such as ftp, telnet, SMTP, etc. into the de-militarized zone. Ideally, only http and https ports are allowable. Check and verify this.		
	Security Review of all Servers used for Internet Banking		
15.29	Carry out an Operating System Security review on all the servers used for internet banking apart from web server as stated in (I) above and ensure that all security parameters have been properly set as per Security Policy.		
	Database and System Administration		
15.30	Has the Bank designated a Database Administrator with clearly defined roles?		
15.31	Has the Bank designated System Administrator(s) with clearly defined roles?		
15.32	Check whether process flow of administration activities is documented and approved by the Head of Operations and whether the administrators are conversant with the process flow.		
15.33	Carry out an application control review of the administration module and ensure whether the functionality as described in the process flow document are adequately met by the module.		

1	2	3	4
15.34	Examine who has access to the Super User account in the administration module. Examine the procedures for custody and usage of this password and records maintained for the same. Are all usages recorded by the administrator authenticated by appropriate authority?		
15.35	Obtain a list of all administrator accounts in the administrator's module and check whether all are attributable to personnel doing the administration job. Extraneous admin IDs should be identified and reported for deletion.		
15.36	Check whether the menu options in the admin module are assigned to different administrators on need to know basis, based on functionality offered by the menu options and the work allotment made to the administrator.		
15.37	Obtain the list of menu options in the Internet banking module for customers and check whether such menu options are assigned to user (customer) IDs only as per their request and as per the policy of the Bank.		
15.38	Pay particular attention to user (customer) IDs, which are provided with third party funds transfer facility on the Internet and verify whether they are backed by proper customer request in writing.		
15.39	Does the Bank have proper infrastructure and schedules for backing up data? Is the backed-up data periodically tested to ensure recovery without loss of transactions in a time frame as given out in the bank's security policy? Is Business Continuity ensured by setting up disaster recovery sites? Are these facilities tested periodically?		
15.40	Check the procedure for creation of different user accounts for the customers for usage on the internet and whether they are backed by valid customer request for such facility.		
	Operational Activities		
15.41	Considering the legal position prevalent, is it ensured that the Banks not only establish the identity but also make enquiries about integrity and reputation of the prospective customer? Therefore, is it ensured that even though request for opening account can be accepted over Internet, accounts are opened only after proper introduction and physical verification of the identity of the customer? Is there a Legal Contract with the customer in place covering the risks of communicating using the Public Network?		
15.42	Pay particular attention to customers whose constitution is other than "individual", particularly corporate accounts and check whether appropriate account opening documentation have been submitted by such customers for internet banking.		
15.43	Check if any customer is provided with multiple user IDs, if he/she is not a joint account holder, but only single.		
15.44	Any account linkage activity should take place only after ensuring that the user accounts are created based on valid customer requests.		
15.45	Check if user-IDs are linked to multiple bank accounts. If so, verify whether such accounts pertain to the same customer only.		

1	2	3	4
15.46	Check the procedure for enabling the customer user ID on the internet and verify whether adequate precautions are taken by the operations personnel to identify the customer before enabling. Account enablement process should be decided and signed off before product launch. Entire process should be auditable and audit trails should be enabled for the same (Each Bank can decide whether they can pre-enable or post-enable the user accounts based on their policy).		
15.47	Check the procedure for creation of new password for customers who report having forgotten the password. Verify the procedure for ensuring the identity of the customer before creating the new password.		
15.48	Verify whether adequate records (either electronic or manual) are maintained for the customer user IDs created, enabled, new passwords provided, etc. and whether they are authentic. Test check the instances of change of customer's passwords and whether they are backed by valid customer requests.		
15.49	Do all applications of banks have proper record keeping facilities for legal purposes? It may be necessary to keep all received and sent messages encrypted.		
	Application Control Review of Internet Banking Application		
15.50	Does the software allow creation of user-IDs in the same name more than once?		
15.51	Does the software encrypt the passwords one way and store the same in encrypted form in the database?		
15.52	Does the software display the password as it is keyed in? (It should not be displayed on the screen).		
15.53	Does the software lock the User-Id if it is used for X unsuccessful times to logon to the system?		
15.54	Does the software force the User to change the password at set periodical intervals?		
15.55	Does the software maintain password history i.e., the same password should not be used again on rotation basis?		
15.56	Check whether the software logs the instances of change of user's (customer's) password in the audit trail?		
15.57	Does the software allow automatic logical deletion of inactive user IDs after a certainperiod of time?		
15.58	Does the system maintain password length to be of minimum 6 or 8 characters, or as the case may be, with combinations of alpha, numeric and special characters?		
15.59	Check whether the menu options available on the web page for a customer after logging on to the system provide only appropriate functionality as designed, and no deviation is possible.		
	Application Security		
15.60	Is the Security infrastructure properly tested before using the systems and applications fornormal operations? Following needs to be taken care of for ensuring that Security infrastructure is tested properly before using the systems and applications :		

1	2	3	4
	--As part of the System Development Life Cycle (SDLC), during the development stage an Information Security Review needs to be conducted covering the entire system and architecture review --Comprehensive Information Security related checks needs to be conducted during the Coding & Testing stage --On completion of User Acceptance testing (UAT), all Internet related systems or applications needs to be penetration tested by an independent party. --Banks should enter into an Agreement with the independent party who conducts the penetration testing covering both Legal and Contractual terms.		
15.61	Following should be covered as part of penetration tests/vulnerability tests : - 1. Check for following common vulnerabilities : - IP Spoofing - Buffer overflows - Session hijacks - Account spoofing - Frame spoofing - D-DoS attacks - Caching of web pages - Cross-site scripting - Cookie handling 2. As per RBI's guidelines PKI (Public Key Infrastructure) is the most favored technology for secure Internet banking services. Since Government & RBI are in the process of identifying a PKI service provider, it may take some time to implement PKI in all the Banks. However, as it is not yet commonly available, does the bank use the following alternative system during the transition, until the PKI is put in place: - A static ID and password login process. - Usage of SSL (Secured Socket Layer), which ensures server authentication and use of client side certificates issued by the Banks themselves using a Certificate Server. - The use of at least 128-bit SSL for securing browser to web server communications and, in addition, encryption of sensitive data like passwords in transit within the enterprise itself.		

CHAPTER No. 7

INTERNAL CHECKS AND CONTROLS TO PREVENT FRAUDS

7.1. ***Introduction*** **:-** Internal control is very important for preventing frauds. The main object of audit is also to find out frauds and to prevent them. To this end the Reserve bank of India had established a committee under the chairmanship of Mr. Amitabh Ghosh. After a careful study of the whole problems, the Committee has come out with many suggestions. The NABARD has circulated them vide NABARD Circulars No. NB/ID.HYD/1154/FC.I/93-94 Dated.28/5/93, No. ID hyd/ F&C/ 1258/ FC-1/96-97 dated 31.5.96,F& C/ 1321/ FC-1/ 96-97 date 31.5.97.The recommendations of the committee are detailed below; auditors should study the recommendations carefully and offer suggestions to the banks.

7.2. ***Nature of Recommendation*** **:-**

1. Joint custody and dual responsibility of cash and other valuables.
2. Adhering to the prescribed norms and safeguards while opening various deposit accounts, customers to be educated / cautioned about introducing new persons without knowing them, close watch to be kept on the operations in the new accounts.
3. Banks to clearly specify the authority to put through investment deals and reporting system to be adopted in accordance with guidelines issued by Government / RBI from time to time. Purchases and sales to be periodically reported to top management with reasons for the same.
4. Securities to be recorded and kept in the joint custody. Periodically verifications of securities say once in quarters or half year by persons other than the person dealing securities.
5. Verifications of investment transaction by internal inspectors and concurrent auditors and surprise sample check by vigilance.
6. To set up an internal loan review department to evaluate the ***quality of credit portfolio*** and report on the health of the loan portfolio directly to the Board at periodic intervals.
7. Periodical coverage of branch inspections to be clearly specified. Inspection department to be manned /headed by Senior Officials with sufficient experience and exposure and also proven integrity. There should be inspections of large branches.
8. Concurrent audit at all large branches.
9. Inspections of Head office department and controlling offices regularly and by Senior Officers of sponsor banks for RRBs and SCB for CCBs.
10. Inspectors to educate staff on hazards of deviation from the prescribed system / guidelines/ procedures.
11. Rationalization of returns and strengthening present information's system and reporting to top management.
12. Monthly certificate on inspections of associated units and on stock pledged /hypothecated to bank.
13. To carry out surprise inspections on noticing abnormal irregularities in control returns.
14. To evolve a system in which an employee coming across an irregular practice in any of the operational areas should be made responsible to report the same to higher authorities for remedial actions.
15. Need for close coordination between internal inspections/audit set up personnel department discipline cell and vigilance machinery. Vigilance cells should have exclusive officials for field job.
16. Verification of antecedents of person before appointment in banks. The Confidential Reports recorded on staff should give clear-cut assessment of their work and conduct.
17. Rotation of staff /duties and periodical transfers as part of internal check system.
18. Financial and administrative powers of different official should be clearly laid down.
19. A precaution in handling cash and valuable cash balances insurance and prompt reporting of inter-branch and inter-bank remittances of cash.

20. Security arrangement for cash in dacoity /terrorist attack prone areas.
21. Precautions in payment of cheques and issue of fresh cheque books.
22. Balancing of ledgers at periodical intervals to be insured.
23. Caution should be exercised before allowing operations in the inoperative deposit accounts.
24. Safe custody of specimen signature cards to be insured.
25. Blank draft and mail transfer forms to be treated as security items.
26. Precautions in writing in drafts/ mail transfers and way in which telegraphic/ telex messages for remittance should be sent.
27. Safe transit of cheques and instruments between the branches and clearing house.
28. Frauds through entries in suspense account to be watched.
29. Non-reconciliation of inter-branch transactions, leading to covering up of frauds to be watched.
30. Unhealthy practice of granting advances beyond discretionary powers or by oral or telephonic instructions to be avoided.
31. Controlling offices should obtain a monthly certificate from branches indicating that periodical stock statements are received. Controlling offices/ vigilance department should have a squad for surprise inspection of goods pledged /hypothecated.
32. Precautions for averting frauds in the areas of letter of credit, issue of guarantees and co-acceptance facilities. Bank guarantees / LCs to be issued on security forms serially numbered. One of two authorized signatures on LCs may be from controlling office. Bills discounting facility under L/C, Co-acceptance should be extended to customers having regular sanction limits.

7.3. *Guidelines :-* The NABARD has circulated more instructions in this regard vide NABARD Circular No. NB/ID.HYD /1258 /F &C. / FCI/96-97 DTD.31.5.96. & No. DOS/ hyd. / pol. /6596/ J.1/ 98-99 dated 25.1.99 issuing guidelines on risk assessment, accounts control, administrative control, accountability, concurrent audit, internal inspection and audit, vigilance cell, monitoring of frauds, review of bad and doubtful debts, and other topics.Auditors should study carefully the guidelines and offer suggestions to the banks.

The Reserve Bank of India has issued a master circular regarding above instructions; the auditor should study it and offer his remarks in his audit report accordingly.

CHAPTER No. 8
INTERNAL AUDIT

8.1 The Reserve Bank of India again and again presses for timely audit, NABARD, in its circular No. ID.HYD.POL/ 5568/ J.1/94-95 dated 5th January 1995, instructed the DCC Banks to introduce the Internal Audit system on short rests, as possible as to them, at least in a month or quarter for the exceptionally large branches and the area of internal audit is also suggested by the Reserve Bank

8.2 The area of internal audit should cover the following points as per the Circular instructions of the NABARD.

1. ***Scope :*** Concurrent audit is an examination; it's contemporaneous with occurrence of transaction or is carried out as near thereto as possible. It attempts to shutter the interval between transactions and its examination, by an independent person, not involved in documentation. There is an emphasis in favour of substantive checking in key areas rather than test checking. This audit is essentially a management process integral to the establishment of sound internal effective control, and for setting the tone for vigilant internal audit to preclude the incident of serious errors and financial manipulations.

2. The Board of Directors of the Institute of Internal Auditors approved the following definition of Internal Audit: **"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operation. It helps an organization accomplish its objectives by bringing a systemic, disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes."**

3. The Basel committee on banking supervision had issued a paper on internal audit and relationship with auditors. The auditors should carefully study the report and offer suggestions to the bank considering their needs.

4. The Reserve Bank of India has issued master circular regarding internal control recently in July 2015 with amendments to their previous master circulars, which are issued every year. The auditor should study the circular and offer his remarks in his audit report.

CHAPTER No. 9

RISK ASSESSMENT

9.1. Banks perform various types of the intermediation functions *viz.,*

1) Denomination, intermediation, pooling of funds from a variety of smaller units and make larger loans

2) Default risk intermediation :- ability of the banks to make loans to risky borrowers while acquiring funds from saving units by issuing relatively safe and liquid securities

3) Maturity intermediation :- making long term loans by borrowing for a comparatively short period of time from the savers.

9.2. A corollary of the transactions such as issuing drafts, issue of guarantees, making SLR/non SLR investment, etc., all carry varying estimate of risk, etc.

Thus, risk is inherent in banking business :- Risk may be simply defined as "probability of loss or damage". Given the complexity of existing bank operations and rapidity of changes, chances of loss or risk are not only complex in nature but also varied in dimensions. Particularly speaking, banks are exposed to the following risks.

(i) Credit risk
(ii) interest rate risk,
(iii) liquidity risk,
(iv) capital risk,
(v) market risk,
(vi) exposure risk, etc.

The auditors have to examine as to how the bank is managing various types of risks involved in banking and comment in their audit report.

(i) Credit risk :- *The risk of the counter party failure in performing repayment obligations on due date*. Traditionally, credit risk management is the primary challenge for financial institutions and such risks are regulated by laid down credit/ loan policies. Misjudgment of credit risk may lead to non-recovery of loans.

(ii) Interest rate risk :- Interest rate risk is defined as ***"the changes in the interest income due to changes in the rate of interest"***. The changes in their interest rate have also an impact on the value of assets and liabilities. Thus, interest rate risk may be viewed from two different but complementary perspectives-

a) earning sensitivity to rate fluctuations and
b) price sensitivity of instruments/ products to changes in interest rate.

Changes in the interest rates can affect banks with regard to changes in:

a) Market value of assets and liabilities and off balance sheet items, ultimately having impact on the value of net worth
b) Net interest income due to mismatch in the reprising terms of the assets and liabilities.
c) Net income as a result of changes in interest income.
d) Net interest margin due to changes in interest income.
e) Net income margin owing to changes in interest income and sensitivity of non-interest income to rate changes.
f) Net margin in the changes mentioned above at a) to e)
g) Capital asset ratio due to changes in net margin.

(iii) Liquidity risk :- *Ability, both to meet commitments when due, and to undertake new transactions when desirable*. Liquidity risk is ***the potential inability to generate cash to cope with the declined deposits or increase in assets***. Liquidity risk originates from the mismatches in the maturity pattern of the assets and liabilities, Banks protect their liquidity position generally by controlling mismatch between maturities of assets and liabilities, focusing on core deposits (one of the basic indications for liquidity measurement is the ratio of volatile liability to loans).

(iv) Capital Risks :- Maintaining adequate capital on a continuous basis is the sine qua non for sound banking practice. Although capital adequacy norms were not made applicable to central co-operative banks, they are expected to maintain adequate capital to guard against unforeseen eventualities.

(v) Market Risk :- Marked risk is ***the risk to banks financial condition that would result from adverse movement in market prices***. Primarily the impact of market risk is observed in the movement of portfolio value. There is a strong internal relationship between the interest rate and marked risk variables.

(vi) Exposure Risk :- The investments of the banks should satisfy single exposure norms i.e. loan granted to a company or an entity together with investments made in its shares should not exceed 25 % of the owned funds. Therefore, banks should be very cautious in extending advances and making the investments to a single borrower or borrowers of the same group. The other instructions in regard to exposure risks are as under-

(i) Investments in acquiring shares and debentures in the secondary marketshould be with in the ceiling of 10 % of incremental deposits of the previous year.

(ii) The limit for sanction of advances against shares and advances to anindividual should not exceed Rs.- 10 lakhs-

(iii) The exposure ceiling for a single corporate borrower should not exceed 10 % of the bank's capital fund. Capital fund for these purposes will comprise paid up capital and free reserves and per published accounts. Reserves on account of revaluation of fixed assets should not be considered for the purpose.

(iv) Investments in non -SLR surplus resources could not exceed 50 % of the refinance availed from NABARD, sponsor bank etc. or 25 % of the aggregate deposits as at the end of the preceding year *i.e.* deployment of surplus non -SLR funds in the credit portfolio of sponsor bank should not exceed 15 % of fresh lending during the year.

The Reserve Bank of India has issued master circular regarding risk management recently in July 2014 with amendments to their previous master circulars. The auditor should study the circular and offer his remarks in his audit report.

CHAPTER No. 10

BORROWINGS

The District Central Cooperative Banks require some funds through borrowing. The funds are borrowed by DCCB's from the NABARD on various special programs as well as for seasonal agricultural operations (SAO). The DCCB's are required to prepare special schemes oriented with refinance from NABARD and cannot lend without prior approval of NABARD.

10.1. ***Seasonal Short Term Agricultural Advances : (STSAO) :-*** For this, NABARD issues policy for Seasonal agricultural operations for DCCB's under Section 21 (1) (I) of the NABARD Act 1981. This policy generally contains review of previously sanctioned loans in this category, recovery positions and credit planning and data generation. Basic eligibility criteria for availment of refinance from NABARD, Special Program, credit linking with performance, investment of own resources, incentives, measures to reduce dependency level, overall eligibility based on owned funds, due date for repaying, interest rate and other terms and conditions.

10.2. The auditors are required to verify the withdrawls of every type of loan and terms and conditions that are specified for withdrawal of refinance. Some important terms are described below.

1) Eligibility based on owned funds and government guarantee :- The District Central Banks' eligibility criteria is based on audit classification awarded to them and related with multiple times of own funds. 'A' 'B' and 'C' classified banks are not required to produce Govt. Guarantee; ***however, banks not complying with the provisions of Section 11(1) of the Banking Regulation Act are required to produce Government Guarantee*** for refinance. Auditors should verify this and also the Guarantee fees paid when it is availed.

2) Recovery and NPA norms :- While availing refinance, the DCCBs have to comply with certain limits of recovery and NPA norms. The recovery level and percentage of NPA is revised by the NABARD from time to time; auditors should study the circular policy issued by the NABARD and comment on it.

3) Compliance of Section 11(1) of BR Act :- Section 11(1) of Banking Regulation Act 1949 (AACS) provides that, own funds of Bank should not be less than Rs. 1 lakh. Auditors should verify the Bank is not declared as weak u/s. 11(1) by the RBI/NABARD. For refinance purposes, the bank has to obtain exemption from Government of India, if they are declared weak accordingly. The action plan is given to the weak DCCBs to overcome from poor financial position, auditor should see and comment on the efforts made by the bank.

4) Involvement of own resources by bank in SAO loans (Minimum Involvement) :- For agricultural loans, bank has to invest certain portion of its own funds in lending to PAC's. The NABARD every year fixes this portion on the lending towards SAO loans. Auditors are required to comment on whether the bank has complied with the norms of ***Minimum Involvement*** (MI). Non-compliance with these results in levy of additional interest on the banks; therefore the auditors should see the reasons of non-compliance also.

5) Seasonality Discipline :- The District Central Banks have to pass on the recoveries to higher financing agency (i.e. SCB) in certain percentage that is fixed by the NABARD every season. This is monitored by the SCB as per NABARD Circular No. NB. PCD (OPR) 3061/A.1 (Gen.) dated 24 December 1999 by drawing up month-wise recovery target. Auditors are required to verify that the bank has complied with this norm.

6) NODC cover :- The DCCB's have to maintain ***Non Overdue Cover*** for the security of refinance. The non-overdue portion of lending made by the bank to PACs should cover the refinance that is availed by the bank. The bank is required to send periodical reports covering this information to higher financing agency. Every drawal is sanctioned by the higher financing agency after considering the NODC is available or not. If bank is not able to maintain NODC for more than three months, the NABARD can recall the entire loan.

7) Coverage of SF/MF :- Another condition that is laid down by the NABARD is that the bank should finance, to a certain limit, Small and Marginal farmers.

8) Defaults :- The DCCBs should not default on any installments of refinance availed from the NABARD on due dates. If there is default, the NABARD withdraws refinance facility and only after repayment of due installment is the refinance started. The auditors are required to study the policy circular issued by NABARD every year and see whether the terms and conditions are complied with.

9) Schematic Refinance :- The NABARD makes available refinance on various schemes for financing to Sugar Factories, Spinning mills, Industrial Societies, and Urban Banks and Urban Credit Societies, Salary earners' Societies, Weavers and Labour Contract Societies, SS units and other similar societies. The NABARD issues policy circulars relating to these for every type of loan. Auditors are required to study the circulars and verify if the conditions laid down have been complied with. NABARD has issued a master circular on this subject which is available on their website www.nabard.in. Auditors should visit the site and download the master circular for their reference.

CHAPTER No. 11

LENDING OPERATIONS :- GENERAL

11.1. As already stated, District Central Banks have been established primarily with the object of providing finance required by cooperative societies for conducting their normal operations. Agricultural credit societies form bulk of the affiliated societies and as such, provision of finance for agricultural operations is the major task of the District Central Banks. Finance for short-term purposes and also medium and long term finance is provided by central banks. Seasonal agricultural finance, or crop finance as it is more popularly known, is required to be repaid within a period of one year. Under section 17 of the Reserve Bank of India Act (Now Section 22 of the NABARD Act) short-term finance should not have been advanced for a period exceeding 18 months and medium term loans should be re-payable within a period not exceeding five years. Land Development Banks (now Agricultural and Rural Multipurpose Development Banks) have been set up in each district in the state to provide long term finance for land improvement and other long term purposes required by agriculturists. Such banks which had merged for some time past in Apex Land Development Bank are now again separated at District level banks. Now District Central Banks are also permitted to lend Long Term loans. Medium term loans are advanced for purposes such as land improvement, construction and repairs of wells, purchase of oil and electric engines, and pumping sets, and other agricultural equipment and also for purchase of bullocks and milch cattle. Agricultural finance is provided both to agricultural credit, multipurpose and seva societies and also to farming societies.

Finance to other type of societies is generally provided in the form of cash credits. Fixed loans and overdrafts are sanctioned only to salary earners' societies and urban banks for specific purposes, such as conducting inland exchange business. Processing and Marketing societies are also granted fixed loans or cash credits for meeting capital expenditure involved in setting up processing units and also for provision of working capital in case of newly established societies. Medium term loans are also given to members of primary credit societies (through their societies) to purchase shares of processing societies.

Cash credit sanctioned to affiliated societies is either clean, hypothecation or pledge. Urban banks and marketing societies are also advanced cash credits against re-pledge of agricultural produce or other goods pledged to these societies by their members. The distinction between clean and hypothecation or pledge credit should be properly understood. Where both clean and pledge credit limits have been simultaneously sanctioned, it should be seen that clean cash credit is used only for the specific purpose for which it is sanctioned and not for providing necessary margins to pledge credit. Hypothecation credit should have been sanctioned only to well managed societies and only when the security cannot be pledged as in the case of stock in trade of consumer's societies, stock of raw materials in case of industrial and processing societies, etc.

Special credits are also sanctioned to processing and industrial societies including weaver's societies against Government guarantee under the various schemes sanctioned by the State and Central Governments. Special hypothecation credits are also sanctioned to consumer's societies under the guarantee scheme sanctioned by the Government of India.

The bank's own funds and also funds raised by it by way of deposits from the public are not sufficient to meet the requirements of borrowing societies. Additional funds are therefore required to be obtained from the Apex Co-operative Bank by way of drawl from credit limits sanctioned by it for various purposes or by way of reimbursement of funds already invested by the central bank from out of its own resources

11.2. ***Principle of Lending's :-***

The major principles of lending are

1) Security;

2) liquidity;

3) Financial stability;

4) technical feasibility;
5) profitability;
6) purpose of loan;
7) pledge;
8) diversification of risk; and
9) Policies of RBI/NABARD /GOVERNMENT

Auditors are required to study various policy circulars issued on these norms by the RBI/ NABARD and verify the loan advanced by DCCB's are on these sound principles.

***1) Security* :-** Every loan should be secured for repayment of principle as well as interest on due dates. This is decided on the quality of loan advanced; though the risk is inherent in the banking business. Banking Regulation Act 1949 specifies the Secured and unsecured advances; the auditor should keep in mind that, it states that, the Secured advance has to be fully secured and not partly.

***2) Liquidity* :-** The bank is required to maintain liquidity as a statutory responsibility under section 18 and 24 of the Banking Regulation act 1949 (AACS). The banks are required to take almost care to lend recoverable loan to maintain the liquidity so they can re-pay the deposits with interest on due dates.

***3) Financial feasibility* :-** The loans and advances financed by the bank are on sound financial principles. The borrowers financial position should be verified in the context of repayment of loan.

***4) Technical feasibility* :-** The borrower must have knowledge of the business that he runs. Without this the failure of business will lead the bank in not returning the loan.

***5) Profitability* :-** Banks lends for the return on the investment. The Advances should be such, as will generate income. The repayment of loan shall be without any default.

***6) Reason* :-** The loan advanced for the purpose should be related with the business of the borrower; diverting it to another purpose turns the loan into a non-performing asset.It should be for productive purposes.

***7) Pledge of security* :-** The assets offered by the borrower as security should be sufficient, realisable, and marketable so the repayment can be possible from the assets in case of default.

***8) Diversification of Risk* :-** The banking business is risky one. There are risks of liquidity, interest, and others. The lending by the bank is such that there would be no risk in financing any sector. To avoid the risk, bank should follow the *exposure norms* that are specified by the RBI/NABARD from time to time in their policy circulars.

***9) RBI/NABARD policies* :-** Regarding loans, the RBI/ NABARD have issued various circulars on prevention and safeguards of various loans, margins, securities, risks, liquidity, creditworthiness of borrower and verification of its, general terms and conditions of loans for individual and institutional loans, exposure norms for sector, individual, group of borrower, which are mentioned elsewhere also. The auditors are required to study them.

11.3. *Credit policy* :- Every DCCB prepares their agricultural and non-agricultural loan policy. These policies contain eligibility criteria for individuals, societies and other small-scale industries in accordance with the NABARD/RBI guidelines, thegeneral terms and conditions which borrowers have to comply with, amounts to be sanctioned, margins, interest rate, etc. Auditors are required to study this policy and scrutinise the loan applications accordingly.

11.4. *Scrutiny of Loan Applications* :- The auditors have to scrutinise the loan proposals while auditing the banks. Normally, he has to verify the proposal on the points mentioned below.

1) If the borrower is a new one, the bank should take care to verify creditworthiness of the borrower by collecting sufficient information and reports from other banks and confirm whether KYC norms had been complied with by him.
2) The borrower has submitted his details of all bank accounts and the bank has verified them.

3) If the borrower has taken a loan previously, the transactions in his accounts are satisfactory, and there are no drawls exceeding the credit limits.
4) Turnover in the accounts of the borrower for the last 2/3 years has been satisfactory and in case insufficient turnover is there, he has submitted the reasons for it, which are acceptable.
5) The loan outstanding is with relation to the sales business, and has been properly utilized for the business.
6) The reason given for advance is proper.
7) The borrower has complied with the objections raised by the RBI/NABARD or internal / external auditor, inspectors of the bank, regarding his loan.
8) The borrower has complied with all the points raised by the RBI/NABARD inspectors, Internal / External auditors.
9) The working capital required by borrower is adequate for his business and loan requirement in comparison to last year's business.
10) The borrower has reinvested his profits and the net worth has increased substantially.
11) The borrower has properly showed the contingent liabilities.
12) Depreciation is charged as per Accounting Standards.
13) The borrower has tried to reduce the losses that have been incurred in the business.
14) Stores and stocks are according to the size of the business.
15) The borrower has submitted stock statements regularly.
16) The changes in stock are reasonable and changes are explained satisfactorily by the borrower.
17) Current assets and current liabilities are in proper proportion.
18) The borrower is conducting all his business through the bank and not from another one.
19) For consortium finance, the borrower has done business in the proportion of loan drawn.
20) For block capital loan, the borrower has submitted his project report, prepared by the expert in concern field, stating cost of production, availability of resources and their utilisation pattern. And the same report has been scrutinized by the bank officials properly.
21) The borrower has complied with all terms and conditions set before him.
22) The property given as security is properly mortgaged and mortgage deed and related papers are with the bank.
23) The borrower has taken out insurance for adequate amount of property and stock and mortgaged assets.
24) The borrower has paid all government dues and taxes.
25) The borrower has repaid all loans previously taken together with interest.
26) The bank has the custody of all the documents required for the purpose of disbursement of loan.
27) The consent letters from the guarantors and property holder have been duly signed and given to the bank
28) All requisite registration certificates such as small-scale industries, income tax, sales tax/VAT, society registration, partnership deed, company registration, Shop Act registration etc. are in possession of the bank.
29) The sister concerns of the borrower, their loan positions and loan transactions have been verified by the bank.
30) After proper scrutiny of proposal, all the officers of the bank have recommended the loan application and there is no refusal of loan by any one.
31) The bank has complied with exposure norms laid down by the bylaws, RBI/NABARD.
32) The borrower has given Promissory note.

11.5. *Interest rates :-*

1. Prior to 1994, DCC Banks were required to charge interest rates as per guidelines issued by the RBI/ NABARD. RBI has deregulated the interest rates and DCCBs are free to charge interest rates as their Board of Directors prescribes. RBI has issued directives in this regard vide No. RPCD / DIR/ BC.50/ 07.38.01/94-95 dated 17.10.94 on deposits obtained on 18.10.94 and onwards. In addition, the Banks have freedom to prescribe margin for advance given against Fixed Deposits, but not less than 15%.

2. The RBI from 18.10.94 in its directives also deregulates the interest rates on loans and advances *vide* circular No. RPCD/DIR/BC.51/07.38.02/94-95 dated 17.10.94 &. RPCD / RF/ BC.52/ 07.38.02/ 94-95 dated 17.10.94. The DCC's are required to fix lending rates. The RBI has directed the DCCBs that interest shall not be charged below its base rate.

3. In case of refinance from NABARD/ SIDBI and any other term lending institution, the rate of interest stipulated by concerned institution should be charged. Other exceptions for interest rate are interest rate charged from its own employees, Cooperative banks, and any other borrowing institutes against the security of deposit with the DCC banks. The condition to charge interest rate as per stipulation of financing agencies has also been withdrawn by the RBI in its directive No. RPCD / DIR/ BC.63/ 07.38.02/94-95 dated 2.11.94. & RPCD / DIR/ BC.62/ 07.38.02/94-95 dated 2.11.94, and DCC's are free to prescribe the lending rate for loans and advances.

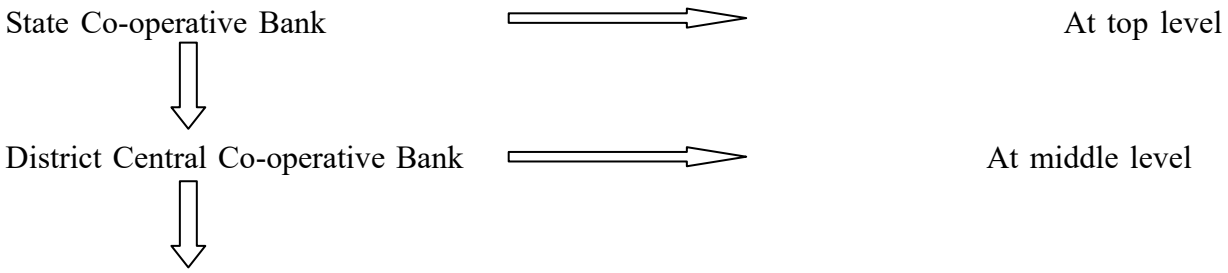
4. The auditors should study the Master Circular issued by the RBI/ NABARD on interest rates on advances and deposits.

CHAPTER No. 12

LENDING OPERATIONS : - AGRICULTURAL LOANS

12.1. ***Short term finance to Agricultural credit societies*** **:** ***Convening of the field worker's conference :-*** Every year, a conference of all key persons connected with agricultural finance is held before the commencement of the recovery season. This conference is called the "Field Workers' Conference" and is convened by the District Co-operative Bank and the District Deputy Registrar. Besides Chairmen of all Taluka Supervising Unions and directors of the central bank, representatives of important institutions such as the Land Development Bank (Now Agricultural and Rural Multipurpose Development bank), District Marketing societies, and also other societies such as processing societies, industrial societies and urban banks are also invited to attend the meeting. Key officers of the bank, representatives of the Co-operative and Agricultural and Revenue Departments and of the Zilla Parishad and also field officers of the bank and supervising unions and the Department also attend this meeting. In this field Workers' Conference, all policy matters relating to recovery of outstanding dues of agricultural credit societies and provision of fresh finance and other matters are discussed and recommendations are made as regards scales of finance to be provided for the different crops grown in the district. The unit costs circulated by the NABARD Bank are also considered in this meeting and revisions and amendments are also suggested to the bank. These recommendations are considered by the Board of directors of the bank and circular explaining the lending policy of the bank, the scales of finance fixed for different crops, etc., is issued. Detailed instructions as to the preparation and submission of the *Normal Credit Statement* are also issued.

Agricultural loans :- In three tier structure of agricultural lending, followings are involved.



Crop loans :- which are called as Short Term loans for "Seasonal Agricultural Operations". Loan required to meet current expenditure for raising crops on land till crops are harvested is termed as short term loans or crop loans.

12.2. ***Normal Credit Statements*** **:-** The Normal credit Statement contains a number of columns for mentioning particulars regarding lands held by each member, area under irrigation, crops proposed to be grown, etc. Particulars regarding lands held are to be entered from the Assets or *Haisiyat* Register, which is required to be maintained by each society. Information regarding crops to be raised has to be obtained from each member. For this purpose, some of the banks have devised a special form, which the member has to fill in. Signature or thumb impression of the member is obtained thereon as evidence of such consultation with him. Although different crops are grown in the same season, only one Normal Credit Statement is prepared for the whole year and for all the crops grown by the member. Normal Credit Statements are now prepared for the period of three years considering the probable pattern of crops and creditworthiness of the member. Separate statements for different crops or different seasons are not prepared. Although the crop loan system envisages provision of full credit to members to meet their production requirements on the basis of the acreage held and the crops grown, it has to be seen that the absolute limits *i.e.* ceiling on the amount which an individual member can borrow from his society as laid down in the bylaws of the society, are not exceeded. Where, due to special circumstances, these limits are to be exceeded, the bank is empowered to enhance the amount up to twice the limit filed in the bylaws. If a loan to member in excess of twice the limit specified in the bylaws has to be sanctioned, permission of the registering authority has to be obtained.

12.3. ***Asset or Haisiyat Register*** **:-** As already explained, the Normal Credit Statement has to be prepared very carefully since it forms the basis for fixing credit limits of the society. The acreage shown has to be verified from the Assets or *Haisiyat* Register, which is required to be maintained by all agricultural credit societies. The Assets Register has to be checked from the village revenue records (Village Record of Rights form Nos. VII and XII), extracts from which pertaining to each member are required to be obtained from the village officers and filed with the society. The Assets Register has to be revised from time to time with reference to the entries recorded in the Village Revenue Records, and all changes that have taken place since it was last checked are required to be noted therein. Most of the banks insist that the Assets Register should be reviewed every year.

12.4. ***Scale of crop finance:Cash and kind components*** **:-** Scales of finance are fixed separately for cultivators who follow the traditional methods of cultivation and do not use any fertilizers, and those who follow the improved methods. Crop finance includes labour charges including finance required for the maintenance of the cultivator and his family until the crops are harvested, seed, cost of compost manure or other traditional manure and land assessment. At the traditional level of cultivation, outlay on these items of expenditure should not exceed one-third of the average value of per acre production of that type of land and scales of finance should be fixed accordingly. Certain commercial crops like potato, vegetables, sugarcane, grapes etc., necessitate higher outlay on fertilizers insecticides, etc., and for such crops and also for improved varieties of cotton, groundnut, paddy; and other cash crops, higher scales of finance will have to be fixed.

Kind component **:-** As regards kind of components, quantities of chemical fertilizers and also the extent to which progressive cultivators in the area are accustomed to using them will have to be taken into consideration. Organic manure, such as groundnut cake, fishmeal, bone meal, etc., should also be included provided a suitable agency preferably a marketing society is available which arranges for their supply. Seed is not ordinarily included except where hybrid varieties are used, or where the cost of the seeds is considerable as in the case of potato, sugarcane, etc., in which case proportionate reduction will have to be made in the cash component.

In some of the banks, an additional cash component not exceeding fifty percent of the kind component is allowed to be lifted in suitable installments to enable the cultivator to meet the cash expenditure necessitated by the use of the fertilizers and adoption of improved methods of cultivation. It has, however, to be noted that the actual use of the fertilizers would depend on factors such as adequacy of rainfall, availability of irrigation facilities, availability of fertilizers and arrangements for their distribution etc. Hence, operations on the limits sanctioned should be regulated after due consideration of these factors, so as to avoid over-finance. Also, since the Reserve Bank of India is now the major source of finance, the Central Bank has necessarily to take note of the policies followed by the Reserve Bank of India in fixing credit limits for individual banks from yearto year. These are explained in the various circulars issued by the Reserve Bank of India and the State Co-op. Bank and NABARD and auditors will have to go through these circulars very carefully before they proceed to examine transactions pertaining to provision of crop finance.

Since repayment of previous loans ordinarily starts from January every year and members of agricultural credit societies require finance almost immediately after they repay their previous dues, normal credit statements are required to be sanctioned at the latest before the end of February. The following time limit for fixing up credit limits has to be followed, as per circular issued by the Registrar.

(i) Convening of field workers conference October-November
(ii) Decision of Bank on scales of finance recommended -December
(iii) Preparation and submission of normal credit statement-January
(iv) Scrutiny of normal credit statement by Bank staff and approval of credit limit by banks -Middle of February.

12.5. ***Kisan Credit Cards*** **:-**

1. ***Objects :*** The basic object of the KCC scheme is to provide adequate and timely credit support to the farmers for their cultivation needs including purchase of inputs, in a flexible, hassle-free and cost effective manner. For this objective, the KCC scheme was introduced in the year 1998-99 all over the country, by the commercial and Co-operative banks.

2. This scheme is mainly made applicable for the short-term crop loans for the farmer. Initially it was limited to the farmers who avail loans above Rs. 5000, now this ceiling has been removed.

3. ***Credit facility*** **:-** This is revolving credit facility. Under this facility the farmer can withdraw and repay as per his requirement and can reduce the interest burden. The auditors are required to see that the farmers have been offered this facility by the bank.

4. The Credit limit is fixed on the total production cost of crops taken by the farmer in the year, which includes maintenance of the machinery, electricity charges, seed, wages and all related costs,

5. The credit limit is based on the scales fixed by the state level Co-operative committee and guidelines from the NABARD. The Board of Directors of the Bank considering local circumstances can revise this limit.

Crop loans are generally disbursed by banks through the model of Kisan Credit Card (KCC). KCC is in operation throughout the country and is implemented by commercial banks, Co-operative banks and RRBS. All farmers including small, marginal farmers, tenant farmers are eligible for KCC. KCC holders are covered under personal accident insurance scheme against accidental death / permanent disability.

Auditor should check scale of finance fixed by district level technical committee in that district.

Based on land holding normal credit limit is fixed for every farmer. Auditor should check this.

Scope of KCC has presently been broad based to include term loans and consumption needs.

Government has advised banks to convert KCC into Smart Card cum Debit Card.

For crop loan, no separate margin need to be insisted as margin is inbuilt in scale of finance.

Validity of KCC is for 5 years.

Auditor should see that every member is given KCC.

Interest subvention / incentive for prompt payment to be available as per Government of India or State Government norms. Auditor should verify interest subvention is availed by bank and credited to farmers account on test check basis.

No processing fees upto limit of Rs.3 lakh.

One time documentation at the time of first availment and thereafter simple declaration by farmer.

In terms of Government of India instructions, crop loan upto Rs.3 lakh is disbursed at 7% interest. Government of India also provides interest subvention of 3% for prompt repayment.

Various State Government also provide interest subvention for propmpt payment. Auditor should study these schemes.

6. ***Renewal of KCC*** **:-** KCC is generally issued for the period of three years. The credit limit is reviewed annually. After review, the bank may consider the limit to be enhanced or reduced as the case may be. If the farmer does not use the facility it can be withdrawn also. In the whole year the farmer is required to credit the amount to the limit of withdrawal. Rehabilitation of credit is done if the crop season is not good due to drought conditions as per guidelines from NABARD.

7. ***Security and margin*** **:-** For this credit facility, security and margin will be decided by the RBI/ NABARD.

8. The branch to which the farmer is affiliated maintains the accounts of credit. Bank may permit to transact from another branch also.

9. The DCC Banks are allowed to pay sanctioned limit in cash as per decision taken by the board.

10. ***Prudential Norms*** **:-** The prudential norms are applicable to this facility, as applicable to cash credit facilities. The Norms in this regard are;

1) as on the date of Balance sheet, the account should not be overdrawn for two crop seasons. Or,

2) as on the date of Balance sheet, there is no credit in the account for two crop seasons. Or,

3) the interest due during the last two crop seasons is not fully repaid by the farmer.

11. The DCCBs have to pay interest on credit balance of this facility, as per interest payment system for saving accounts.

12. The DCCBs are required to issue passbooks for these accounts.

The auditor is required to study the circulars issued by NABARD on KCC's and verify the accounts accordingly.

12.6. *Disbursement of loans* :- Some of the banks require borrowing societies to furnish to them copies of the declarations furnished under section 48 of the Act obtained by them from their borrowing members and registered in the village revenue records. Copies of relevant entries in the village records are also required to be furnished to the bank whenever changes in the title of lands take place. It has to be seen that the amount of loan sanctioned does not exceed half the value of the land on which the borrowing member creates charge. Tenant cultivators are also required to create charges on the interests in the lands held by them on lease. However, in their case, two sureties, who hold sufficient lands are also required to be taken. The following conditions are required to be fulfilled before the society is permitted to operate the credit limit (***Maximum limit*** as it is known) sanctioned to it :-

(i) Before any drawals are allowed, the society is required to repay specified portions of the loan outstanding. All recoveries made from members are required to be paid into bank intact and no disbursements are to be made from out of the cash on hand.

(ii) Every time remittances are sent to the bank, the society is required to submit a statement, furnishing full details of the recoveries, from members made by it, such as name of member repaying his loan, amount paid showing separately principal and interest, date of repayment, etc. A time lag of about a week is normally required to elapse before the fresh loan is to be disbursed to the member, although the Reserve Bank of India /NABARD has suggested that there should be an interval of atleast fifteen days between the date of repayment of the previous loan and disbursement of the new loan. In order to satisfy the bank officials about the genuineness and correctness of the amounts recovered, the cashbook and the receipt book of the society from which receipts are issued to members are required to be produced. The society is also asked to pay into bank all cash in excess of the limit fixed for it.

(iii) A Demand statement or application for loan showing names of members who have repaid their loans and who require fresh loans, the amounts required by them, amount sanctioned to them during previous year, credit sanctioned for current year as per normal credit statement, value of lands declared, etc., are all required to accompany the statement before the loan can be sanctioned to them. Before the society is allowed to draw from the maximum credit sanctioned to it, it has to submit a resolution accepting the terms and conditions prescribed by the bank, subject to which the credit is sanctioned.

(iv) ***Promissory note and documents* :-** Every time a drawal is made by the society from the credit limit sanctioned to it, a promissory note is required to be executed by the society. An agreement containing terms and conditions, rate of interest, dates fixed for repayment, etc., is generally got executed from the society, before it is allowed to operate on the account. This loan bond for agreement is for the full amount of credit sanctioned to the society. However, in some of the banks, the practice of obtaining both loan bonds and promissory notes every time as the drawal is made from the credit limit is still being followed.

(v) ***Linking of Shares* :-** The society is also required to purchase shares of the bank in proportion to the amount of the credit or loan sanctioned to it. Deductions from the amounts of loans sanctioned are made every time a drawal is made by the society until the value of the share held by it amounts to 20 percent of the maximum amount which it is entitled to borrow from bank. In other words, every society is required to hold share of the value of 20 per cent of the credit limit sanctioned to it. After the limit of 20 per cent is reached, further deductions are made and credited to a special deposit account on which interest at rates allowed on fixed deposits is paid. Such special deposits are not to be withdrawn before expiry of two years from the date of deposit.

(vi) Every borrowing member of the society is also required to hold shares in proportion to the loan sanctioned to him by the society. Deductions on account of shares at the rate of 10 per cent of the loan sanctioned is made every time he borrows from the society, until the value of the shares held by him amount to 20 per cent of the maximum amount of loan which he is entitled to borrow from the society. Thereafter, further deductions, which are also made at the rate of 10 per cent of the loan advanced, are credited to a special deposit account, which is treated as fixed deposit for two years, and interest thereon is allowed accordingly. The society reserves for itself the right to set off the amount of such deposits against outstanding loan from the member at the time of refund of deposit.

(vii) ***Approval and disbursement*** **:-** After the Demand statement or the loan application is approved by the bank, the amounts are drawn and disbursed to the member for whom the amounts are drawn and a statement of disbursement of the loan with the signatures or thumb impressions of the members is sent to the bank in the form prescribed by it. This disbursement statement has to be sent within a week from the date of disbursement of the loan. On receipt of these statements, they would be compared with the Demand statements which would ensure that the loans have been actually disbursed to proper persons and the society has not diverted the proceeds to any of its other activities, like distribution of fertilizers or consumer goods, payment of Government loan installment, etc., or for repayment of any other dues of the bank. The auditor should check the disbursement statement and satisfy himself about the genuineness of the disbursements made. In some of the banks, the proceeds of the loan sanctioned to the society are credited to a floating account, which is opened with the specific object of ensuring proper disbursement of loans to the members of the society. Separate loan accounts are opened. This practice now stands discontinued since 1976. In some of the other banks, the accounts of loans sanctioned are credited to the current account of the society and the society issues cheques in favour of the member to whom loans are sanctioned. This practice has also been discontinued and cheques from respective loan accounts are issued to the members.

(viii) Members who follow the traditional methods of cultivation and to whom no loans in kind have been sanctioned are generally allowed to draw the entire amount of the fresh loan sanctioned to them in one lump sum after a lapse of a week or so from the date of repayment of their previous loans. Members to whom loans in kind have been sanctioned and members who have been sanctioned loans at higher scales for irrigated crops are required to draw in installments, generally a cash portion first, then the kind portion and another cash portion after the kind portion has been drawn and proof of proper utilization has been furnished to the bank. As already stated, the kind portion is disbursed in the form of fertilizers, insecticide, etc., which are supplied by the local marketing society or the authorised dealer approved by the bank, which has taken up agency for distribution of these goods. Deliveries are made by the marketing society against delivery orders issued by the society, debiting account of the society. On receipt of the cheque from the society or of advice from the bank for having credited the account of the marketing society with the amount, the account of the primary agricultural society with the marketing society is credited and transaction is squared up, in the books of the society. On receipt of the debit note or advice from the marketing society, for having supplied the quantities of manure or insecticides, the loan account of the borrowing members are debited by crediting the account of the marketing society, and on issue of the cheque for the amount , the account of the marketing society is debited . When the cheque is presented to the bank for payment, the amount of the cheque is compared with the total of the kind portions of the individual limits in the normal credit statement of the society. In this connection, it has to be noted that this current account of the society is treated as a special current account, often termed as 'floating account' and cheques issued by the society are honored only when supported by demand statement furnished by the society.

(ix) ***Concessions to small holders*** **:-** In some of the banks, members of primary societies, whose holdings do not exceed 10 acres, are entitled to certain special concessions. They are sanctioned crop finance at higher scales of Rs.10 more than the scales applicable to the crops grown by them. The names of these members are generally entered first in the normal credit statement.

(x) ***Additional finance for hybrid seeds*** **:-** Agriculturists who sow hybrid seeds are sanctioned additional finance to enable them to meet the additional cost of inputs in accordance with the policy decided by the bank in consultation with the Zilla Parishad.

(xi) ***Irregularities in sanctioning loans*** **:-** The following are the irregularities generally noticed in sanctioning loans to affiliated societies, The auditors should check the loan proposals carefully in this context.

(a) Disbursement of loans before expiry of prescribed time lag.
(b) Disbursement of loans to persons other than those who have repaid their dues.
(c) Loans sanctioned at scales higher than those prescribed.
(d) Failure to deduct share amounts from loans sanctioned.
(e) Shares held by societies not in proportion to amounts lent.
(f) Loans sanctioned in excess of limits specified in the normal credit statements.
(g) Loans sanctioned in excess of individual limits without proper sanction. Sanction of registering authority not obtained when amount of individual loan exceeds twice the limit laid down in the bylaws.
(h) Difference in acreage shown in assets register and normal credit statement.
(i) Loans disbursed out of heavy cash balances kept on hand.
(j) Loans disbursed out of recoveries instead of paying the same into bank.
(k) Loans disbursed without obtaining disbursement statements.

(xii) ***Fertilizer Account*** **:-** As regards disbursement of loans in kind, the society issues cheques in favour of the cooperative marketing society which stocks the fertilizers and chemicals. The cheques are handed over to the members who present them to the marketing society concerned and obtain their supplies of fertilizers, etc. It has to be seen that only fertilizers are issued against these cheques and no cash is paid to the borrower either by the society or the marketing society. If the value of the supplies made exceeds the amount of the cheque, cash is required to be paid by the member of the credit society and if the value of the goods is less than the amount of the cheque, the balance is paid in cash to the member by the marketing society and the credit society advised accordingly. However, it should be seen that the amounts paid in cash are small.

(xiii) ***Further points to be noted while checking disbursement of loans*** **:-** The loan bonds, promissory notes and other documents executed in favour of the society are required to be signed by the chairman, secretary and other authorised members of the society authorised to sign documents on behalf of the society and should have been furnished to the bank before drawings are allowed. It should also be seen that the resolutions are passed in accordance with the bye-laws of the society and the resolution of the managing committee.

12.7. ***Declarations*** **:-** Copies of declarations executed by members of the society under section 48 of the M. C. S. Act 1960 are also sent to the bank. Before allowing drawings, the accountant, agent or other officer of the bank should have checked the individual demands and satisfied himself that the security for the loan is adequate and the amount to be disbursed is within the credit limit sanctioned to the individual member in the *Normal Credit Statement*, a copy of which is also retained by the bank. It should also be seen that the society holds adequate number of shares of the bank in proportion to the credit limit sanctioned to it and shortfall, if any, should be got made good by deducting necessary amounts from the amounts of drawals permitted and crediting the share account of the society. Another point, which is

required to be noted, is that adequate *non-overdue cover* is available for the outstanding bank loan including the advance to be made. In other words, it should be seen from the financial position of the society that outstanding dues with members excluding overdues exceed the bank loan outstanding. Where dues of the bank exceed current dues from the members, inquiries should be made and the circumstances under which drawals are permitted should be ascertained. Auditors during the course of their audit should note the compliance of all the above requirements.

12.8. ***Security Norms for agricultural Loans*** **:-** The NABARD has issued security norms originally in its circular No. NB/ DBD/ FS/ TC-1 / 93-94 dated 9.10.93 and subsequently amended in N. NB/ DPD/ FS/ 8196-97 & even No. M / 420/ TC/ 96-97 dated 22.5.96. The norms are followed or not should be seen by the auditors. The auditor should take care to read the instructions carefully and verify the security of agricultural advances.

(a) ***ST and MT loans for agricultural loans*** **:-** Banks are not required to obtain collateral security by way of mortgage of land or third party guarantee for crop loans and term loans up-to Rs. 15000, where movable assets are created.

(b) Banks are not required to obtain mortgage of land as security up-to Rs. 5000, where movable assets are not created.

(c) Now these norms are revised to Rs.25000 and Rs.10000 respectively.

12.9. ***Imbalance*** **:-** The loan and advances outstanding at PAC level should be sufficient to repay the loan of DCCB's or the financial institute by the PAC. Inadequacy in these two loans leads to imbalance of loans. Where the loan and advances outstanding from a member at PAC level are less than the loans and advances payable to bank, the difference is denoted as imbalance. The auditors are required to go in detail into the reasons for this imbalance, as this could result in reducing the security of bank loan. The Reserve Bank of India has treated agricultural loan as ***secured loan***, being security of land mortgaged by way of declaration.

Reasons for imbalance **:-** The major reasons for imbalance are;

1) Heavy overdue at PAC level, which does not generate income, but the bank is recovering full interest and other charges;
2) Frauds and misapplications of funds at PAC level;
3) Excessive management cost of PAC;
4) Unnecessary capital expenses without own resources being made by the PAC;
5) Recoveries of loan diverted to other business, resulting in increase of losses;
6) Bogus loans and advances by the PAC, converting them into NPA.

CHAPTER No. 13
LENDING OPERATIONS : MEDIUM TERM LOANS

13.1. ***General :-*** As regards medium term loans, on the basis of requirements of member for various purposes, a limit is sanctioned to the society and drawings are permitted as and when the society submits its applications for grant of loans to its members. Medium term loans are sanctioned for the following purposes.

(a) Purchase of bullocks

(b) Purchase of buffalo's/ milch animals.

(c) Purchase of oil engines, electric motors and pump-sets.

(d) Purchase of iron ploughs disc harrows, power operated spray pumps and other agricultural equipment.

(e) Purchase of tractors and trailers, trucks, power tillers, pick-up vans, etc.

(f) Repairs to well and digging of well

(g) Grape garden equipment

(h) Sprinklers and drip irrigation

Medium term loans are also sanctioned to members of agricultural Co-operative credit societies through their societies, for purchase of shares of processing societies like ginning and pressing factories, paddy processing societies (rice mills), sugar factories, spinning mills, etc., subject to the condition that the member contributes a certain percentage of the value of the shares from out of his own resources.

Medium term loans are sanctioned for the above-mentioned purposes on the basis of repaying capacity of the borrowing member, which is ordinarily taken as on sixth time of his income. If the value of the lands declared by the member exceeds thrice the amount of the loan applied for, no other security is insisted upon. However, if the security furnished in the form of declaration creating charge on the lands held by the member is considered inadequate, two sureties approved by the committee are taken. In all cases, the assets created out of the proceeds of the loan, *viz.*, bullocks, milch cattle or agricultural machinery or equipment purchased are required to be mortgaged to the society.

In order to ensure that the loans sanctioned have been properly utilized, utilization certificates should be obtained from the societies. Disbursement of loans for purchase of oil engines, electric pumps, pumps set etc., should not be made in cash but the society should be asked to make payment direct to the suppliers by drawing cheques in their favour. Where loans are sanctioned for purchase of bullocks and milch animals, arrangements made for their purchase should be ascertained.

13.2. ***Conversion loans*** **:-** In view of the continued drought conditions in certain parts of the State, members of agricultural Co-operative credit societies, who are unable to repay their short term loans and installments of medium term loans are being allowed the facility of repayment of their dues in three installments or installments granted by the NABARD. For this purpose, balance of short term loan outstanding with them and amount of installment of medium term due from them will be converted into medium term loans repayable in three or granted annual installments along with fresh loans to be sanctioned to them.

13.3. ***Procedure for conversion of short-term loans into medium term loans*** **:-** is as under.

The byelaws of District Central Co-operative Banks provide for the creation and maintenance of the ***Credit Stabilization Fund***. Rule for the establishment and use of the Agricultural Stabilization fund at the National, Apex and DCC Banks level have been framed by the State Government and form an accompaniment to Government Resolution, Agriculture and Co-operation Department, No. CCR.1869/ 22948-c-1 dated 17th February 1971. These Rules have been further amended under Government Resolution of even number dated 9th December 1971. The rules as amended have been printed in Annexure A appended at the end of this manual. The auditors should carefully study them and their compliance, both at the DCC Bank's level and primary agricultural credit society level, should be noted.

13.4. ***Loans by DCCBs / STCBs to Urban banks, Urban Credit / Salary Earners society*** **:-**

Auditor should see whether there is Non Overdue Cover (NOCDC) in respect of loans granted to Urban banks, Urban Credit society, Salary Earners society.

Auditor should see whether Urban bank, Credit society and Salary Earners society complies with respect of borrowing power.

Auditor should also see Gross NPA, Net NPA of Urban bank, Credit society and Salary Earner society is less than 10% and 5% respectively.

Auditor of DCCBs / STCBs should verify whether action for recovery is taken against all overdues exceeding 6 months.

If action for recovery is taken under SARFAESI Act, 2002, then auditor should see whether provisions of that Act regarding Reserve Price, inviting bids by giving advertisements in newspaper, accepting higher bid etc., are followed.

13.5. ***Medium term loans to processing societies for meeting capital expenditure*** **:-** For smaller processing societies, the capital cost of establishing the processing unit, which does not exceed a specified amount, is financed by DCC Banks, subject to the availability of funds with them. The fund invested by them would be reimbursed from out of the funds made available to the banks by the National Co-operative Development Corporation, (NCDC), provided the scheme is one, which has been approved by it. Under the scheme approved by the National Co-operative Development Corporation, (NCDC), medium term loans are sanctioned for purchase and erection of machinery, construction of factory sheds, go-downs and for acquiring other similar fixed assets. Finance is provided to the extent of sixty percent of the capital cost of the scheme. All the fixed assets belonging to the society are required to be mortgaged to the bank. The bank will also have a charge on the floating assets of the society until the loan is repaid. The entire loan is to be repaid in installments within five years.

Where medium term loans for meeting capital expenditure have been sanctioned, it should be seen that the National Co-operative Development Corporation, (NCDC), and other authorities of the State and the Central Government have duly approved the scheme. The plans and estimates should be seen and where the actual expenditure incurred for setting up the scheme, has not exceeded the estimated amount, inquiries should be made. It should be seen that the establishment charges have been kept at a low level.

13.6. ***Consortium Finance*** **:-** Under consortium finance, several banks or financial institutions finance a borrower with common appraisal, common documentation, joint supervision and follow up exercises. With loop holes in multiple banking arrangements adversely impacting their books, commercial banks now want to consortium to be made mandatory for large corporate credits.

Under consortium finance there are following special features

I. There is one lead bank and others are its associates.
II. Lead bank's share in consortium finance is generally high.
III. Other bank's share is also decided in consortium meeting of all banks and borrower.
IV. Associate banks contribute to the lead bank its share and lead bank make finance to the borrower.
V. Appraisal is made at lead bank level.
VI. Documents are also common. Originals are kept at lead bank and zerox copies are with associate bank.
VII. Recovery is made lead bank level and proportionate share of other banks is passed on to them by lead bank.
VIII. As per RBI guidelines, each bank has to treat account as NPA considering the repayment and status of account at each banks level.

CHAPTER No. 14
LENDING OPERATIONS : INSTITUTIONAL LOANS

14.1. ***Advances to other type of societies*** **:-** Advances to other types of Co-operative societies such as urban banks, marketing societies, and processing societies, Industrial and labour contract societies, Salary Earners' Societies, Urban Credit societies and other type of societies generally take the form of cash credit. Salary earners' societies, however, are sometimes advanced fixed loans repayable in installments from out of the recoveries effected from members. Unlike fixed loans, cash credits are operated like current accounts and cheques are drawn on the accounts up to the limit sanctioned. All the rules and regulations applicable to operation of current accounts also apply to operations of cash credit accounts. Procedure followed for acknowledging remittances, payment of cheques, collection of cheques, is also the same as followed for regulating operations in current accounts.

14.2. ***Rules and policies*** **:-** Rules are required to be framed governing different types of advances These rules should provide for the method to be adopted for ascertaining credit and fixing credit limits, maximum limits for individual limits and total limits for each type of advance, nature and extent of security to be taken, margin to be provided, restrictions on operation of account, rates of interest and mode of calculating interest, etc. These rules should have been duly approved by the general body meeting. They should be carefully gone through and breaches in their observance should be noted during the course of checking the transactions. The procedure to be adopted for checking different types of loan transactions has been explained in detail in volume I and III, relating to loans and advances. Instructions contained therein should be carefully noted

14.3. ***Controls*** **:-** Section 20 and 21 of the Banking Regulation Act, give wide powers to the Reserve Bank of India to regulate and control advances by Co-operative banks which are further delegated to the National Bank for Agricultural and Rural Development of India (NABARD) for the DCC banks under section 22 of NABARD Act. The Reserve Bank and NABARD have issued directives in exercise of the powers vesting in them under the provisions of these Acts, and DCC's are required to comply strictly with these directives. Under Rule 42 of the Maharashtra Co-operative societies Rules, the Registrar has also been empowered to issue orders with the approval of the Apex Bank, regulating grant of loans by Co-operative banks and societies. The following orders of the Registrar issued by him in exercise of the powers vesting in him under the various clauses of the rule should be carefully studied by the auditors and their compliance noted. -

1) Registrar's Order No. BNK. 110/Fin, dated 8-9-64 regarding crop loan system.
2) Circular No. BNK 110/Fin, dated 16-2-65 regarding policy to be followed in case of authorised defaults.
3) Circular No. BCB 75(Fin) dated 12-10.64 regarding crop loan system.
4) Circular No. BCB 110 (Fin) dated 18-10.65 laying down conditions for accepting deposits and raising of loans.
5) Order No. BCB 75(Fin) dated 17-12.66 issued under Rule 42(1) regulating loans
6) Order No. BCB 75(Fin) dated 17-12.66 issued under Rule 42(2) regarding grant of cash credit loans
7) Order No. BCB 75(Fin) dated 17-12.66 laying down conditions for different types of loans.
8) Order No. BCB 75(Fin) dated 2-2.67 regarding margins.
9) Order No. BCB 75(Fin) dated 28.4.64 grant of loan against security of movable and immovable property.

Auditors should carefully study the contents of these circulars and orders of the Registrar and see that the directives contained therein have been duly complied with. While checking loan transactions, it should be seen that the advance sanctioned is appropriate to the type of the society and the nature of its transactions. Thus agricultural credit societies should be advanced special cash credits for running fair price shops and for undertaking distribution of fertilizers, etc., and accommodation provided for crop finance should not be allowed to be utilized for such business.

As already explained, advances to societies other than agricultural credit societies are in the form of cash credit. Credit limits are generally sanctioned for a period of one year and they need to be cleared off at the end of the year. Interest is charged on the actual amounts drawn, although in some of the banks, there is a minimum interest clause (commitment charges) contained in the cash credit bond. The agreements or cash credit bonds should be carefully examined and it should be seen that all the necessary clauses are contained therein, such as submission of periodical statements of financial position and stocks pledged or hypothecated, insurance of goods in the joint names of the bank and the borrower, crediting all sale proceeds and other receipts into bank, rate of interest, mode of charging interest and other expenses, etc. Before sanctioning cash credit to any society, its financial position will have to be very carefully examined. Reports of bank inspection should be seen. Cash credit to a society, as already explained, may be clean, hypothecation or pledge. Clean cash credit or cash credit against general assets is sanctioned to the society equal to its free resources. It includes total of its paidup share capital and other funds which are free, *i.e.* not earmarked for any specific purpose, minus funds which have been obtained for acquiring specific fixed assets. For example, share capital contribution towards capital cost of the scheme, subsidy received and credited to the reserve fund etc. Although the Reserve Bank has suggested that *clean cash credit* should not be sanctioned when either hypothecation or pledge credit has not been sanctioned, still most of the societies are being sanctioned all the three types of credit, all of which are being operated simultaneously. Clean credit is thus availed of for providing margin to other types of credit. Many a time, this facility is used for purchase and sale business of fertilizers and chemicals and other business of society. Pledge and hypothecation facilities are not to be utilised to avoid the stock to be pledged or hypothecated. The auditors should carefully verify the accounts of society and pass remarks accordingly and suggest taking care of security.

14.4. ***The different types of advances*** **:-** made by Co-operative societies and the method of checking loan transactions have been explained in detail elsewhere. All the documents connected with the advances such as cash credit application, reports of the inspecting officers and their enclosures, letters communicating sanction of the bank and the terms and conditions for operation of the account, intake notes and delivery orders in case of pledge loans, insurance policies, etc., should be seen. The ledger accounts of the borrowers should also be seen and in case where necessary margins have not been maintained or amounts have been drawn in excess of the drawing limits and failure to credit sale proceeds of goods sold. Release of goods without payment or against inadequate payment, thus reducing the security available and similar other irregularities should be noted. A Drawing Power register, showing quantities and market values of goods pledged, margin required, amount which the borrower is entitled to borrow and actually borrowing and other details should be maintained. The auditor should carefully check this register. The godowns in which the goods are stored should be inspected during the course of audit. In case of hypothecation credit, it should be seen that monthly return of stocks on hand and also the trial balance at the close of each month should have been submitted by the borrowing societies.

CHAPTER No. 15
SPECIAL FEATURES OF VARIOUS INSTITUTION LOANS

15.1 *Loan policy* :- The DCC banks generally prepare loan policy for the institutional finance and get it approved in Board of Director's meeting and General meeting, This policy contains societies which are to be financed, terms and conditions of finance, margins for various loans, term of loan, security to be obtained, scale of finance, calculation of credit limits, maximum credit limits for industry and individual unit, exposure norms etc. The NABARD has issued guidelines in its book for non-agricultural finance to these societies.

The loans sanctioned to these types of societies are in the nature of block capital loans for creating assets and erecting projects, working capital needs in kind of cash credits and fixed loans to salary earners societies.

15.2 *Block capital loans* :- These types of loans are sanctioned for sugar factories, spinning mills, Ginning and Pressing units, fertilizer plants for erection of plant and machinery, and assets related to production. For this, the society has to submit its project report. This report is required to be studied carefully by the auditor, as the inadequate finance will result in non-commencement of unit or the excess will result in misutilisation of loans and advances. In particular, the sources of funds and their utilisation pattern should be verified carefully. Profitability ratio, market research and marketability of product, experienced personnel, inducting of own funds, cost of management, realisable value of products, margins should be verified from the project report. If needed, technical expert's opinion should be sorted. It is better if the bank has its own technical cell for scrutinizing the project report. For civil constructions appraisal, bank should appoint its own civil engineer. The most neglected point is verification of utilization of loan; the auditors should see that the bank officers have carefully verified the utilization of funds and proper reports have been submitted. In case of misutilisation, the bank officers submit a clear-cut report to that effect for further action.

15.3 *Cash credits* :- For working capital needs, cash credits of various types, as are sanctioned by the banks to borrower societies, such as clean cash credit, hypothecation, pledge, and overdraft, bills facility etc.

The concepts have to be clear regarding these cash credit accounts.

15.4 *Clean cash credit* :- is not supported by any security of goods, but is generally sanctioned for day-to-day business, administrative cost, and management cost of society. Here, the auditors have to carefully scrutinize the drawals and their utilization. This account is many times misutilised by the societies for purchase of goods. As this account is not supported by security of goods, it is kind of unsecured loan and its use for purchase of goods will result in unsecured finance. The auditors should check the requirement of loan and sanction it ensuring that it is proportionate the expenses involved. In this type of loan the auditors in general confirm and take note of the following points in their audit report.

1) The Society has used this loan for trading purposes or the management cost purpose as it is sanctioned.
2) The Society has not used the account for the purpose for which it is sanctioned.
3) There shall be other hypothecation or pledge loans secured with goods stock.

The Reserve Bank of India has instructed clean cash credit should not be merely sanctioned, but it must be supported by hypothecation or Pledge limit.

15.5 *Hypothecation* :- In this type of cash credit, the goods on which finance is made are in the *custody of society*. The bank has mere charge on these goods. The society is required to credit the sales realised to loan account. Many times, the sales are not credited to loan account, which creates a short margin, resulting in the loan become unsecured. The auditors are required to obtain confirmations of stocks from the societies and verify the stock in a few cases. The monthly stock statements are required to be obtained by the bank and should be verified by the auditor with drawing power register, whether required margin is maintained or not should be verified.

In this type of loan, the auditors in general confirm and take note of the following points in their audit report.

1) The bank does not take the monthly stock statements.
2) The stock statements and drawing power register is not maintained.
3) The short margin is not get recovered from the society.
4) The stock is not verified by the bank at frequent intervals.
5) Bank has not taken negative lien.
6) The borrower on the godown does not display the notice regarding hypothecation of bank.
7) Goods pledged and not pledged are not separately stored in godown.
8) The bank has not registered lien with the Registrar of Companies in case of Companies.

15.6 *Pledge* :- In this type of cash credit the goods *are in custody of the bank*. The bank releases goods as per realisation of sales and credit thereof. The monthly stock statements are required to be obtained by the bank;it should be verified by the auditor with drawing power register; it should also be verified whether the required margin is maintained or not should be verified. The bank in case of default sells the pledged goods after giving pre-intimation to the borrower. When the realisation of such sale does not cover the entire loan amount, the bank can claim the amount from the borrower, as well as the expenses incurred on the sale of goods and for expenses incurred for maintaining the goods in saleable condition. The condition is that the bank must give notice to the borrower before initiating this action.

15.7 *Short Margin* :- While advancing cash credit loans, the bank lays down condition to maintain certain margin in the loan amount and amount of stock. If this margin is not maintained, then the resulting difference is called Short Margin. This is calculated in the following manner :

A) Amount of stock as on Rs.
B) Margin prescribed @ % Rs.
C) Net amount of loan that can be availed (A-B) Rs.
D) Loan outstanding Rs.
E) Short margin (C-D) Rs.

(If D is more than C it is called as short margin)

15.8 *Eligibility criteria* :- The eligibility of the institute for finance relates with its NDR (Net Disposable Resources), audit classification, which are decided in the loan policy framed by the bank for non-agricultural loans. Auditors are required to study this policy and take note of the violation of this policy. They should also suggest modifications to this policy, as per directives from the RBI/ NABARD/ RCS.

15.9 *Exposure Norms and credit authorization* :- NABARD in its circular No. NB.PCD. CAS/ M.67/ A.75/2000.01 (CIRCULAR No. 1 2000.01) dated 24.2.2000 had issued guidelines for various terms and conditions, exposure norms and credit-authorizing scheme. The auditors should study this circular carefully and based on it, offer comments for violations of terms and conditions. The NABARD has directed DCCB's to satisfy themselves about technical feasibility, financial viability of proposal, creditworthiness of borrower, adequacy of margin, security etc. while sanctioning loans. Banks are not expected to finance certain purposes like financing to real estates, (except to the extent permitted by the RBI), Power Projects, Infrastructure Developments Projects etc. The DCCB's have to evaluate creditworthiness of the intending borrower carefully and take their own micro credit decisions, based on commercial judgment, for which banks may create and strengthen their appraisal and monitoring cell, comprising staff with legal, technical, financial, inspection back ground and experience, as also knowledge about the functioning of various institutes/ sectors being financed by them.

15.10 *Institutionwise various points* :- to be verified by the auditor: After the introduction of prudential norms for DCCB's, in 1996-97, the banks have to take more care while sanctioning loans and

advances. The banks are required to advance loans keeping in mind that the loans should be *performing and generate income*. Ultimately, the auditors are required to scrutinise the loan proposals in the light of prudential norms.

Sugar Factories, spinning mills, oil mills and ginning and pressing factories are production units working in cooperative sector, and have great importance also. The auditors should carefully check the following points regarding these societies, as these types of loans are also disbursed to marketing societies, labour contract societies, industrial societies, and other trading societies. Auditors should check loans and advances considering the guidelines issued by RBI / NABARD in their master circular issued and modified from time to time.

1) BLOCK CAPITAL LOANS :

(i) Proposals with project reports should be carefully verified and the feasibility of project, availability of sources and means of project to utilise them should be scrutinized and deficiencies should be pointed out in audit report.

(ii) Government guarantees, wherever required, must be obtained or not should be taken into consideration with its guarantee fees and necessary remarks should be offered in audit report.

(iii) The experts verify the utilization of funds and the results of technical and other testing are up-to-the mark as mentioned in project report should be noted, and if they are not, the reasons thereof should be asked for by the auditor. Plans to make good the deficiencies should also be verified. The test reports, if not to the projected mark may result in failure of the project, hence the specific deficiencies with reasons should be mentioned in the audit report.

(iv) Whether the project has been properly implemented with time factor is also scrutinised by the auditor, as every delay will result in increasing of the cost. Whether the penalty clauses for delay are being applied by the bank should be observed.

(v) The bank officers should verify technical parameters, while verification of utilization is also required by the auditor to check.

(vi) The terms and conditions that are laid down by the bank regarding, insurance, guarantee, own resources deployment, mortgage deed and documentation should be verified by the auditor.

2. CASH CREDIT LOANS :

(i) Proper documentation is taken or not while sanctioning and before disbursement and renewal of loan.

(ii) The margin must be maintained during the course of every drawal after considering the drawing power register.

(iii) Short margins are recovered in time; no drawal is sanctioned without recouping it.

(iv) The loan is utilised for the purpose, for which it is sanctioned.

(v) The cash credits sanctions are with need of the society.

(vi) Stock statement and financial statements are obtained periodically.

(vii) Goods pledged are not released without crediting of sales amount.

(viii) No credit sales are allowed against the pledge of goods.

(ix) The current assets and current liabilities are in proper proportion.

(x) Higher officials of the bank should verify the stock hypothecated and pledged at frequent intervals.

(xi) Necessary notices are displayed at the place where the hypothecated goods are stored.

(xii) All NOC's are obtained from other banks.

(xiii) For Consortium loans, all documents are obtained from the lead bank, and a plan for frequent verification of stock and assets is prepared and followed by the banks.

(xiv) Confidential opinions regarding business is obtained from the banks from which the loans are transferred.

(xv) Loan is not advanced to the society or units which are non-performing in other banks, as this is barred by the Reserve bank of India.

CHAPTER No. 16

INDIVIDUAL LOANS

16.1. *Individuals* :- Financing of the individuals was not permitted to the DCCB prior to 1997. They are now permitted by NABARD vide its circular No. NB.PCD. (OPR) /H-915/A.1 (GEN)/97-98 dated 13.8.97 and further liberalized in its circular No. NB. PCD. (OPR) /H-74/A.175/ 2000-01{circular No. NB.PCD/02/2000-01} dated 19.4.2000. The NABARD has included sole proprietary/ partnership firms and all unincorporated bodies and agencies in "Individuals, " and has permitted finance them for non-agricultural purposes. The banks are permitted only cash credit facilities to individual businessmen against the pledge or hypothecation of stock in trade.

16.2 *Limits of finance* :- For various purposes, the NABARD has fixed ceilings. Auditors are required to study them and observe that the loan and advances disbursed are within the limit prescribed for.

16.3 *Exposure Norms* :- The NABARD has prescribed certain exposure limit in its Circular No. NB.PCD.CAS/1193/A.75/97-98 19.9.97 which is revised *vide* circular dated 19.4.2000. The exposure norms fixed are as under :

1. bank can disburse 25 % of banks capital funds for financing to other individual's units outside the Co-operative fold *viz.* Companies, corporate/ registered bodies, / agencies/ institutions.

2. The aggregate finance by a DCCB to- i) Individuals and ii) other units outside the Co-operative fold shall not exceed 25% of its maximum level of Internal Lendable Resources (ILR) reached during the previous financial year.

3. The sector/ industry wise exposure limit for DCCBs aggregate finance to units within and outside the Co-operative fold falling under a particular sector / industry shall be inclusive of the finance extended to individual and will be reckoned at 40% in the ILR of the concerned bank.

16.4 *Legitimate credit needs* :- The DCCBs are permitted to finance individuals only after satisfying the legitimate credit needs of their affiliated Co-operative societies in their area of operation and complying with *Minimum Involvement* norms and disciplines prescribed by the NABARD for availment of ST refinance.

16.5 *Appraisal and monitoring cell* :- The DCCBs are advised to create appraisal and monitoring cell for individual loans. The NABARD has given various instructions to banks regarding prudential norms, taking care to prevent NPA, credit authorization, monitoring of advances, asset liability management, which are required to be followed by the banks,the auditor has to verify the loan proposals carefully, considering the points of loan scrutiny mentioned in this manual elsewhere.

CHAPTER NO. 17
NON-PERFORMING ASSETS

17.1. ***Introduction*** **:-** Since 1991,when globalization and libaralisation came to be embraced by India, the entire banking sector has undergone vast changes. Commercial as well as Co-operative banks have to face the competition. They have to upgrade their business policies to world standard. The Reserve Bank of India had appointed Narshiham committee, which has submitted its report and suggested various norms to be accepted for standardization of accounting and transparency in balance sheet of banks. In its first report in 1991, income recognition, asset classification and provisioning norms were introduced for commercial banks, subsequently extended to urban Co-operative banks, and since 1997 they have been introduced in the DCC banks as well. These norms were circulated by the Reserve Bank of India and NABARD's Circular NO. RECD NO. 155/07.37.02/95-96 dated 22.6.96; the norms are amended from time to time by the Reserve Bank / NABARD. A master circular has been issued by the NABARD *vide* No. NB. DOS. HO. POL/ P.57- 2002-03 (circular No. 193 /DOS.21/2002) Dated 17th August 2002. The auditors have to study these circulars carefully, as the responsibility of certifying these assets rests on the auditors. The Statutory/ Internal auditor has to send report to RBI/ NABARD regarding correctness of NPA assets, their provisioning and classification.

17.2. ***Concepts*** **:-** An asset becomes non-performing when it ceases to generate income for the bank.

The DCCB's generally generate income from their investment and loans and advances by way of interest. Therefore, these assets, when they stop generating income, are treated as non-performing assets, subject to the condition of the period for which they does not earn. The RBI has fixed the following norms :

a) Interest and / or installment of principal remain overdue for more than 90 days in respect of term loan.
b) The account remains "Out Of Order" for more than 90 days, in respect of overdraft / cash credit.
c) The bill remains overdue for more than 90 days in case of bill purchased and discounted.
d) Interest and / or installment of principal remains overdue for two harvest seasons, but for a period not exceeding two half years in case of an advance granted for agricultural purposes.
e) Any amount to be received remains overdue for more than 90 days in respect of other accounts.

17.3. ***Treatment of various Advances*** **:-** The loans and advances granted by the DCCBs includes direct and indirect lending. For agricultural purposes bank lends through PACs and for allied agricultural and non-farm sector directly. The treatment for various advances for classifying performing or non-performing is done on following basis.

Facility TreatmentAgricultural Advance (On lending) indirect) **:-** The basis is of harvesting season and if interest has not been paid during the last two seasons of harvest (covering two half years) after the principal has become overdue then such an advance should be treated as NPA. Allied agricultural activities and non-farm sector advances If the amounts of installments of principal and or interest remain outstanding for a period of 90 days from the due date the advance should be treated as NPA. Project / Housing loans etc., In case of project loans where moratorium period is given, a loan becomes overdue if installment is not paid on due date and in respect of housing loans or similar advance granted to staff member where interest is payable after recovery of principal, such loans should be classified as NPA when there is a default in repayment of principal on due date of payment and overdue criteria will be the basis for treatment of NPA. In respect of Consortium advances, each bank is required to classify the borrower accounts according to its own recovery. Different facilities to borrower except the on-lending short term agricultural loan, all other direct loans and advances granted to a borrower, all such loans will become NPA if one loan account becomes NPA. The performance of the account as on the date of balance sheet only has to be taken into account for the purpose of NPA. *Subsequent developments should not be considered for determining NPA's.* If interest and / or installment of principal has remained unpaid for

more than 90 days out of the four quarters ending 31st of March of the year concerned, the credit facility should be treated as NPA although the default may not be continuously for 90 days during the year.

Overdue : Any amount due to the bank under any credit facility is "overdue" if it is not paid on due date fixed by the bank.

Out of Order : Account is treated as out of order when,

1) The outstanding balance remains continuously in excess of the sanctioned limit / drawing power
2) The outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of balance sheet.
3) The credits are not enough to cover the interest debited during the same period.

17.4. *Income recognition* :- The income recognition should be *based on record of recovery* and therefore unrealized income should not be taken to profit and loss account by the DCCBs. Treatment of income is as follows :

***Income nature : Treatment of Interest* :-** Interest income shall be taken to profit and loss account in respect of standard accounts only. In respect of other accounts, interest should be taken to profit and loss account after matching provision is fully made for the same by charging to profit and loss account. In the case of credit facilities backed by Government guarantee, overdue interest can be taken to profit and loss account only if matching provision is made.

In the case of bills purchased and discounted, overdue interest can be taken to profit and loss account only if matching provision is made. In the case of investments, after maturity, overdue interest can be taken to profit and loss account only if matching provision is made up to maturity. Accrued interest on investment may be taken to profit and loss account. Fees, commission shall be taken as income in respect of standard accounts only. In respect of other accounts fees, commission should be taken to profit and loss account after matching provision is fully made for the fees and commission taken to profit and loss account in the previous year, but not realized in subsequent year. Fees and commissions earned by bank as a result of renegotiation or rescheduling of outstanding debts should be recognized on an *accrual basis* over the period of time covered by the renegotiated or rescheduled extension of credit.

***Reversal of Income* :-** Interest on advances, investment, fees, commissions, and similar income taken to profit and loss account in previous year, if not collected in the current year should be reversed and charged to profit and loss account by making matching provision.

17.5 *Classification & Provisioning of assets :-* The assets are classified into four categories

1) Standard
2) Sub- Standard
3) Doubtful and
4) Loss assets.

The provisioning after classification of assets is based on security.

Classification Norms :-

***1) Classification Norms for Standard Assets* :-** An asset, which does not disclose problem. Assets other than NPA assets. General provision on outstanding should be made as Standard Assets.

2) Sub Standard Assets :-

(a) Agrl. And Non Agrl. Loans are Sub-standard assets when these assets are overdue for period not exceeding 3 years.
(b) Term loans are Sub Standard assets, where installments are overdue for period not exceeding 3 years.
(c) ***General provision on outstanding after rescheduled or renegotiated loan* :-** Rescheduled or renegotiate loans are treated as sub standard for one year.

3) Doubtful Asset :–

1) Non Agrl. loans and term loans overdue for period exceeding 3 years are treated as Doubtful assets.

All doubtful assets are again sub classified in 3 categories considering period of overdue

(a) assets overdue for the period above 3 years but upto 4 years are in one sub classification.

(b) Where installments are overdue for a period exceeding 4 years but not exceeding 6 years are in second sub-classification and;

(c) In third sub-classification all assets overdue above period of 6 years are included.

***4) Loss Assets* :-** Overdue exceeding 6 years, where the value of security is less than 50 percent of value assessed by the bank and accepted by RBI/NABARD in inspection as loss assets and / or identified by the bank / auditor / RBI / NABARD inspectors as unrealizable, and / or of such little value that its continuance as doubtful asset is not worthwhile; where execution petitions or decrees have been time barred; members and their sureties are declared insolvent or have died leaving no tangible assets; member has left the area of operation of the society leaving no property and their sureties have also no means to pay the dues; where the loan is fictitious or when gross mis-utilisation is noticed; amounts, which cannot be recovered in case of, liquidated societies or if the realizable value of the security is less than 10% of outstanding of borrower account, assessed by RBI/NABARD - all these should be treated as loss assets.

The auditors should take utmost care while certifying the loss assets and specifically state that *the classification is not for the purpose of writing off the loans and only for provisioning purpose.* For writing off losses, the bank should follow the procedure laid down in Rule 49 of Co-operative Societies Rules 1961.

CHAPTER No. 18

FINANCIAL COMPARISONS - CO-OPERATIVE BANKS - BALANCE SHEET ANALYSIS, ANALYSIS : MEAN AND METHODS

18.1 ***Accounting System*** **:-** DCC banks maintain their accounts on mercantile basis except interest, which is now taken at actual or on cash basis.

According to mercantile system, entries are written when transaction happens and according to cash method; entries are written when actual cash is given or accepted.

18.2 ***Need for analysis of financial statement :-***

1) To plan future development, since the study is of past financial statement, predicting future business development is necessary.
2) Resources planning and management- From study of financial statement, we can know about the resources of institution we can plan and manage the resources more effectively.
3) For ***effective Funds management :*** Funds include cash, current account, and investment to be managed.
4) For effective non-fund business management which includes demand drafts, lockers, guarantees and service charges for current accounts etc.
5) ***Minimizing income leakage*** : Income leakage may be in the form of charging not certain charges or charging lower interest rate and paying higher interest rate
6) For ***cost control and cost management*** non-salary cost is more amenable (acceptable) for control.

18.3 ***Areas of Analysis :-*** The areas for analysis are categorized in following manner-

1) Productivity Indicators
2) Profitability Indicators
3) Funds Management Indicators
4) Other Indicators - These are called and grouped as FASAN (Factor Separation Analysis) which includes – (a) Business ratios, (b) Profitability ratios and (c) Funds management indicators

18.4 ***Analysis : interpretation and definitions:-*** The auditors should be well acquainted with the concepts of various terminologies for the analysis of the financial statements which are detailed below:

Definitions: - Before proceeding to analysis, it is necessary to understand a few concepts.

1. **Profit :** - Profit means the excess of income over expenditure.
2. **Operational Profit** : - Profit before making provisions and after making deduction of expenditure
3. **Net profit :** - Profit after making all provisions and other deduction of expenditure

Income in banks comes through the followings three sources

a. Interest on advance
b. Interest on investment
c. other income- misc. income.

4. Miscellaneous income includes the income from commission, exchange and locker rent.

5. Expenditure or costs in bank includes the following :

1) Interest on deposits and borrowing named as ***financial cost***
2) Salary and other operating expenditure named as ***transaction cost***
3) Provisions for non performing assets (NPA's) named as ***risk cost***
4) Dividend payments to the shareholders named as ***equity cost*** though dividend is not expenditure in real sense but it is considered as costs here, as it is also to be met through the surplus.

6. Own funds : - This includes paid up share capital, all type of free reserves and balance of profit.

7. **Deposits :** -All types of deposits received from public, staff, and institutions.
8. **Borrowings :** - All types of funds borrowed from higher financing agencies and Government would be treated as borrowings (except the deposits in lieu of shares)
9. **Loans and advances** : - All types of loans and advances granted by the bank irrespective of the fact whether such advances are good/doubtful/bad
10. **Investment :** -All types of investment, which fetch (gives) some return, can be clubbed together under this head.
11. **Non-earning assets :** - Such of the assets as do not generate any return (income) would come under this category. In the other words, all the remaining items appearing on asset side of balance sheet would be included under this head.
12. **Working capital or working fund :** - Total of balance sheet excluding contra item & accumulated losses, is known as working fund /working capital
13. **Interest paid on deposits :** -Actual interest expenditure on deposits both paid and payable as shown in P&L A/c will come under this category
14. **Cost of management (COM) :** - All other items of expenditure as shown in P&L A/c would generally come under this head; however, certain items like payment of arrears of salary/bonus or any other type of one time expenditure and provision excepting depreciation and gratuity should be excluded from this head.
15. **Interest received on loans and advances :** - Interest income on all types of advances should be added up and shown under this head.
16. **Interest income on investment :** - All the interest income on investment (received / receivable) pertaining to the current year may be clubbed together as income under this head
17. **Financial costs :** - These are costs incurred on the resources raised by the bank; typically, these are interest costs payable/paid on deposits and borrowing.
18. **Yield :** - This is the return generated by bank by deploying its funds in loans and investments. Typically, these are interest, dividend earned from investment and interest earned from loans and advances while calculating yield as a percentage of working fund to the overdue, unrealized income from the total income should be excluded. Hence,

Yield = Income generated from assets deployed - overdue/ unrealized income

Yield on assets = Interest income realized /realizable but not overdue during the year/ Amount of loans and investments

19. **Weighted average : -** For calculation of cost, as also the yield, the concept of weighted average is followed. This is done by comparing the share of each type of resources or to total resources or assets and working out the cost /yield of the representative sample of 100 rupees of working funds of the bank. This calculation gives weightage to different items of assets and liabilities as they exist in the bank; this weightage (relative share) multiplied by the cost or yield per Rs. 100.
20. **Transaction cost :** - This refers to cost of management and consists of all costs incurred by the bank other than the financial cost (interest on resources raised), which include salaries, other payments made to staff, expenses on stationary and printing, postage, rent, taxes, depreciation on assets provision made for expenses on gratuity, bonus etc. Transaction cost should also be computed as percentage of working fund. Provision made for bad debts, overdue interest and other loss assets should not be included under transaction cost.

Transaction cost = Total cost of management X 100

21. **Equity cost :** - Dividend paid on equity shares is known as ***equity cost***.
22. **Miscellaneous income :** - Income derived from non-financial assets and services is taken as miscellaneous income. This includes commission and brokerage on remittance (collection), facilities like locker rents and other service charges are miscellaneous income; is to be worked out as a

percentage to working funds and added to the weighted average yield on assets to find out the earning capacity of the bank in computing miscellaneous income. Item of non-recurring nature should be excluded such as profit from sale of non-banking assets, subsidy, donation, gifts etc.

Formula = (Miscellaneous income X 100)/ Average working funds

23. Financial margin : - This is the difference between the weighted average cost of funds and the weighted average yield on assets.This is the surplus generated out of 100 rupees of business of which the transaction costs and risk costs would have to be absorbed.

Financial margin = weighted average yield - weighted average cost of funds on assets

24. Net financial margin: - Netting risk cost with financial margin and miscellaneous income taken as percentage to working funds derives net financial margin. Hence,

Net financial margin = financial margin + miscellaneous income - risk cost

25. Net margin - This is derived by netting transaction cost with net financial margin; this reflects the ability of the bank to produce a surplus after meeting all costs .If net margin is positive, it means that the bank is viable.

26. Break-even level: - This is the level of business at which the bank earns income, which is ***just sufficient*** to meet all its costs.

B.E.L.= (transaction cost + risk cost)-miscellaneous income X 100/Financial margin

18.5 *Productivity :-* The bank provides services by accepting deposits and deploying the resources (funds) in advances which is the main object of banking. Banks offer fund based business and some non-fund based services like locker facility (safe deposit facility), collection of bills, collection of premiums on behalf of insurance companies and providing bank guarantees and letter of credit for other companies, collection of bills on behalf of customer e.g. telephone bills.

The bank's productivity ratio can be divided into two categories; one for fund-based and another for non-fund based.

Fund-based productivity ratios include per branch deposit ratio, per employee deposits, per employee number of deposit accounts, per branch advances, per employee advances, per employee number of advances accounts, percentage of average deposit, and advances to average working funds and growth rates of deposits and advances.

18.6. *Performance :-* This ratio indicates the mobilization of deposits per branch. This ratio is taken into consideration with per employee deposit ratio of the branch which indicates efficiency of that branch and per employee efficiency from which we can decide the requirement of deposits for profitability and viability.With these ratios per branch advances and per employee advances are consider together. We can find out the deployment of resources with the same object of profitability and viability. The performance indicators are as follows :

SR. No.	RATIO	INTERPRETATION	ACTION PLAN
1(a)	Average deposits per branch = *deposits* / No. *of Branches*	Indicator of level of efficiency	To Increase the deposits
(b)	Average deposits per employee = *deposits* / No. *of Employees*	Per employee in mobilising resources to be compared with State, Dist. Averages, and levels obtaining in profitable sound banks.	
2(a)	Average advances per branch= *advances* / No. *of Branches*	Indicator of level of efficiency	To increase the business

SR. No.	RATIO	INTERPRETATION	ACTION PLAN
(b)	Average advances per employee = *advances* / No. *of Employees*	Per employee in development of funds levels obtaining in profitable, sound banks	
3	% of non earning assets to total assets = non earning assets / total assets * 100	Higher the %, lower the earning capacity of assets	To Reduce non-earning assets
4	% of high yield investment to total investment = high yield investment / total investment * 100	Higher the % higher the return on investment	To try to Increase the yield on investment
5	% of high yield loans to total loans = high yield loans / total loans *100	Higher the % higher the return on loans	To try to Increase the Yield on advances
6	*% of overdue to outstanding = over due/ outstanding*	*Higher the %, higher the risk cost*	*To reduce the overdues*
7	*% of own fund to working fund = own fund / workingfund * 100*	*Gives a picture of bank's ability to its own fund if own funds are more, bank would be more profitable or vice versa*	*Increase owned funds at least to the level of break even*
7a	*Against non-earning assets to =non earning assets/ total assets*100*	*Gives the assets which does not generate income*	*To decrease mini-mum level of 10 %*
8	*% of paid up capital and reserves to deposits = paid up capital+free reserves/ deposits *100*	*Reflects the capacity of the bank to Meet its unsecured creditors/liabilities*	*To increase own funds*
9	Per employee working funds = working funds / Number of employees	Higher the amount, higher is the productivity	To increase per employee W.F.

18.7. *Profitability :-*

The main object of the bank is to earn profit by deploying resources in such a manner that they will generate more income and offer sizable returns to its equity holders. The areas which will give us idea of profitability are as under-

- % of demand and time deposits to total deposits
- % of fixed deposits to total deposits
- %Cost of deposit (interest paid on deposit) to total deposit
- Composition of advance
- %Return on advance to total advance
- Spread (interest difference)
- % of N.P.A. (overdue)

From these indicators, we can identify the areas where we earn return from our investment and how they should be invested, where we are not earning in a proper manner. Where there is scope for higher

income, consider how we should change it from lower to higher profitability, using these indications.The action plan is detailed below :

SR. No.	RATIO	INTERPRETATION	ACTION PLAN
1(a)	% Of interest on advances to gross income = interest on advances / gross income * 100	This ratio indicates the banks dependence on loans & advances and investment	Depend on business goals of the bank
1(b)	% Of interest on investment to gross income = interest on investments / gross income * 100	For earning revenue from investements	To increase the % of income
2	% Of other income to gross income and working capital	Indicator of efficiency in using the staff and infrastructure to bring in non-fund business	To Increase % of income
3	% Of salaries and allowances to (I) gross income (ii) working capital	This indicates the staff cost of generating income per Rs.100 and working capital per Rs.100; this also reflects the level of efficiency of the employees of the bank	To Reduce % of salary & allowances
4	% Of management expenses to (I) gross income (ii) working capital % of management cost/total	This indicates the management cost of generating income per Rs.100 andRs.100 of working capital; this also reflects the level of efficiency of the employees of the bank. This indicates the management cost.	To Reduce the cost of management
5	% Of net profit to equity	Ability of bank to add to reserves and declare dividend.	To Increase the net profit
6	% Of net profit to capital funds (*i.e.* paid up capital and free reserve)) = net profit / capital funds * 100	This reflects the return on owned funds of the bank and is useful tool in profit planning	To Increase the ratio
7	Per employee transition cost to income	Indication of cost of operation and income per employee; comparison with other banks would bring out scope for Improvement	Reduce per employee transaction costs increase per employees Income

18.8. ***Funds Management :-*** Bank raises resources in two ways, one from its own equity holders and by appropriation of profit, which includes equity share capital, statutory reserves, capital reserves and other reserves.

The second way is by borrowing; it includes deposits and loans and advances borrowed from financial institutes and public. All these cost by way of dividend and interest. So the bank must earn to cover these costs and earn profit and cover the cost of management.

For this, the available resources are required to be invested in such a manner that they will give us more return than our cost of funds. Therefore, it is required to divide assets in two parts,

(1) Earning assets
(2) Non-earning assets

As there is a statutory provision in Banking Regulation Act, 1949 for maintaining cash and liquid assets to a certain extent, this means that there are certain restrictions on investment of funds.These are as follows :

1) The Banking Regulation Act provides under section 18 and 24 for non scheduled banks and section 42 (A) of Reserve Bank of India Act for scheduled banks to maintain cash reserve ratio (C.R.R.) and statutory liquidity ratio (S.L.R.) for protecting the depositors, to repay their deposit with interest, as and when they demand.
2) Certain restrictions are the area of operation of bank, affording interest rates on deposits, cost of borrowing, rates of advances, and availability of market for advances.

Government restrictionson lending to priority sectors, for which a good policy and good management is required.Hence the funds should be managed in a manner that time frame should be relevant to cost; and earning should be matched and all these results we can get from following fund management indicators :

SR. No.	RATIO	HOW TO COMPUTE	INTERPRETATION
1	% Of cash to deposit	Cash balance/ total deposits X100	Lower the ratio, better if it is less than 1% then generally considered as good
2	% Of current accounts to deposits	Current account/total deposit X100	Lower the ratio better, if it is less than 1% then generally considered good
3	% Of investment to deposits	Total investment/total deposit X100	It measures the level of investments against deposits
4	% Of income from investment to total income	Income from investment/total investment x 100	Indicates share of income from investment in total
5	Yield (return) on investment	Income from investment/total investment x100	Higher the return better it for bank.

The auditors are required to study the above ratio analysis, and utilize them while auditing DCCBs, as well as with suitable amendment in Urban Banks. The main objective to present the analysis is to study the comparative financial position of the bank, and advise the bank and its management in *decision making and framing the policy to strengthen the performance, financial ability and achieve viability.*

CHAPTER No. 19

FINANCIAL COMPARISONS

19.1. ***Credit Deposit Ratio*** **:-**

1. District Central Banks are required to make their funds available by way of own funds and deposits, to invest in advances and investments as directed by the Reserve Bank of India / NABARD, to earn more profit. The banking scenario has now entirely changed. The cooperative banks have to face the competition, which was not there previously. The DCCBs and Urban Banks have also to face these circumstances, which have diverted their business portfolio. It has become necessary for these banks to finance very carefully and to earn optimum profit. To ascertain this, Credit Deposit Ratio is a very important tool in the hands of the bank management.

Merely dividing the loans and advances by deposits will give the CD Ratio, but will not reflect the whole picture, for which scientific calculation is necessary.

2. Loans and advances disbursed also includes funds available from their own sources which are required to be separated from them. The Registrar and RBI/NABARD have issued instructions regarding own funds that are available for lending purposes.

3. The own funds available for loans include 1) paid up share capital 2) Reserve fund 3) other free reserves after deducting accumulated losses and adding net profit. The investments of such funds and fixed assets are also deducted from the funds available for lending. This net balance of own funds is deducted from the loans and advances, and the balance is divided by the deposits for arriving CD ratio.

Formula = 1) Total net loans and advances = Total advances- (own funds including free reserves – accumulated losses available for lending)

2) CD Ratio= Total net advances / total deposits *100

19.2. ***Capital Adequacy Norms (Capital to Risk Assets Ratio (CRAR)*** **:-** The Capital Adequacy Norms are applicable to the DCCB's and State Co-operative banks.

As per Nabard's circular no. NBLDD/1183 dated 17-12-2015 STCBs / DCCBs are required to achieve 7% CRAR from 31-03-2015 and 9% CRAR from 31-03-2017.

Since CRAR is to be maintained on an ongoing basis and is mandatory prescription, auditor should verify whether CRAR as above is attained by bank.

The auditors are required to study the circulars carefully and verify whether the bank's assets are proportionate as prescribed by the RBI/NABARD, which are assigned the risk weight, the impact on its own funds and loss bearing capacity.

The details of own funds, risk weight assigned to assets, calculation of CRAR are elaborated elsewhere in Urban Banks Section of the manual.

CHAPTER NO. 20

DRAFTING OF AUDIT REPORT

20.1 The NABARD has issued Circular instruction regarding drafting of ***detailed or long form audit report***. The Registrar has communicated the same in his circular No. Ani/ lep/ jimas/ lekha/-/ dated 13.4.99. The paragraphs, which required being included in LFAR, are about advances, funds management, internal control and profitability, besides general matters. The auditors of the DCC banks are expected to comment upon these points in their long form audit report (LFR). A long form audit report of branches contains important matters, which need to be included in the final report of the bank. Where the auditors have any reservations or adverse remarks with regard to any of the matters to be dealt with in their long form audit reports, they may give the reasons for the same, also where relevant instances of situations giving rise to their reservations or adverse remarks may be given in the audit report.

20.2 ***Paragraphs To Be Included In The Long Form Audit Report :-***

1. Share holding pattern : Share capital from member societies, individual and Govt. and whether share holding of Govt. exceeds 25% of the total capital. System of share linking with borrowings by member societies or individual borrowers.

2. Advances : Points to be covered regarding advances are appraisal of credit applications, sanctioning and disbursement, documentation, Review / monitoring and supervision of credits, bad and doubtful advances, large advances which have major impact on the loans portfolio, imbalances at PAC societies' levels, provisioning needed, and remedies to reduce them,

3. Funds management : The DCCBs have to maintain statutory cash reserve and statutory liquidity ratio under section 18 & 24 of the Banking Regulation Act. The auditor should verify the DTL register and observe whether the bank has followed the statutory requirements:investments are properly maintained and required provisioning has been made for the probable losses that can be realized and to verify the proper system of purchase and sales of investments, delegation of powers, reporting systems, control over the investments etc.

4. Internal Control : In this section, the auditors are required to comment on written guidelines/ instructions /manual of accounts, aspects which are available with the bank or not; These guidelines are followed by the bank or not; Balancing the Books is done periodically and reconciliation of control and subsidiary record; The bank is doing inter-branch reconciliation and its followup action; Branch inspections and their rectification and follow up for the rectification; Creation of vigilance cell and surprise visits by the cell to branches and reporting accordingly; The management's decisions taken on the reports of the cell and compliance thereof;Suspense account and pending entries in it, and clearance of these entries.

5. Profitability : The auditors are required to analyze the major items of income and expenditure compared with previous year with important ratios and comment upon them in audit report. He has to comment on effects of changes in accounting policies on the profit or loss for the year together with their quantification. Whether the overdue interest is taken to P &L A/c, and if so,whether corresponding provision is made and whetherthe bank has made adequate provision for impaired credits.

6. Other Items : According to the circular above, the auditors have to comment upon, 1) accounting policies- their conformity with Accounting Standards.

2) Any major observations on branch returns and process of their consolidation in final statements of accounts.

3) Balances with other banks-observations - on outstanding items in reconciliation statements

4) Any other matter, which the auditor considers, should be brought to the notice of management.

20.3. The RCS has issued a number of circulars regarding writing of audit report, where detailed instructions have been given for drafting of audit report. The auditors have to study them; especially, that while drafting audit report it should be divided into 3 sections. The first section "A" wherein the auditors has to comment on serious irregularities and frauds and misapplication of funds. In "B" section, the auditor has to comment on financial and management aspects, and in the "C"section miscellaneous points that are to be complied by the bank, at the time of audit have to be mentioned.

CHAPTER No. 21

URBAN CO-OPERATIVE BANKS AND SOCIETIES

21.1. ***Introductory*** **:-** Instructions contained in the following paragraphs and Chapters X-1 to X-20 will have to be considered and taken into account wherever applicable during the course of audit of the following types of institutions : —

(i) State Co-operative Bank and District Central Co-operative Banks.
(ii) Urban Banks and other Non-agricultural Credit Societies.
(iii) Salary Earners' Societies and Factory Workers Societies.

Government has recently taken a decision to entrust audits to Professional Auditors as per amendment in the year 2013 , in the Maharashtra cooperative societies Act 1960. Audit of urban banks and salary earners' societies is to be taken up generally on yearly basis and notes and queries may be given for compliance after completion. Statutory audit reports, however, must be given to them before issuance of notice of AGBM or within one month after completion of audit, whichever is earlier. Statutory audit reports should be sent to the bank concerned and copies thereof should be submitted to the concerned Registrar. The draft audit report should invariably be discussed in the meeting of the Board of Directors of the bank. The auditor should maintain close contact with the officers and staff of the bank and all minor irregularities should be got rectified on the spot as and when they are noticed. The auditor should also attend the Board or Committee meetings for discussing audit points and his draft report, explain, personally, important points and suggestions made by him, and obtain their say on the various points raised by him before he finalizes his report.

21.2. ***Knowledge of the Acts*** **:-** Auditors in charge of audit of Co-operative banks and Credit societies will have to be familiar not only with the provisions of the Co-operative Societies Act, but also other Acts affecting the working of these institutions, such as the Banking Regulation Act, Negotiable Instruments Act, Transfer of Property Act, etc. Note on the important provisions of the Banking Regulation Act, 1949, as applicable to Co-operative societies circulated by the Registrar under his No, ADT/ BNK, dated 13-11-70 should be carefully studied. Some important provisions of the Banking regulation act are explained in Volume II, auditor should study them carefully. Since the principal business of all banks is the acceptance of deposits for purposes of lending or investment, a close and careful study of the provisions of the Negotiable Instruments Act, which deals with the drawal and payment of cheques and other bills of exchange, is imperative. Other laws affecting the operations of these banks such as the Stamp Act, Registration Act, Transfer of Property Act, Sale of Goods Act, Contract Act, Debt recovery tribunal Act, SARFAESI Act etc, will also have to be studied. The important provisions of some of these acts are explained in Volume II. The bye-laws of the bank or the society will have to be gone through carefully in order to ascertain their constitution, management, loaning policy, duties and responsibilities of various office - bearers and other matters. The system of internal control in operation will have to be examined carefully , in order to find out loopholes in the system and suggest improvements. Auditors of co-operative societies have always to bear in mind that the institutions, which have appointed them for audit, look to them not only for devising scientific internal operating procedures, but also for the due compliance of these procedures. Auditors are, therefore, required not only to possess adequate knowledge of the principles and practice of banking law and practice of commercial banks, but has also to be conversant with their practical application so as to be able to prescribe standard procedures and prepare check lists for guidance of the supervisory staff of the banks to ensure that they are being properly followed.

21.3. ***Maintenance of Cash Reserve and Liquid Assets.- (Co-operative Banks)*** **:-** Under Section 18 of the Banking Regulation Act, every co- operative bank is required to maintain cash reserve ratio, with itself or in current account with the Reserve Bank, State Bank of India or the State Co-operative Bank in the case of primary co-operative bank, in the Central Co-operative Bank of the District, a sum equivalent to at least ***three per cent*** of the total of its time and demand liabilities. The bank has also to submit to the Reserve Bank of India, before the fifteenth of every month, a return showing the amount so held on each Friday of the preceding month, with particulars of its time and demand liabilities. (Rule 5, form I).

Again, under section 24 of the Banking Regulation Act, every Co-operative bank is required to maintain, in cash (including balance in current account with the Reserve Bank, State Bank of India, State Co-operative Bank and the Central Co-operative Bank in the case of Primary Co-operative Banks), gold or unencumbered approved securities, an amount which shall not be less than ***twenty-five percent or minimum percentage as directed by the RBI time to time*** of its demand and time liabilities, in addition to the cash reserve required to be maintained under Section 18. Thus, every co-operative bank which comes within the purview of the Banking Regulation Act, has to maintain cash or balance in current account and in approved securities to the extent of twenty- eight per cent of its total deposits and utilize in its lending business, only seventy two percent of the deposits collected by it.

The minimum requirement is statutory for the banks; however, they can maintain cash reserve and statutory liquidity reserve in such manner that , there should not be idle funds which are not generating income. Specifically it should be seen by the auditor that the cash reserve should be maintained by the banks, considering the requirements of cash on previous experience, and study of market requirement. For this, the bank should fix various limits at branches and its head office, so that there should not be idle cash and statutory requirement should be followed. Excesscash does not generate any income, should be borne in mind by the auditor.

21.4. ***Non Banking Credit Societies :-*** As regards societies which do not come within the purview of the Banking Regulation Act 1949, they are required to comply with the provisions of Rule 41 of the Maharashtra Co-operative Societies Rules and as per orders issued by the Registrar under his No. BCB/75 (Fin), dated 28-10-1965, they are required to invest 30 per cent of the deposits held by them in the following manner :-

a. 20 per cent of the deposits should be held in form of cash on hand and in Current and Savings Bank account;
b. 12 per cent should be invested in debentures issued by the state Co-operative and Development Bank, and
c. 8 per cent of the deposits should be invested in Government or Trustee securities or in call or fixed deposits with the District Central Co-operative Bank or the Maharashtra State Co-operative Bank, Ltd.

(Note . - The short fall in cash may be made up by investments.In other words, cash on hand and in bank together with investments should work out to at least 30 per cent of the deposits.)

The Rule 41 provides that, every society which obtain any portion of its working capital by deposits shall –

(1) maintain such liquid resources and in such form as may be specified from time to time by the Registrar, and
(2) utilise only such portion of its working capital in lending business and distribute its assets in accordance with such standards as may be specified from time to time by the Registrar.

The Registrar has issued the circular from time to time for fixing the limits for liquidity purposes and these guidelines are made applicable to the urban credit and non agricultural credit societies, for limit.

21.5. ***Returns to be submitted :-*** Periodical Finance Statements in the form prescribed by the Registrar are also required to be submitted to the Registrar by these banks and societies. Under sub-section (3) of Section 24 of the Banking Regulation Act, every co-operative Bank is required to submit to the Reserve Bank, in the form prescribed by it, by 15th of the following month, a return showing particular of its assets maintained in accordance with section 24 and its time and demand liabilities at the close of business on each Friday during the month - (Rule 9, Form VII). The Registrar has permitted urban banks and central banks to which the provision of the Banking Regulation Act apply to prepare their fluid resource statements in the form prescribed by the Reserve Bank and submit to him a copy of the statement furnished by them to the Reserve Bank.

In addition to the returns to be submitted under section 18 and 24, every co-operative bank is required to submit to the Reserve Bank, the following returns :-

(i) Monthly return of unsecured loans and advances granted by it to companies in which any of its directors is interested (Section 20, Rule 5, Form II).
(ii) Annual return of account, which have not been operated upon for 10 years (Section 26, Rule 9, Form VIII).
(iii) Monthly return showing assets and liabilities as at the close of business on the last Friday of every month (Section 27, Rule 9, Form IX)
(iv) List of offices to be submitted every month (Section 23, Rule 8, Form VI).

Sub-section (2) of section 26 further empowers the Reserve Bank to call for such statement and information, relating to the business or affairs of the Bank as the Reserve Bank considers necessary or expedient for the purpose of this Act. In particular, the Reserve Bank may call for information every half year regarding the investments of the co-operative bank and the classification of its advances in respect of industry, commerce and agriculture. Under section 28, the Reserve bank has been empowered to publish any information obtained by it under this Act in such consolidated form as it thinks fit.

21.6. ***Power of the Reserve Bank of India and Registrar :-*** The Registrar has been given wide powers under Section 44 of the Maharashtra Co-operative Societies Act and Rule 42 of the Maharashtra Co-operative Societies Rules for regulating, restricting and controlling advances by co-operative bank. Since the Reserve Bank of India has also been given, these powers under Banking Regulation Act, 1949. The Registrar is empowered to issue any orders regarding this subject under Rule 42 of the Maharashtra Co-operative Societies Rules.

21.7. ***Investment in Shares of co-operative societies :-*** Section 19 of the Banking Regulation Act empowers the Reserve Bank to specify the extent and the condition subject to which a co-operative bank may hold shares in any other co-operative society. These conditions are contained in paragraph 2 of Reserve Bank's circular letter no. ACD -BR-388/ A-11 (19)-65/66, dated 1st March 1966, addressed to all State, Central and primary co-operative banks. Conditions of this circular should be carefully studied; as per it the shares of other co-operative society cannot exceed the limits laid down by the Reserve Bank. Master circular regarding investment is modified by the Reserve Bank of India in the month of July every year. Auditors are required to study them and offer their comments in audit report accordingly.

21.8. ***Opening new branches :-*** Permission of the Reserve Bank, in addition to that of the Registrar, is necessary for opening new branches or transfers of existing places of business by co-operative banks *(section-23).*

Reserve bank of India has issued guidelines in its circulars dated 26th April 2001, 22nd July 2003, and 31st October 2002 regarding opening of new branches, extension counters, and prescribed certain norms and auditors should see that these norms are complied with by the banks. These norms include percentage of CRAR, percentage of NPAs, profit made by the banks, facilities available, security arrangements, capital requirement etc.

21.9. ***Applicability of Act :-*** Section 2 of the B. R. Act lays down that the provisions of the Banking Regulation Act shall be ***in addition to, and not in derogation of any other law*** for the time being in force. Thus, provisions of the Maharashtra Co-operative Societies Act also apply to co-operative banks except insofar as they are inconsistent with the provisions of the Banking Regulation Act. Thus, provisions of section 79 of the Maharashtra Co-operative Societies Act empowering Registrar to compel performance of obligations, section 80 regarding seizure of records, section 81 and rule 69 relating to audit and scheduled to be attached thereto, continue to apply to co-operative banks. Audit of co-operative banks, will, therefore, have to be conducted in accordance with the provisions of Section 81 of the Maharashtra Co-operative Societies Act and Rule 69 and the instruction issued by the Registrar from time to time. The Reserve bank of India in its circular No. ACD/BR-351-A, dated 25th July 1966 has also clarified that the provisions of section 30 of the Banking Regulation Act, 1949, which lay down the qualifications, duties, and responsibilities of the auditor will be governed by the State Act and Rules.

21.10. ***Balance-Sheet and profit and loss account :-*** Under Section 29, every co-operative banks is required to prepare its balance-sheet and profit and loss in the form set out in the third schedule.

to act. The balance sheet and the profit and loss account are required to be signed by the Manager and at least three Directors. ***Under section 31***of the B. R. Act 1949**,** the balance-sheet and the profit and loss account together with the auditor's report are required to be published within six months from the end of the period to which they relate in a newspaper which is in circulation at the place where the bank has its principal office, and three copies thereof are required to be furnished as returns to the Reserve Bank within six months from the end of the period to which they relate. The Reserve bank has, however, been empowered to extend the period by further period not exceeding three months. Thus, audit of all co-operative banks has necessarily to be completed in time to enable the banks to submit their balance-sheet, profit and loss account and the auditor's report to the Reserve bank and publish them in local newspapers within the period prescribed in the Act, viz., 30th September every year. The Maharashtra Co-operative Societies Act also provides for completion of the audit within four months from the close of financial year. As regards contents of the audit report to be published, the Reserve Bank in its letter no. ACD- BOM-RBI-1827/BR. 17/66/67, dated 8th February 1967, has clarified that what is contemplated in section 31 is that, the balance sheet and the profit and loss account should be published along with the auditor's certificate and not the whole of the audit memorandum and the schedules and statements accompanying it, which is required to be submitted under provisions of sub rule (7) of Rule 69 of the Maharashtra Co-operative Societies Rules. It has further been clarified that this certificate should be to the effect that the account by the bank represents a fair and true view of the state of affairs of the bank concerned, and should generally be on the lines of the auditor's report published with the balance sheet and profit and loss account. The auditors certificate shall be given in form N-1 for co-operative banks and N-2 for other co-operative societies, as specified in rule 69 of the M. C. S. Act.

Since all these requirements have been duly covered by sub-rules (3), (4), (5) and (6) of Rule 69 of the Maharashtra Co-operative Societies rules, it will be noticed that provisions of section 30 (3) of the Banking Regulation Act do not in any way add to the existing duties of the auditor under section 81 of the Maharashtra Co-operative Societies Act and Rules 69 of the Maharashtra Co-operative Society Rules. The Registrar in his circular No. ADT/EST/I (URB), dated 22-12-69 has directed that the statements of accounts should be prepared and published by the banks as provided in the Banking Regulation Act and the Provisions of the Maharashtra Co-operative Societies Act will not apply in their cases.

21.11. ***Disclosure of Information***: ***Balance Sheet :-*** The Reserve Bank of India has issued directive no. UBD.CO.BP.PCB.20/ 16.45.00/ 2002-03 Dated 30th October 2002 to the Urban Banks having deposits amounting to more than 100 crore, that they should disclose the following information as ***" Notes on accounts"*** to their Balance sheet, under section 29 of the act.

a) Capital to Risk Asset Ratio(CRAR) (As calculated as per guidelines given in circular dated 25th April 2001)

b) Movement of CRAR from last year's balance sheet to current year balance sheet.

c) Investment :

i) Book Value and Face value of Investments

ii) Market value of Investments. (It should be noted that, the 'N' form Balance sheet, as per rule 62 of M.S.C. Act provides that the nature of investments and mode of valuation (cost or market value whichever is less) should be mentioned in the balance sheet against each item of investment.)

d) Advances against real estate, construction business, housing;

e) Advances against shares and debentures;

f) Advances to directors, their relatives, companies / firms in which they are interested: i) fund based, ii) non fund based (guarantees, L/C. etc.)

g) Cost of deposits : Average cost of deposits.

h) Non Performing Assets : i) Gross NPA , ii) Net NPA

i) Movement in NPA : *i.e.* gross and net NPA as on balance sheet date for the current year and previous year. Net NPA should be arrived at after deducting provisions held, interest suspense account etc.

j) ***Profitability*** : a) Interest income as a percentage of working funds; b) Non-interest income as a percentage of working funds; c) Operating profit as a percentage of working funds; d) Return on Assets(Net profit / Total average assets); e) Business(Deposits + Advances) per employee; f) Profit per employee.;

k) ***Provisions made towards NPA , depreciation in investments***:

l) ***Movement in provisions***: i.e., Provisions as on the Balance sheet date of current year and previous year) – i) towards NPA, ii) Towards depreciation on investments, iii) Towards Standard Assets.

m) ***Foreign currency assets and liabilities***: (if applicable.)

n) The urban banks are further instructed in circular No. UBD.BP. 38/ 16.45.00/ 2002-03 dated 6th March 2003 that they should also disclose information in regard to payment of Insurance premium to Deposit Insurance and Credit Guarantee Corporation in their director's report.

Maharashtra Co-operative Societies Act 1960 also provides application of accounting standards to the co-operative societies. AS-1 requires various items to be disclosed in the notes to the accounts attached with financial statements. Auditors are required to study the accounting standards elaborated in volume I of the manual and from the website of ICAI and comment in his audit report.

21.12. ***Internal audit :-*** Reserve Bank of India has issued various circulars regarding taking up of internal audit, by the banks, from Chartered Accountants, or the staff appointed by the bank itself. They should be responsible to the Chief executive Officer directly. The manner in which the internal audit should be conducted, and points that should be verified by the internal auditor, are explained in the chapter X- of the manual.

On the recommendations of high committee set up by the Reserve Bank of India under the chairmanship of Shri. A. Ghosh, Reserve Bank of India has made it mandatory for urban banks to introduce the system of concurrent audit for the branches having deposits over Rs 50 crore, as per circular No. UBD.BPD. cir. 37/ 09.06.00/ 202-03 dated 6th March 2003. The Reserve Bank has guided in its circular no. UBD No. Pot.77 / 09.06.00 / 93-94 dated 31 May 1994, regarding scope, coverage of this audit; the auditors should insure that the banks have introduced the system as per guidelines of the RBI. These guidelines mainly cover

(i) scope of concurrent audit,
(ii) coverage of business/ branches,
(iii) types of activities to be covered (includes-cash, Investments, deposits, advances, foreign exchange transactions, housekeeping, other items)
(iv) appointment and remuneration of auditor,
(v) reporting system, etc.

The Reserve Bank of India has further issued guidelines on appointing Audit Committee of Boards for looking into implementation of guidelines of RBI and inspection reports and commenting on the quality of audit. The duties and responsibilities as communicated by the Reserve Bank of India in its circular dated 12th July 2001 and 25th July 1994 are enumerated below :

a) Audit Committee of Board should provide direction and oversee the operations of the total audit function in the bank. The total audit function will imply the organization, operationalisation and quality control of internal audit and inspection within the bank and follow-up on the statutory audit of the bank and inspection of the Reserve Bank;

b) As regards internal audit, Audit Committee of Board should review the internal inspection/audit function in the bank system, its quality and effectiveness in terms of follow up. It should review the followup action on the internal inspection reports, particularly of ***"unsatisfactory"*** branches and branches classified by the bank as Extra Large Branches. It should also specially focus on the follow up on:

(i) Inter-branch adjustment accounts
(ii) Unreconciled Long outstanding entries in inter-branch accounts and inter-bank accounts

(iii) Arrears in balancing of books at various branches
(iv) Frauds and
(v) All other major areas of housekeeping

c) Compliance with the Statutory Audit Reports/ Concurrent Audit Reports/RBI Inspection reports;
d) Omission on the part of internal inspection officials to detect serious irregularities should be viewed seriously; and
e) Periodical review of the accounting Policies/ systems in the bank with a view to ensuring greater transparency in the banks accounts, and adequacy of accounting controls.

21.13. ***Electronic Data Processing- Audit System :-*** Reserve Bank of India, in its circular no. POT.PCB.30/ 09.96.00/ 2001-02 dated 12th February 2002, directed that Electronic Data Processing (EDP) Audit system be introduced for urban cooperative Banks which have fully/ partially computerized their operations. The Reserve Bank has instructed banks to ensure certain norms as specified in this circular. The auditors should see that these norms are complied with by the banks.

21.14. ***Books of Accounts and records :-*** The nature of banking business is such that it is always required to maintain accurate and up-to-date accounts. Whereas in other businesses, the cashbook and other books of prime entry are first written and then posting is made into the ledger, a bank has to enter every transaction in the ledger as soon as it takes place. The cashbooks and the journals are considered to be of less importance, and more attention is paid for keeping the personal ledger up-to-date. Trial balances are prepared every month and in the bigger banks weekly. Schedules of personal balances are drawn up and agreed with the control accounts in the general ledger once a quarter or even once a month. In order to facilitate agreement of accounts, banks have devised their own system of accounting, which differs materially from the normal system followed by other co-operative societies, but follows the system adopted by commercial banks. The more salient features of this system have been summarized in the followings paragraphs :-

a. Posting into personal ledgers is made direct from the voucher instead of from the entries in the cashbook or the journal.
b. Posting made into personal ledgers are summarized on summary sheets totals of which are agreed with the totals of the entries made in the subsidiary cashbooks and then posted to the respective control account in the general ledger.
c. Trial balances are required to be extracted daily or at least weekly from the general ledger.
d. Arrangements have to be made for continuous checking of accounts. All entries in the personal ledger and summarized on summary sheets are checked by person other than those who have made the entries. An adequate number of sub-accountants, supervisors and/or checkers are appointed with a view to ensuring that mistakes are detected immediately before further entries are made.
e. A number of control accounts are maintained in the general ledger with a view to facilitating agreement of personal account.
f. Since the numbers of cash transactions are numerous, to ensure their correct recording separate transfer vouchers are prepared for credit and debit entries.
g. Since the number of cash transactions is also large, the individual transactions are entered in subsidiary books and only the totals are entered in the main cashbook or the Day Book, for which purpose consolidated vouchers, are prepared. The number of subsidiary cashbooks would depend upon the types and volumes of transactions.

21.15. ***Internal Control :-*** The need for evolving a scientific system of internal control is greater in the case of a bank than in the case of any other type of institution, as the bank deals in other people's money, which is many times more than its own. Where the arrangements for internal control are not adequate or are deficient, the auditor has to carry out protected and detailed checking to be satisfied that no serious error or fraud exists. The main principals of internal check in a bank are the following :-

a. Every transaction must be checked and properly authorized by an authorized officer before it takes place.

(ii) Every transaction must be entered in the book before the next transaction is authorized.
(iii) Suitable routine procedures should be devised to ensure prevention and immediate detection of errors and frauds in the normal course and before any harm is done.
(iv) There should be frequent and surprise checks by supervisors, controlling officers and internal auditors (now statutory auditors) who should constantly review the working of all departments.
(v) The staff and officers should be frequently transferred without prior notice.
(vi) The work of one person should always be checked by another, usually an officer, as part of office routine.
(vii) Trial balance should be drawn up and agreed every week.
(viii) Cash on hand should be checked and agreed with the book balance at the close of business every day.
(ix) Arithmetical accuracy of the postings should be proved by agreement of personal ledger postings with the respective control account in the general ledger.
(x) All blank forms such as cheque books, travelers cheques, pay order (or pay slips) books, etc., should be kept in the joint custody of two independent officers.
(xi) The mail received should be opened by a responsible officer. Signatures on all important letters and advices received from branches, agents and correspondents should be compared with signature books.
(xii) The signature book, telegraphic code book, cipher book, etc., should be kept in the custody of Manager or other responsible officer and only authorized officers should have access to them.
(xiii) Duties and authority of officers of different grades should be clearly defined.
(xiv) A blanket insurance policy covering all normal risks including loss of cash in transit, infidelity of employees, burglar, etc., should be taken out.

In case of smaller banks, where the number of employees is not adequate, honorary office-bearers will have to constitute important links in the scheme of internal control. The Managing Director, Chairman, Secretary and other Directors of the bank will have to participate in the routine checking and control of the transactions. Unless they evince adequate interest in the affairs of the bank, no scheme of internal check can be evolved. The development of a co-operative bank will depend on the extent of interest taken and attention paid by honorary workers to the affairs of the bank.

The detail instruction by the Reserve Bank of India, regarding internal control are incorporated in DCC banks section in separate Volume I and III and in regards to Computerized accounting system in Volume I and III, the auditors are required to study these instructions, and advise the banks accordingly.

21.16. ***Control over cash :-*** In view of the large volume of cash transactions and opportunities available for committing misappropriations of cash receipts and disbursements of cash, adequate arrangements have to be made for the custody of cash. The following are the salient features of a sound system of internal control over cash:-

(i) The safe in which the cash is kept should have an inner chest in which all cash in excess of normal requirements should be kept. The keys to the inner chest should be in the joint custody of the Manager and the Accountant.
(ii) Cash should be kept in the joint custody of the Cashier and the Accountant, who should check the rough cashbook or the daily closing balance and occasionally count the cash fully.
(iii) In addition to the normal daily checking of the Chief Cashier, the Accountant or other responsible officer should test check the daily closing balance and count the cash fully occasionally.
(iv) The cashier should not have access to the customer's ledgers or their passbooks.
(v) Counterfoils of pay-in-slips lodged by the depositors should be checked and signed by the Chief Cashier or the Accountant in addition to the cashier.
(vi) At the end of the day, entries in the rough cashbook, or counter cashbook or cashier's diary should be compared with the entries in the scroll Books and called over into the Main Cashbook or the Cash Column in the Day book.
(vii) Payment should be made only against properly authorized vouchers, i.e. after the cheques, drafts, pay orders, etc., have been duly entered in the customer's account.
(viii) Ledger keepers should not have access to the main cashbook or the Day Book and the consolidated voucher, which should be prepared by the Accountant.

21.17. ***Postings :-*** Before making payments against cheques, it should be seen that they have been properly checked in respect of signatures, date, balance available, etc., and should be passed for payment by an officer and duly entered in the customer's account. All persons taking part in the checking, *viz.,* the ledger clerk, the accountant or supervisor, responsible for comparing the signature and passing the cheque or draft for payment, should have initialed or signed payment in red ink across the signature of the drawer. All postings should be checked independently by persons other than the ledger clerks, with the original vouchers, particularly noting that the correct accounts have been credited or debited. Interest debited or credited to customer's account should be independently checked.

21.18. ***Collection and Discounting of Bills*** **:-**

(i) All documents accompanying the bills such as hundies, railway receipts, dispatch notes, delivery orders, etc. received along with the bill should be entered in the Bills Register, and the officer receiving the bills should see that all these documents are received along with the bills, and when these are sent out for collection, a responsible officer should see that all accompanying documents specified above are attached to the file.

(ii) Unless credit limits (Hundi limits) have been sanctioned, the account of the customer should be credited only after the bills have been collected or advice to that effect has been received from the branch or other correspondent collecting the bill.

(iii) Where bills from approved parties have been purchased or discounted, a responsible officer should see that all documents of title such as railway receipts or way bills issued by transport companies have been properly assigned to the bank.

(iv) Accounts of all customers to whom hundi limits have been sanctioned, should be examined carefully to ascertain the number and frequency of dishonored bills. All irregularly operated accounts should be personally scrutinized by the Manager and notices issued to the erring constituents pointing out the irregularities and requesting them to regularise the accounts.

21.19. ***Precaution: Discounting / Rediscounting of bills :-*** The Reserve Bank of India, has issued various circulars regarding transactions of bills to prevent the misuse of banking channel for misappropriations and frauds. In this regard, the Reserve Bank of India has issued detailed guidelines in its circular No. BPD.PCB.Cir.37/ 13.05.00/ 2003-04 dated 16th March 2004, concerning purchasing / discounting/negotiating / discounting of genuine commercial / trade bills. The guidelines state that,

a) The Bank should frame loan policy, and after appraisal of credit needs of the customer, sanction limits consistent with its loan policy.

b) The bank should decide core operating process for the bills in its policy; wherever available, the bank should adopt "Validating of their clients' accounts".

c) The bank should open letters of Credit (LCs) and purchase / discount/ negotiate bills under LCs only in respect of genuine commercial and trade transactions of their borrower. Bank should not extend fund-based (including bills financing) or non-fund based facilities like opening of LCs , providing guarantees and acceptance to non-constituent borrower.

d) For the purpose of credit exposure, bills purchased discounted/ negotiated under LCs should be reckoned.

e) While purchasing /discount/ negotiating bills under LCs or otherwise, banks should establish genuineness of transactions / documents.

f) Banks should not open LCs and purchase / discount/negotiate bills bearing the 'without recourse' clause.

g) Accommodation bills should not be purchased / discounted/ negotiated by banks.

h) Bill rediscounts should be restricted to usance bills held by other banks. Banks should not rediscount bill earlier discounted by non-bank financial companies except in respect of bills arising from sale of light commercial vehicles and two / three wheelers.

i) While discounting bills of service section, banks should ensure that actual services are rendered and accommodation bills are not discounted. Services section bill should not be eligible for rediscounting.

The auditors should study carefully the above circular, while checking bill transactions.

Procedures and systems : Detail instructions in this regard are given in Chapter X-.Auditors should observe the instructions while auditing bills business. The Reserve Bank of India has issued latest modified master circular in the month of July 2014; the auditor should study it and offer comments in his audit report.

21.20. ***Loans and Advances :-***

(i) All loans and advances should have been sanctioned after due enquiry about the credit-worthiness of the borrower and his repaying capacity.

(ii) All necessary documents, such as applications, loan bonds or agreements, demand, promissory notes, memoranda of deposit of title-deeds, letters of hypothecation or pledge should be got duly executed by the parties before the loans are disbursed or the cash credit account allowed to be operated.

(iii) Rule 42 of the Maharashtra Co-operative Societies Rule gives wide powers to the Registrar to regulate lending policies of co-operative banks. Sections 20, 20-A and 21 of the Banking Regulation Act also empower the Reserve Bank to issue directives regulating lending policies of co-operative banks. Circulars on the subject issued by the Register, the Reserve Bank and the State Co-operative Bank should be carefully studied. Compliance of the orders issued by the Registrar under provisions of Rule 42 should be seen:

a. Registrar 's order No. BNK-110 (Fin,) dated 8th September 1964 regarding crop loan system.
b. Circular No. BNK-110(Fin.) dated 27th October 1965.
c. Circular No. BNK-110(Fin.) dated 16th February 1965.
d. Circular No. BNK-75 (Fin.) dated 12th October 1964.
e. Registrar's order No. BCB-75, dated 17th December 1966, issued under sub-rule (1) of Rule 42 regarding grant of loans against security of movable and immoveable property, as modified by order of even No. dated 15th December 1967.
f. Order No.BCB-75 (Fin), dated 17th December 1966 issued under sub-rule (2) rule 42 laying down conditions or cash credit accommodation to be obtained by co-operative societies.
g. Order No. BCB-75 (Fin.) dated 17th December 1966 issued under sub-rule (5) of Rule 42 laying down conditions for grant different types of loans as modified by order of even No. dated 15th December 1967.
h. Order No. BCB-75 (Fin.), dated 2nd February 1967 regarding margins to be maintained.
i. Order No. BCB-75 (Fin.), dated 21st March 1967 regarding grant of clean cash credit.

While examining loan operations, the auditor should bear in mind the following points :-

(i) All the securities for the loan should be received and returned by a responsible officer and acknowledgements should be obtained for all securities returned. They should be kept in the joint custody of two independent officers.

(ii) All receipts and releases of goods pledged to the bank should be only against intake notes and delivery orders duly signed by an authorities officer. Releases of goods pledged should be ordered only against payments.

(iii) All documents requiring stamping and registering should have been properly stamped and registered where necessary. Where the securities have been merely deposited and not registered in the name of the bank, the memorandum of deposit, letter of pledge or other document and agreement should be obtained to give legal title to the bank and enable it to enforce specific performance when required.

(iv) Contents of closed packages pledged to the bank should be test-checked at the time of receipt. Surprise checking of stocks in the godown should be made by responsible officers at frequent intervals.

(v) Customers to whom hypothecation credit has been sanctioned should be asked to submit weekly or monthly statements of stocks hypothecated. Surprise checks should be made to ensure that the returns submitted are correct.

(vi) Market value of the goods pledged or hypothecated should be checked frequently and entries should be made immediately in the Drawing Power Book or the personal account of the borrower in the Advances Ledger, every time an increase or decrease takes place.

21.21. ***Common deficiencies :-*** The Reserve Bank of India has circulated common deficiencies that are found while sanctioning of loans and monitoring of borrowal accounts by banks, in circular No. UBD.No. BPD.25/ 12.05.01/ 2004.05-dated 23rd October 2004. The auditor should study the deficiencies mentioned in the foregoing paragraph, and audit the banks accordingly.

a) Deficiencies at the stage of sanction :-

(i) There were deficiencies in the appraisal of credit proposals. High projections of the borrowing company were not critically analyzed by the sanctioning authorities. With the result, the borrowers' credit requirements were not properly assessed. There were instances where term loans were sanctioned without insisting on the project report , cost of project and means of finance.

(ii) At the time of mid-term review of the projects, additional loans were sanctioned without proper appreciation of the market conditions and the factors, which led to time and cost overruns in the projects by the sanctioning authorities.

(iii) The sanctioning authorities had overlooked the irregularities pointed out by the lower level functionaries in the borrowal accounts or in the accounts of the group companies based on stock verification reports, audit reports, etc. , and sanctioned the facilities . They had not taken into account the fact that the existing accounts of the borrower were irregular, audit objections were not cleared, estimates inordinately inflated and the vital issues either not commented upon or wrongly commented in the inspection / audit report itself.

(iv) The sanctioning authorities were not given full facts about the borrowers and the projects by the officials in controlling office / branch. This was mainly because the branch did not make proper scrutiny of the borrowing company's / firm's antecedents and verify the claim of achievements by them.

(v) Contrary to the above , the sanctioning authorities had adequate facts about the unsatisfactory position of the borrowal accounts and yet facilities were sanctioned overlooking the deficiencies.

(vi) There were instances where the sanction itself was not justified on the basis of projections made by the borrowers and valuation of securities offered by them.

(vii) Sanctions were given deviating from the laid down policy on extending finance for capital expenditure / long term working capital . Facilities were sanctioned by the bank's board in violation of its own internal norms.

(viii) Sanctioning authorities overlooked the fact that at the time of taking over of accounts the borrowing company had irregular accounts with the previous bank/s.

(ix) *Ad hoc* limits were sanctioned frequently even if the company had regular limits and its accounts were running irregularly. At times, such limits were sanctioned by branch / Head Office level functionaries in excess of their delegated powers. Revival packages were also sanctioned by the Regional authorities in respect of credit limits originally sanctioned by the bank's head Office Committee.

(x) The terms and conditions prescribed at the time of sanction of loan facilities were subsequently relaxed by the sanctioning authorities themselves while disbursing funds without any justification for such relaxation.

(xi) In some cases , it appears that the sanctioning authorities had acted on extraneous influences, rather than deciding on the merits of the case. The borrowal accounts finally turned into non-performing assets.

II. Deficiencies at the monitoring stage :-

(i) Loans / advances were released by the branch officials in blatant violation of the terms and conditions of the sanction laid down by the Head Office.

(ii) No proper monitoring of the end-use of the funds by the borrowers was noticed in a few cases. Cases of such diversion of funds in larger accounts were not reported to the banks for their information and providing required direction in the matter.

(iii) Monitoring of the company's financial standing especially with reference to the financial indicators was not carried out effectively.

(iv) Undue reliance on the certificates given by the Chartered Accountant / Valuers without co-relating them with other relevant procedures was noticed. For example, in the case of projects under implementation, reliance was placed on the certificates without adequate monitoring of the progress of construction through site visits. Similarly, in respect of certificates for verification of inventories, there was inadequate correlation of the figures with audited financial statements and also inadequate follow-up on deficiencies reported. In one case, it came to light subsequently that the borrower company had produced forged expenditure certificate from the Chartered Accountant.

(v) There was also lack of proper monitoring even with regard to very important terms and conditions of the term loan sanction such as tie-up of funds, stipulation of promoter's contribution, etc. leading to disproportionate lending by the banks.

(vi) As regards working capital limits, failure to detect disappearance of stocks given as security had resulted in misappropriation of funds / sale of stock and realization of receivables without the knowledge of banks.

(vii) Failure to ensure adequacy of the security offered by the borrowers, especially failure to verify whether the same asset was mortgaged to another bank was also noticed.

(viii) Periodical reviews of accounts were not undertaken after the funds were lent by the banks.

(ix) Proper assessment of the financial standing of the projects was not carried out when the bank took over an account from another bank.

(x) Excess drawings permitted by the branch level functionaries in borrowal accounts were ratified by the Head Office in a routine manner without examining the need for such permissions, at times, frequently.

(xi) Limits sanctioned were allowed to be interchanged indiscriminately by the branch officials without proper authority.

(xii) In cases pertaining to term loans for financing projects, important terms and conditions of the sanction stipulated by the Board of Directors such as induction of technical directors, constitution of Audit Committees and independent project monitoring committees are not taken seriously. Many times, non-compliance even at the stage of the release of the final installment of the loan sanctioned is not taken seriously. This is a very serious lacuna , which cuts at the root of the principles of projects management and project financing.

III. Suggestions to improve the System : The following suggestions are made with a view to improving the system .

(i) In many cases, diversion of funds is facilitated by opening of accounts with other banks wherein the sale proceeds / proceeds of realized book debts are credited, without the knowledge of the lending bank. With a view to preventing such malpractices, the lending bank should obtain a certificate from the borrowers on a quarterly basis furnishing details of accounts opened with other banks.

(ii) It is noticed that the banks rely on the certificates of valuation given by the external valuers, which in some cases were subsequently found to have shown grossly inflated values. It is, therefore, suggested that independent cells for valuation be set up within banks themselves, which are manned by technical personnel with the right expertise is considered seriously.

(iii) Immediate action should be taken where the malafides / gross negligence on the part of dealing officials are noticed. The Advisory Board finds that in the large majority of cases, administrative action is either not initiated well in time or not in initiated at all.

(iv) While processing loan applications, there is no scientific application of mind by the bank officials in observance of compliance with the stipulated terms and conditions by the borrowers and as a result, certain serious defaults had occurred causing systemic failure of the financial sector. It is, therefore, suggested that the banks should evolve a process of check-listing which would enable them to take note of any deficiencies while releasing the funds to the borrowers or monitoring the end use of funds.

(v) There is a need for building up a cadre of officials with proper educational background and training to take care of at least larger projects being financed by the banks.

(vi) Perhaps the single largest cause of financial loss to the lending institutions is the fact that in respect of project finance, disbursements are not made by the lending institution in proportion to the funds disbursed by the promoter / borrower. In several cases, the promoter / borrower is unable to bring in or raise the funds which he is required to provide in terms of the sanction and consequently, in order to project the investment already made, the lending institution has to provide additional funds not envisaged in the original proposal. The same situation persists when there are cost over-runs , whereby the exposure of the lending institution gets increased.

This problem can be avoided if the promoter / borrower is required to bring in up-front his contribution (other than funds to be provided through internal generation) and the lending institution commence its disbursement only after the stipulated funds are brought in by the promoter / borrower.

21.22. ***Loans : General Instructions :-*** The urban banks mainly finance to manufacturers, partnership firms, companies, traders, individuals, in the form of working capital loans, terms loans, hire purchase loans, and block capital loans.Various instructions regarding these types of loans are described in Chapter X- and Chapter X- of the manual ,auditors should carefully study them.

1. Exposure norms for lending :- {RBI circular DS (PCB) 53/22.396} Exposure norm means how much UCB can lend to individual borrower and group of borrowers. Exposure norm for individual borrower is15 % of capital funds and 40 % for group of borrowers. Capital funds include paid up capital, Reserve Fund, building fund, development fund but will exclude employees provident fund, depreciation fund, bad & doubtful debts fund.

In calculating exposure limit outstanding balance or sanctioned limit whichever is higher will be considered for funded credit facility and 100% of sanctioned limit or outstanding balance whichever is higher will be considered for non-funded credit facilities. Auditors should invariably report all cases of violation of exposure norms in part A of audit report and also submit special report. The Reserve Bank of India has issued master circular in this regard; the auditor should study it and offer his remarks in his audit report accordingly.

2. Loans to Directors, their relatives :- Firms and companies in which they are interested. Restrictions of loans & advances (Sec. 20 of BR. Act. 1949.)

Co-operative bank shall not grant unsecured advance to :

a) Any of its directors.
b) Any firms or Pvt. company where any of its directors is interested as partner, as director, or as guarantor.
c) To any individual where any of its directors is guarantor.
d) To any company in which chairman of UCB is interested as chairman or managing director.

As per recommendations of JPC, complete ban on granting of loans and advances to the directiors and their relatives and concerns in which they are interested has been imposed. Accordingly, effective 1st October 2003, UCBS are prohibited to extend any loans & advances (both secured and unsecured) to their directors, their relatives and firms / concerns / companies in which they are interested. Existing advances extended prior to 1st Oct, 2003 might be allowed to continue up to the date when they will be due and they should not be renewed or extended further. Any violation regarding loans to directors their relatives, firms and companies in which they are interested should be reported by way of special report to the Registrar.

The following categories of director related loans are exempted from the purview of the above instuctions.

(i) Regular employees-related loans to staff directors on the Board of UCBs;
(ii) Normal loans as applicable to members to the directors on the boards of salary earners' co-operative banks and
(iii) Normal employee-related loans to managing directors of multi-state co-operative banks
(iv) Loans to directors and their relatives against Fixed Deposits and Life Insurance policies standing in their own name.

3. Unsecured Loans :- In respect of unsecured advances, monetary ceilings have been imposed. For the purpose, UCBS have been categorized into four categories. The current maximum limit on unsecured advances to single party / connected group is as under.

Criteria	UCB having DTL			
	Upto 10 crore	Above 10 crores and upto 50 crores	Above 50 crores and upto 100 crores	Above 100 crores
UCB having CRAR =< 9%	1 lakh	2 lakh	3 lakh	5 lakh
UCB having CRAR > 9%	0.25 lakh	0.50 lakh	1 lakh	2 lakh

Total unsecured advances to the members of a bank as a whole should not exceed 10 % of total assets as per audited balance sheet of preceding financial year.

Total assets means total of balance sheet minus contra items minus accumulated losses.

4. Loans to nominal members :-

RBI has, vide its circular No. Plan /PCB/20/09/63/16.10.96, allowed UCBS to finance nominal members for purchase of consumer durables. But number of loans to nominal members must not exceed 20% of regular members .

Limit for loans to nominal members will be as under.

A. UCB having deposit upto 50 crores — Rs. 50,000/-

B. UCB having deposit exceeding 50 crores. — Rs. 1,00,000/-per nominal member.

5. Advances against Fixed Deposits of other banks :-

There have been instances where term deposit receipts purported to have been issued by some banks were used for obtaining advances from other banks. Banks should desist from sanctioning advances against FDRs or other term deposits of other banks.

Bridge loans / interim finance :- UCBs are banned to sanction these type of advances.

Exposure to housing, Real estate and commercial real estate :- Total exposure to this sector should not exceed 10% of total assets of bank as on last date of previous financial year. UCBs are allowed additional 5% on grant of housing loan to individual loan for purchase of dwelling units upto Rs. 25 lakh.

Tier I UCB can grant housing loan per borrower Rs. 30 lakh and Tier II UCB can grant housing loan per borrower Rs.70 lakh.

Tier I UCB means an UCB having deposit less than Rs. 100 crores and area of operation of which doesn't exceed one district. Tier II UCB means an UCB having deposits Rs.100 crores and more and area of operation of which extends to more than one district.

6. Lending Targets :-

The following targets have been prescribed for lending under priority sector by UCBS.

I. Total Priority Sector- 40% of Adjusted Net Bank Credit or Credit equivalent amount of off balance sheet exposure, whichever is higher.

II. Advances to Weaker Sections - 10% of Adjusted Net Bank Credit or Credit equivalent amount of off balance sheet exposure, whichever is higher

7. Assessment of working capital finance :-

RBI has withdrawn the prescription in regard to assessment of working capital needs on the basis of concepts of Maximum Permissible Bank Finance (MPBF) enunciated by Tondon working group. Banks are free to evolve an appropriate system for assessing working capital credit needs of borrowers within prudential guidelines & exposure norms. Hence banks may act as under :

a. In case of small borrowers enjoying working capital finance upto Rs. 4 crores from banking system. UCB should adopt turnover method based on projected sales. Working capital

requirement is to be assessed at 25 % of projected turnover to be shared between borrower & bank, viz., borrower contributing 5 % of turnover as Net Working Capital (NWC) and bank providing finance at minimum of 20 % of turnover.

b. Borrowers would be required to bring in 5 % of their annual turnover as margin money. In other words 25 % of output value should be computed as working capital requirement of which at least 4/5 should be provided by banking sector, the balance 1/5 the representing borrower's contribution towards margin for working capital.

21.23. ***Prohibition of Trading*** **:-** Section 8 of the Banking Regulation Act lays down that no co-operative bank shall directly or indirectly deal in the buying or selling or bartering of goods, except in connection with the realization of security given to or held by it, or engage in any trade, or buy, sell or barter goods for others otherwise than in connection with bills of exchange received for collection or negotiation or with such of its business as referred to in clause (1) of Section 6. However, these provisions do not preclude a co-operative bank from financing hire purchase dealings. Nowadays, a large number of constituents of banks go in for purchase of a large variety of consumer goods of permanent or semi-permanent value such as furniture, TVs, refrigerators, sewing machines, etc. Although some of the manufacturers have evolved schemes such as "Buy now, pay later" and other systems under which deliveries are made against hire purchase agreements or installment payment agreements, many of the manufacturers and dealers of such goods apply to banks or accommodation against security of documents obtained by them. Some of the banks also encourage their customers to purchase these articles, the bank undertaking to pay cash to the dealer and recovering the amount from the customer in suitable installments. Such dealings by banks are not held to be trading activities although in many cases the invoices or sale memos may have been made out in the name of the bank and the bank is not even required to register itself under the Sales Tax Act although in the book of the bank, they might appears sales. However, a co-operative bank should not undertake indirect trading such as running of a fair price shop or distribution center, acting as wholesale distributor, taking up agency for distribution of fertilizers, chemicals, etc.

21.24. ***Disposal of Non-Banking Assets*** **:-** Under provisions of section 9 of the Banking Regulation Act, no co-operative bank can hold any immoveable property, howsoever acquired, except such as is required for its own use, for any period exceeding seven years from the acquisition thereof or any extension of such period granted by the Reserve Bank, which is also limited to a further period of five years. Thus, if during the course of recovery of its dues, the co-operative bank comes into possession of any immoveable property, the bank can hold such property for a period of seven years only during which time it should dispose of the property unless the Reserve Bank has granted extension of time of disposal of the property. The bank, however, can construct, purchase or otherwise acquire any building or buildings for housing its office or for any other use such as providing residential accommodation to its employees, etc; the bank also becomes a member of a cooperative co-partnership housing society for the purpose.

21.25. ***Maintenance of books according to Departments*** **:-** For the purpose of facilitating its operations and ensuring proper recording of transactions, a modern bank is required to have a number of departments or sections depending on the variety and volume of its transactions. The following are the principal sections or departments into which the operations of the bank are divided.

(i) Cash Department headed by the Chief Cashier or shroff.
(ii) Account Department headed by the Chief Accountant.
(iii) Current Accounts Department.
(iv) Savings Bank Department.
(v) Fixed Deposit Department.
(vi) Loans Department or Advances Department.
(vii) Bill Department.
(viii) Cash Credits Department.

Accounts are to be maintained department wise. Each Department maintains its own book, such as subsidiary cashbooks or registers, personal ledger etc. All transactions are considered accounting to departments and then entered in the Day Book.

21.26. ***Opening of branches*** **:-** A co-operative bank can open branches and extension counters anywhere within the area of its operation. The area of operation of an urban bank is ordinarily restricted to the limits prescribed in its byelaws and can open branches and extension counters within its area of operation with the permission of the Reserve Bank of India. The area of operation of some of the banks has been extended to the entire State or Revenue divisions of the State.

The auditor should satisfy himself that the branches opened by banks are manned by properly qualified and competent branch managers and satisfactory arrangements are made for supervision over the branches. Every branch will maintain its own accounts and at the close of the financial year, the accounts of the branches are merged with those of the Head office and a consolidated balance sheet and profit and loss account is prepared. Statements of accounts received from the branches should be test checked and it should be seen that the accounts of the branches are agreed with the accounts of the Head office at regular intervals. Reconciliation statements should be prepared every month and the auditor should reconcile balances outstanding on 30th September and 31st March.

21.27. ***Investments : a) Government securities transactions SLR*** **:-** Government securities and other approved securities: The Reserve bank in its circular No. UBD.BR.NO. 42/ 16.26.00/ 2000-01 dated 19th April 2001 permitted urban banks to invest SLR holding in Government Securities and other approved securities. It further lay down the limits of investment as percentage of NDTL of the bank prior to 30.92002 by Circular No. UBD.BR.Cir.19/ 16.26.00/ 2001-02 dated 22nd October 2001 as a) Non-scheduled UCBs with NDTL of Rs. 25 Crore –15%; b) Non-scheduled UCBs with NDTL less than of Rs. 25 Crore –10%; c) Scheduled UCBs –20%.

Now all UCBs are required to invest 21.50 % of NDTL in Government Securities and other approved securities as per master circular issued by the Reserve Bank of India.

b) Investment Policy : The Banks are advised to prepare Investment policy by the RBI on following primary objectives -

(i) to provide an investment media for funds which represent a minimum of risk;

(ii) to provide the liquidity necessary to meet day to day, cyclical and long term needs and requirements;

(iii) to provide an investment media for funds which are not currently needed to fulfill loan demand;

(iv) to provide a flow of dependable earnings.

c) The Reserve Bank of India has issued various circulars on Investment, their exposure, risk, its committee, various limits, valuation and other related matter regarding urban banks, the details of various circulars are given below, auditors should study them carefully, and apply them while auditing the urban banks.

Circular No. of RBI	***Short contains and subject***
UBD.BPD.PCB.Cir.2/ 09.80.00/2003.04-/ 8th June 2003	The Urban banks are allowed to bid upto Rs. Two Crore (face value) in any auction of Government of India dated Securities. The detailed guidelines are appended with the circular. Guidelines for constituents Subsidiary General ledger Account detailed guidelines are issued in this circular regarding requirement, account holders, maintenance of records and documents, returns to RBI, etc.
UBD.BR. Cir 19 / 16.26.22/ 2002-03/ dt. 29th October, 2002	Dematerialization of PSU Bonds:The urban banks are advised to dematerialize there PSU bonds, bonds/ equities of specified all India Financial Institutions, infrastructure bonds issued by Financial Institutions, and units of UTI with depositories through CSGL Account.
CO. BSD.I.PCB.44/ 12.05.05/ 2000-01 dated 23rd April, 2001	Reserve Bank has issued guidelines for classification and valuation of investment by banks. as per enclosures attached to the circular.

Circular No. of RBI	*Short contains and subject*
UBD.BPD.PCB.Cir.11/ 09.29.00/2003.04-/ 2nd Sept., 2003	Reserve Bank has issued guidelines for classification on valuation of investment by banks.
UBD.BPD.PCB.Cir.12/ 09.29.00/2003.04-/ 4th Sept., 2003	Guidelines for investment fluctuation Reserve
UBD.BP. Cir 19 / 16.26.00/ 2002-03/ dt. 2nd November, 2002	Valuation of securities for the purpose of SLR
UBD.BPD.PCB Cir 46 / 16.26.00 / 2002-03/ dt. 17th May, 2003	Placement of deposits by Non-scheduled UCBs with Scheduled UCBs- The Non-scheduled UCBs are allowed to place deposits with scheduled UCBs only if, they comply with the CRAR norms, no default in maintaining CRR/SLR, are in profit for consecutive 3 years, and 'A' rating from Co-operative Auditors for last 3 yeas, and are complying with the prudential norms for income recognition, asset classification and provisioning, exposure ceilings and loans and advance to directors.
UBD.BPD.PCB.Cir. 56 09.29.00/2003.04-/ 2nd July, 2003	Investment portfolio transactions in Government securities-Summarized instructions are issued by the RBI, regarding investment in Government Securities.
BPD.PCB Cir 25 / 16.26.00 2003-04/ Dated 17th November, 2003	Guidelines on investment by Urban Co-operative Banks in Non-SLR Debt securities.
Plan.PCB.CIR.41/09.29.00/ 2001-02 dated 20th April, 2002	Investment Portfolio transction in Government securities.- Detailed instructions are issued by RBI in this circular regarding business to be transacted through the Broking firms, their exposure, limits of transactions, empanelment of firms, dealing procedure, maintenance of accounts, delivery system, sanction of board of directors etc.
UBD.BR.47 / 16.26.00 / 2001-02/ dt. 7th June, 2002	Operations through CSGL or SGL Accounts by the urban banks.
UBD No. CO. POT. PCB. Cir.48/ 09.29.00 / 2001-02 dt. 11th June, 2002	The Urban Banks have to get certified from the concurrent auditors, the transactions in securities are undertaken within the powers delegated by the board of Directors, and that the securities shown in the books of the Bank are physically held by it.
UBD No. POT. PCB. Cir. 06/ 09.29.00/ 2002-03 dt. 6th August, 2002	Do's and Don'ts in dealing with Government securities transaction guidelines.
UBD No. BPD .PCB. Cir.39/ 09.29.00/ 2002-03 dt. 13th March, 2003	Trading of Government securities on Stock Exchanges
BPD .PCB. Cir.44/ 09.80.00/ 2002-03 Dated 12th May, 2003	Guidelines for uniform accounting for Repo/ Reverse repo transactions.
PCB. Cir.16/ 16.20.00/ 2004-05 dt. 2nd September, 2004	Investment portfolio of urban banks, classification and valuation of investments.

The Reserve Bank of India has issued master circulars on all of above subjects and has modified them in the month of July every year, auditors should study them and apply the necessary parts while drafting audit report.

21.28. ***Capital Adequacy Norms : —***

Urban Co-op. Banks are performing same banking functions as commercial banks and are exposed to similar risks in the operations.Non-application of capital adequacy norms to UCBS undermines the stability of the whole banking system. It has, therefore, been found necessary to extend capital adequacy norms i.e. ***Capital to Risk Assets Ratio(CRAR)*** to UCBS in a phased manner commencing from 31st March 2002. Accordingly, UCBS are required to adhere to capital adequacy norms in a phased manner over a period of 3 years as per RBI circular No. UBD. POT. PCB. Cir.45/ 09.116.00/2000-2001 dated 25th April 2001 as indicated below.

For the year ending	Scheduled UCBS	Non-scheduled UCBS
31.3.2002	8%	6%
31.3.2003	8%	7%
31.3.2004	As applicable to Commercial Banks.	9 %
31.3.2005	As applicable to Commercial Banks.	As applicable to Commercial Banks.

To begin with the minimum CRAR Level applicable to non-scheduled urban banks will be 2 % lower than norms fixed for schedule urban co-op banks. Both schedule & non-schedule urban co-op banks are exposed to achieve the same level of capital adequacy norms as applicable to commercial banks by 31st March 2004 & 31st March 2005 respectively.

Urban Co-op Banks, which do not attain prescribed CRAR, have to do the following things.

A Appropriate not less than 50 % of Net Profit to Reserve fund.

B. Should not declare dividend of more than 20 %

Calculation of CRAR: CRAR is calculated as under

$$= \frac{\text{Capital Funds}}{\text{Risk Weighted Assets}} \times 100.$$

Capital funds can be segregated into two broad categories Tier I & Tier II . Tier I capital known as ***core capital***, provides the most permanent & readily available support to bank against unexpected losses, the Tier II capital consists of elements that are less readily available.

Tier I . Capital would include following items :

a) Paid up share capital collected from regular members.
b) Free reserve as defined for purpose of exposure norms (vide circular UBD No. DS.PCB CTR Cir. 4 and 25/ 13.05.00/2000.01/dated 25th August 2000 & 18th January 2001 respectively)
c) Capital reserve representing surplus arising out of sale proceeds of assets.
d) Any surplus in Profit & Loss A/c. *i.e.* balance after appropriation towards dividend payable education fund, other funds whose utilization is defined and assets loss if any.

Note : — Amount of intangible assets, losses in current year and those brought forward from previous years, deficit in NPA provision , income wrongly recognized on NPA Provision required for liability devolved on bank etc. will be deducted from Tier-I Capital.

Tier II : Capital would consist of the following.

(a) Undisclosed Reserves : These often have characteristics similar to equity & disclosed reserves. They have capacity to absorb unexpected losses & can be included in capital, if any.They represent accumulation of profit & are not encumbered by any known liability and should not be routinely used for absorbing normal loss or operating losses.

(b) Revaluation Reserves : These reserves often serve as a cushion against unexpected losses, but they are less permanent in nature and cannot be considered as " Core Capital " . Revaluation

reserves arise from revaluation of assets that are undervalued on bank's books. It is prudent to consider revaluation reserve at a discount of 55 % when determining their value for inclusion in Tier II capital. (*i.e.* only 45 % of Revaluation Reserve is available for inclusion in Tier II Capital)

(c) General Provision & Loss Reserves : These will include such provisions of general nature appearing in the books of bank which are not attributed to any identified prudential loss or diminution in the value of assets or known liability. Excess provision in respect of bad and doubtful debts, general provision for standard assets could be considered for inclusion under this category. Such provisions, which are considered for inclusion in Tier II capital, will be admitted *upto 1.25 % of total weighed risk assets.*

(d) Investments Fluctuation Reserve : Balance, if any, in investment fluctuation reserve of bank.

Risk-adjusted assets would mean weighted aggregate of funded and non-funded items as per annexure 1 of the circular. Risk weights are assigned to various assets and are described in the circular referred above; auditors should study the circular, and verify whether the bank complies with its capital base norms or not.

21.29. ***Non- Performing Assets : Prudential Norms*** **:-** A committee on Financial Sector reforms was set up by RBI under the Chairmanship of Shri. M. Narsimham, the then Deputy Governor of Reserve Bank of India.

The committee had recommended introduction, in a phased manner of prudential Norms for Income Recognition, Assets Classification & Provisioning for the advances portfolio of the Banks so as to move towards greater consistency and transparency in their published accounts. The Committee has also recommended that the policy of the income recognition should be ***objective and based on record of recovery rather than on any subjective consideration.***

Accordingly, RBI introduced provisioning norms w.e.f. 1992-93. Over the years, RBI has modified these norms in several respects and issued circulars from time to time.

Recently in July 2014, RBI has issued Master Circular on Prudential Norms for Income Recognition, Assets Classification and provisioning pertaining to the Advances Portfolio.

The salient points of the Guidelines presently in force and applicable are given below : —

(a) By superseding all its earlier circulars issued since 1985, the RBI issued a Master Circular in December 2002 and thereafter in the month of July every year. This way, The RBI has not only compiled various instructions on this important issue at one place but also revised and updated the existing norms.

(b) The purpose of issuing the present Master Circular appears to be to move closer to the internationally accepted provisioning norms, to remove any subjectivity in respect of recognition of non-performing assets, and slowly & gradually strengthen the financial position of Banks so that there does not remain a possibility of a cascading effect of failure of a Bank / Banks on the overall Banking System as a whole.

The policy of income recognition should be objective. It should be based on the sole criteria of recovery in the borrowal accounts and should not be based on subjective considerations such as value of primary security, net worth of borrowers and or guarantors etc.Similarly, there has to be objectivity in the classification of assets of Banks (which mainly consist of various borrowal accounts) so as to ensure uniformity and consistency in the application of assets, which is based on the period for which the asset has remained non-performing, the availability of security and realizable value of such security.

With effect from 31st March 2004, a non-performing asset (NPA) shall be a loan or an advance where :

(i) Interest and or installment of principal remain overdue for a period of more than 90 days in respect of a term loan.

(ii) The account remains 'Out of Order', for a period of more than 90 days, in respect of an Over Draft / Cash Credit. (OD / CC)

(iii) The bill remains overdue for a period of more than 90 days, in the case of bills purchased or discounted.

(iv) Interest and / or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and

(v) Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

21.30. ***Out of Order*** **:-** An account, particularly Cash Credit (includes Pledge / Hypothecation and Clean Cash Credit) / Overdraft Account, would be treated as ' Out of Order' if the ***outstanding balance remains continuously in excess of the sanctioned limit / drawing power***. In cases, where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but ***there are no credits continuously for 90 days as on the date of balance sheet*** or ***credits are not enough to cover the interest debited during the same period***, these accounts should be treated as ' Out of Order '.

21.31. ***Classification of assets*** **:-**

a)Standard Assets : A standard asset is an asset, which is not a non-performing asset. A standard asset is one, which ***does not disclose any problems & which does not carry more than normal risk*** attached to the business. Such an asset is not an NPA and is a performing advance or standard asset.

b) Sub-Standard Asset : A sub-standard asset is one which has been classified as ***Non-Performing Asset for a period not exceeding 12 months.***

c) Doubtful Asset : An asset is to be classified as doubtful if it has ***remained NPA for a period exceeding 12 months.***

d) Loss Asset : A loss asset is one where loss has been identified by the ***bank or the internal or the external auditors or by Co-operation Department or the RBI inspectors*** but the amount has not been written off wholly.

Basic Consideration for classification of Assets : The classification should be done taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realization of dues. In respect of accounts where there are potential threats to recovery on account of erosion in the value of security and existence of other factors such as frauds committed by borrowers, it will not be prudent to classify the debts as per period for classification but, such accounts should be straightaway classified as doubtful or loss assets, irrespective of the period for which it has remained in NPA.

21.32. ***Provisioning Norms*** **:-** In terms of external prudential regulations, banks are required to make provisions as under in respect of various categories of assets.

Standard Assets	0.40%	0.40%
Category of Standard Asset	**Tier II bank**	**Tier I bank**
1. Direct advances to Agriculture and SME sectors	0.25%	0.25%
2. Commercial Real Estate (CRE) sector	1.00%	1.00%
3. Commercial Real Estate –Residential Housing Sector (CRE-RH)	0.75%	0.75%
4. All other loans and advances not included in (a) and (b) above	0.40%	0.25%
Sub-Standard Assets.	10%	10%
Doubtful Assets.		
a) 3 to 4 years upto 1 year (D1) – 20%	20%	Between 20 % to 30 % of the secured portion,
b) 4 to 6 years 1 to 3 years (D2) – 30%	30%	depending on the age of NPA, + 100 % of the
c) above 6 yearsAdvances classified as doubtful for more than 3 years on or after April 1, 2010 (D3) – 100%	100%	unsecured portion. In case of above 6 years irrespective of security 100%
Loss Assets .	100 %	100 %

21.33. ***Income Recognition*** **:-** Internationally, ***income from Non-Performing Assets is not recognized on accrual basis but is booked as income only when it is actually received***. Considering the international norms & ongoing reforms, an urgent need for specific guidelines was felt to being about uniformity in accounting of various Banks as regards to identification, classification & provisioning for bad

& doubtful advances. It was also felt necessary that the banks should follow a uniform method of accounting for revenue *i.e.* income recognition on such advances.

The policy of income recognition has to be objective and there should not be any scope for subjectivity. It should be based on the record of recovery. A lot of objectivity has been brought about by the introduction of Prudential Norms for Asset Classification & Income Recognition. These norms have been further clarified / strengthened by the Master Circular issued on 26th December 2002 and then after upto July 2014.

Banks recognize income (such as interest, fees, commission) on accrual basis, *i.e.* as it is earned. It is an essential condition for accrual of income that it should not be unreasonable to expect its ultimate realization.

In view of significant uncertainty regarding ultimate realization of income accrued in respect of Non-Performing Assets, RBI Guidelines require that ***banks should not account for as income interest on non-performing assets until it is actually realized***. When a credit facility is classified as non-performing for the first time, interest accrued & credited to the income account in the previous year which has not been realized, should either be reversed or be provided for. Further, banks should not charge interest on any NPA account.

If fees, commission and similar other income in respect of a borrower advanced to whom have become non-performing, should not be taken to income if they remain uncollected in that year. In other words in the year in which the fees or commission are accruing, they will cease to accrue in that year.

If such fees or commission or other income have already been debited to the account of such borrower in the past but have remained uncollected, that should either be reversed or should be provided for. In other words, such income in respect of NPA accounts should be accounted for as income only if it is actually received.

Fees & commissions earned by the banks as a result of renegotiations or rescheduling of outstanding debts should be recognized on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

In other words, such fees or commissions should not be taken to income in one year but should be spread over the renegotiated or rescheduled extended period of credit.

21.34. *Other Points* :- Instructions contained under the DCCBs headings in the following chapters may be borne in mind while taking audit of Co-operative Urban Banks namely Investment, Deposits, Risk Assessment; Financial Analysis; Bills Business; Internal checks and controls in computerised environment; Internal checks and controls to prevent frauds, Checking lending operations General .

CHAPTER No. 22

URBAN CREDIT AND NON- AGRICULTURAL RURAL CREDIT SOCIETIES

22.1. ***Membership*** **:-** Intending members are required to submit declaration in form 'K' with the application for the membership. Auditors should see that all conditions as laid down by the Act, rules and byelaws are complied before the person is admitted as member, regarding entrance fee, minimum one share amount credited or not, resolution sanctioning the membership etc. ***The urban co-operative societies are required to collect deposits from their members only and not from the public.***

22.2. ***Investments*** **:- Urban credit societies -** Investment should be made as per Section 70 of Maharashtra Co-operative Societies Act, 1960. Any investments which contravenes provision of this Section should be reported. Some Urban co-operative societies makes investment in sugar factories, spinning mills and educational institutes which are run by same management as like urban credit society. In such cases, auditor should include in Part A of audit report and also make special report. Auditor should also verify whether interest on such investment is taken to income only when it is actually received. Otherwise provision for Outstanding Interest Receivable should be made.

22.3. ***Sanction of loans*** **:-** All applications should be entered in the Register of Loan Applications Register. Generally Credit Societies disburse loan for the purposes of small traders, household appliances, furniture, personal loans, etc. They disburse cash credit loans, hire purchase loans, and personal loans, some time few block capital loans in respect of bigger credit societies. Personal loans are on the liability of surety. The auditor should verify the following points while auditing loan applications.

a) ***Credit worthiness*** **:-** The Society is required to disburse loans considering the creditworthiness of the borrower and sureties. It should be seen by the society, while apprising the loan application that, the borrower has sufficient sources to refund the loan, he has not borrowed from various other societies, no objection certificates from other credit societies, urban banks, salary earners' societies, and other credit societies are provided by the member for appraisal of creditworthiness.

b) ***Exposure Norms*** **:-** The auditor should verify that the maximum limits prescribed in byelaws for disbursement to single person, group of person, or industry or if, the byelaws provide certain limit for the specific loan or loan purpose are adhered to by the Society. If not, the auditor should object to this, as it affects on the financial position, converting the loans into bad and doubtful debts.

c) ***Security*** **:-** In many of the societies, bigger loans are sanctioned on the basis of mere sureties. Surety loans are not supposed to be secured loans. If the security offered by the borrower is in the nature of tangible assets, the auditor should verify that they are all mortgaged and registered with the registering authority, duly stamped as required by the Indian Stamps Act or Mumbai Stamp Act as the case may. Without registration and proper stamping, the documents are not held legal by the Courts. The auditor should bear this in mind and insist in his audit report on registering them. Securities should be properly valued by the Government approved valuer.In many cases it is found that the securities are overvalued for obtaining excessive loan from the society, which is not favorable to the society. Cash Credit loans such as hypothecation, pledge, or clean cash credits, cash credits are disbursed on the security of stock held by the borrower. The auditor should verify that the stock statements are obtained before each drawal and on every month for ascertaining the drawing power and required margin that is to be kept, the mortgage is registered with the proper authorities and records relating to those effects are obtained, such as mortgage deed, etc. In case of advances against the FDR, recurring deposits, NSCs, IVPs, KVPs, LICs, warehouse receipt, the proper documents are duly discharged and taken into the custody of the society. Proper lien's are registered with the authorities issuing them. In case of fixed assets like land, building, attached machinery, leasehold property, title of assets is verified, valued, and opinion of legal adviser has been obtained. For vehicle loans lien should be registered with the Regional Transport Authority of the concerned area.

d) ***Documents*** **:-** For every type of loan, application, required documents proving title of security, NOCs from other societies, continuing security letters, promissory notes, agreements, mortgage

deeds, hypothecation deed, pledge deed, discharge and lien letters, guarantee letters etc., are obtained as per the nature of loan. This should be verified by the auditor; he should ascertain that the documents are complete in all respect, duly stamped, and registered, wherever necessary.

e) ***Loaning policy*** **:-** The auditor should confirm that the society has framed loan policy, based on the principles of Security, liquidity, financial viability, technical viability, profitability, diversification of risk, and its own policy as per local conditions that apply. The loan policy or rules regulating disbursement of loan are duly sanctioned from the concerned Registrar, in the area of operation of the society.

22.4. Liquidity **:-** The urban credit co-operative societies have to maintain 25% of deposits as liquid assets invested in the fixed deposits or in any other mode as notified by Government of Maharashtra in December 2013. It should be noted that the other deposits invested by the Urban Co-operative Credit Society, in other Urban Co-operative Banks, or otherwise are not considered for the purpose of liquidity. Auditors should verify the securities or deposits and investments physically at the time of audit and offer remarks in their audit report accordingly.

22.5. Non-performing Assets :- The concept of non-performing assets has been made applicable to these societies, by the Registrar, *vide* circular No banka/ D-4/ patsanstha/ NPA/ 2004/ 89 dated 10th November 2004 from the accounting year 2004-05. The concepts of non-performing assets as described is similar to that for urban Banks. However, the manner of provisioning and income recognition is different, which are enumerated below.

a) Overdue : From the year the period neither recognised for non-performing assets to the loans and advances if, they remain overdue for the period detailed below in the subsequent years.

Sr. No.	**Applicabel date 31 st of March ..**	**period of overdue for NPA**
1	2005	4 quarters (12 months)
2	2006	4 quarters (12 months)
3	2007	3 quarters (9 months)
4	2008	2 quarters (6 months)

b) Classification of Assets and provisioning **:-** The assets are classified into four categaries, *viz*.,

(i) Standard Assets ;

(ii) Sub-Standard Assets;

(iii) Doubtful assets; and

(iv) Loss assets.

The period for classification and required provisioning for Bad and Doubtful purposed is as below.

Sr. No.	Classification of assets	Period of NPA	Required provisioning on outstanding loan	
			for secured loan	for unsecured portion or loan
1	Standard Assets	0	0	0
2	Substandard Asset	12 months to 24 months	5%	
3	Doubtfull Assets			
	a) DA -1	24 months to 48 months	10%	50%
	b) DA-2	48 months to 60 months	15%	50%
	c) DA -3	more than 60 months	20%	50%
4	Loss Assets	As certified by the auditor.	100%	100%

Note : These provisions are applicable to the loans outstanding more than Rs. 10000/- only. No provisioning time being is applicable to the loans below 10000/-. However they may classified.

c) ***Loss Assets :-*** The loss assets are required to be certified by the auditor. While certifying the bad debts, auditors should take utmost care; detailed instructions are given in urban banks section, and the auditor should study them. The unsecured portion or the security which is not realisable or not realisable to the extent of loans and advances, should be treated as loss assets for the purpose of provisioning. The Auditors should bear in mind this certification does not permit societies, to write off such debts; they have to follow the procedure laid down in the rule 49 of the M.S.C. Rules 1961.

d) ***Income Recognition :-*** The interest income on the NPA accounts should be treated as income only when it is actually received, till then interest should be provided as receivable, and should be credited to interest reserve account.

e) ***Other instructions :-*** For the purpose of classification of non-performing assets, the loans disbursed on the security of fixed deposits, NSC, IVP, KVP should not be classified as non-performing assets. However, the margin required should be maintained by the borrower. In case there is short margin, such amount is required to be provided. In case where several loans are granted to one person, firm, company, partnership firm etc., and one accounts is classified as NPA account then the lower classification should be applied to all performing accounts outstanding from him. For the borrowers who have borrowed from various credit societies, banks should classify their accounts as per operations in their accounts.

Auditors should study the circular and submit the information required as per circular, regarding Gross NPA, Net NPA, provision made and required, etc., in their audit report and that the society is also required to disclose this information in its annual report supported by financial statements.

CHAPTER NO. 23

AGRICULTURAL AND RURAL MULTIPURPOSE DEVELOPMENT BANKS *(FORMER LAND DEVELOPMENT BANKS)*

23.1. ***Introductory*** **:-** Agricultural and Rural Multipurpose Development Banks, though registered under the Co-operatives Societies Act, form a distinct class by themselves and in view of the special nature of their constitution, management and operations, a special chapter, Chapter XI, containing sections 111 to 144, has included in the Act and special rules, Rules 93 to 103 in Chapter X have been included in the Maharashtra Co-operative Societies Rules. These special provisions have been made in order to facilitate their operations, which are of a special nature. These provisions of the Maharashtra Co-operative Societies Act and the Maharashtra Co-operative Societies Rules should be very carefully studied by the auditors entrusted with the audit of these banks. Formerly, all the District Central Co-operative Land Development Banks (primary banks) had been amalgamated with the Maharashtra State Co-operative Land Development Bank. Now the Maharashtra State Co-operative land Development Bank (now The Maharashtra State Agricultural and Rural Multipurpose Development Bank Ltd.) has been bifurcated into the District Agricultural and Rural Multipurpose Development Banks in various District of the State.

23.2. ***Other Acts :-*** Beside the provisions of the Co-operative Societies Act and the Rules made thereunder, provisions of other Acts such as the Transfer of Property Act, Indian Registration Act, Land Revenue Code, Mumbai Irrigation Act, 1879 and the Mumbai Canal Rules made under the Act, the Agricultural Lands Act, Agricultural Debtors Relief Act, etc., are also required to be studied carefully by the auditors. The Apex Bank has framed regulations as provided in section 144 of the Maharashtra Co-operative Societies Act. These are also required to be studied by the auditors.

The Registrar has issued a circular (circular NO. ADT/EST/I-LDB, dated 15th November, 1969), which contain detailed instructions as to the manner in which the audit of these banks should be conducted. Certain special points, which should be noted during the course of audit of these banks, have also been mentioned in this circular. The contents of this circular should be very carefully studied. The Apex Agricultural and Rural Multipurpose Development Bank have also issued a number of circulars laying down policies and procedural matters, maintenance of accounts, etc., which should also be studied by the auditor.

23.3. ***Membership :-*** The membership of Agricultural and Rural Multipurpose Development Banks consists of different classes of members with varying rights and liabilities. The provisions of the byelaws and instructions issued by the Registrar and the Apex Bank should be seen and their compliance noted. The byelaws of the bank generally provide that admission to the membership should be sanctioned by the Board. Although at the time of submission of application for membership, the Applicant is required to pay for the value of one share only, he is required to contribute towards shares in proportions to the loan sanctioned to him under the different schemes. It should be seen that the required amount of additional share capital as specified in the bye- laws of the bank is contributed by the borrowing member before disbursement of the loan to him. After the bifurcation of Apex bank into State Bank, the District Banks have become member of Apex bank. The auditors should verify whether compliance of provision regarding membership in the bye laws of the District Bank is being complied with or not.

23.4. ***Members Register*** *:-* It should be seen that the members register is maintained in form "I" as required under section 38 of the Act. Names of borrowing members, non-borrowing members and nominal members are required to be entered in separate sections in the Members Register and also classified as Active and Non-active members. The District banks have to maintain the member list in for J-1 and J-2 respectively for Active and Non-active member.

23.5. ***Scales of fees :-*** Under sub -rule (2) of rule 93 of the Maharashtra Co- operative Societies rules, the price of an application form for membership of the Bank and for loan to be taken from it has been fixed at Re.1 per form. Sub rule (4) of rule 93 further lays down that the application together, with copies of necessary documents and the amount of all fees specified in this rule and deposit equivalent

to the value of one share of bank, shall be submitted by the applicant to the officer who has been authorized to receive the applications . The auditor should see that these amounts have been properly recovered and credited under their correct heads. It should be seen that only the cost of the forms and others fees at scales prescribed in sub rule (4) of rule 93 are recovered from the borrower and no contributions or donations such as donation for construction of building, subscription to rural debentures, etc., should be allowed to be recovered. Auditors should point out in their reports all cases in which unauthorized deductions have been made. At present, fees are recovered for ‘‘enquiry and search of documents”. Under the World Bank project Evaluation, fees at 1/2 Per cent of the development cost will be charged.

23.6. ***Borrowings from Apex Bank*** *:-* The primary Agricultural and Rural Development Banks used to function as independent entities before their merger with the state Agricultural and Rural Development Bank; they were functioning merely as its branches. Each Agricultural and Rural Development Banks was being allotted a quota of funds as warranted by its recovery position for disbursement of loans sanctioned by it .The amounts disbursed by the primary Agricultural and Rural Development Bank were being reimbursed by the Apex Bank so that the primary bank had always funds to disburse loans sanctioned by it .This system has been changed now and the primary Agricultural and Rural Development Banks are functioning and disbursing loans independently, as per guide lines of NABARD. The primary bank sanctions all loans. The NABARD & Apex Bank have issued a numbers of circulars explaining its lending policies and programs and the procedures to be followed and laid down under different schemes will have to be carefully studied by the auditors and they should keep themselves abreast of the latest developments.

23.7. ***Purchase of shares of Apex Bank :-*** District Agricultural and Rural Multipurpose Development Banks were required to purchase shares of the Apex Bank in proportionate to the borrowing obtained from the Apex Bank.

The procedure for Sanction of loans :- The application of the borrowing member is sanctioned by the Board of Primary Agricultural and Rural Development Bank, as per guidelines given by the NABARD, and in case there is refinance from the NABARD or Apex Bank, sanction to that scheme will be obtained from them.

23.8. ***Recovery of loans :-*** The primary banks were required to remit all recoveries of loans made by them to the Apex Bank and they were allowed to retain some portion of the recoveries effected to meet their establishment charges and / or other expenses. The auditor should further satisfy himself that the repayment of loans made to the Apex Bank is genuine and not mere book adjustment. In particular, it should be seen that sale-proceeds of sales of rural debentures, deposits collected from members and other receipts should not have been utilized for repayment of a loans of the Apex Bank. Repayments should have been made only out of recoveries effected from borrowing members.

23.9. ***Reconciliation of Head Office / Apex Bank Account :-*** Periodical statement of account received Apex Bank should be checked thoroughly and all accounts of the Apex Bank such as different loan accounts, Advance Recovery Account, Suspense Account, etc., should be reconciled at regular intervals. Since different loan account are maintained by the Apex Bank in respect of loans sanctioned at different rates of interest, there will be quite a large number of accounts of the Head Office/Apex Bank in the books of the primary bank and it is likely that amounts remitted might have been wrongly credited to an account different from the one to which they were meant to be credited. As such, reconciliation of the various accounts of the Apex Bank presents a number of difficulties.

23.10. ***Scrutiny of Loan cases :-*** This is the most important part of the work of the auditor. All papers connected with the sanction of a particular loan are generally kept in one bunch to facilitate checking of the loan case right from the receipt of the loan application to the final disbursement of the loan amount. It should be seen that all papers are properly filed or arranged systematically in the loan case jacket or file and no important paper, report or other document is missing. The following is the order in which the papers are arranged in the jacket or file.

1) ***Loan application :-*** Declaration of the applicant and accompaniments to the application such as extracts from village revenue record showing title to lands held by the borrower, particulars of his family members, his income from agriculture and from other sources, etc. should be verified by the officer receiving the application. if any details are lacking, he shall get the application completed by the applicant.
2) ***Preliminary Inquiry report :-*** The Bank obtains report of the Public Inquiry Officer of the Bank (sub rule 8 of rule 93) and his certificate of verification of the particulars furnished by the applicant in his application. The public inquiry officer should follow the procedure laid down in sub rule 8, 9, 10,11 of the rule 93, and submit his report to the bank. As per sub rule 13 of rule 93, the bank should satisfy itself that the inquiry has been property conducted. If there are any deficiencies, the bank shall get them completed immediately and scrutinize the application.
3) ***Certificate of the village officers :-*** Regarding title to the land and its possession by the applicant and his right to mortgage the land.
4) ***Public notice*** regarding receipt of application for loan, inquiry Report of the Public Inquiry Officer and "No Objection" Certificate issued by him.
5) ***Spot Inspection Report :-*** of the Inquiry Officer appointed by the Bank.
6) ***Legal Adviser's opinion :-*** as regards title, previous encumbrances, etc. and the borrower's right to mortgage the lands. Certificates from village officers and societies regarding Government dues and no overdue of societies (Technical reports in every case exceeding loans of Rs. 4,000/- are necessary).
7) ***Valuation Report and Final Report :-*** of the Inquiry Officer appointed by the bank.
8) ***Undertaking :-*** furnished by the borrower to sell the produce of the land through the marketing society and authorizing the marketing society to deduct the amount of the installments (dues of the bank) from the sale-proceeds payable to him.
9) ***Final sanction of the loan and its disbursement :-*** The bank has to sanction the loan within 4 months from the receipt of application and if it is unable to dispose of application within such period, it has to obtain permission from the Registrar for further direction. For disbursement of loan, provisions of sub Rule 16, 17 and 18 of the Rule 93 should be followed. The auditor should study this rule and offer his comments in audit report accordingly.
10) ***Mortgage-deed and Lease Agreement :-*** A copy of the mortgage-deed and lease-deed are required to be filed with the Sub-Registrar (Section 122) in order to get the bank's encumbrances recorded in the village records. The auditors should see that such encumbrances are recorded in the village records.
11) ***Evidence regarding registration of the mortgage-deed :-***

The forms of most of the documents and reports have been prescribed by the Primary/Apex Bank, except where they have been prescribed under the rules. It should be seen that no changes have been made therein by Apex Bank.

The procedure to be followed by Agricultural and Rural Multipurpose Development Banks in dealing with applications for loans has been laid down in rule 93 of the Maharashtra Co-operative Societies Rules. Every loan case has to go through the following four stages :-

1) Receipt of the loan application by the officer designated by the bank to receive applications and its entry in the Register of Loan Applications Received maintained under rules 93. Receiving Officer's Report accompanied by the prescribed documents to be appended to the loan application.
2) Public Enquiry under rule 93 (8), report of the Public Inquiry Officer.
3) Inquiry by the Bank's Inquiry officer and his report regarding technical and economic feasibility of the scheme to be financed by the bank.
4) Consideration of the loan application by the Board of the Directors of the primary bank or Advisory Committee or other body appointed by the Apex Bank for the purpose.

Detailed instructions regarding procedure to be followed at all these stages and also the method for disbursement of the loan has been issued by the Primary / Apex Bank. It should be seen that the procedure laid down in the rules and procedures laid down by the Bank has been scrupulously followed.

Application for loans should be checked from the register of loan application received, maintained under provisions of rules 93 (7) and it should be verified from the Loan Application Movement Register that all loan applications are disposed of within a period of four months of their receipt as required under rule 93(15) of the Maharashtra Co-operative Societies Rules. In case of rejection of the application, reasons thereof are required to be furnished to the Applicant as required under rule 93 (16). All loan cases should be scrutinized very carefully in order to ensure that the prescribed procedure has been followed. It should also be seen that all papers have been filed in the jacket or bunch in proper order. Valuation Reports and Legal Adviser's Reports should be seen in all cases. It should be ascertained from the sequence of the papers filed that the procedure for sanction of loan application has been duly followed and the instructions issued by the Apex Bank have been observed.

As regards purpose of loans, as per circulars issued by the Reserve Bank of India, ninety per cent of loans disbursed by Primary Agricultural and Rural Multipurpose Development Bank should be for productive purposes of which seventy per cent should be for identifiable purpose. There is, therefore, very little scope for advance loans for non-productive purposes, such as purchase of land, redemption of old debts, etc. Most of the loans at present are sought for construction of wells, repairs to old well and/or purchase of land, redemption of loans for grant of loans purchase of oil engines, or electric motors and pumping sets, development of horticulture, fish farming and the purposes that are directed by the NABARD/ Apex Bank.. The procedure for grant of loans for this purpose (well scheme, oil engine scheme, etc.) has been specifically laid in Government Resolutions sanctioning the various schemes. The auditors should very carefully study this Government Resolution and it should be seen that the conditions laid down for disbursement of loan amounts have been dully followed.

In case of loans for purchase of lands, there are ***sequence of the conveyances*** that should be examined and it should be seen that the last conveyance is in the name of the borrower. Where loans have been granted for purchase or redemption of lands, it should be seen that the lands are duly conveyed to the borrower and the sale-deeds or releases have been duly registered. In case of loans for construction of or repairs to wells, purchases of engines, electric motors, pumping sets, etc. it should be seen that the conditions prescribed by the Agricultural Department have been duly observed and claims for it submitted in time. A list of borrowers entitled to subsidy should be prepared and checked by the auditor. Entries for receipt of subsidy on behalf of the borrower and its adjustment to his loan account should be seen and their correctness verified. It should also be seen that the disbursement of loans for these purposes is made in installments as per conditions prescribed by the Agricultural Department. It should be seen that oil engine, electric motors, tractors, etc., for which loans are given, are got insured in favour of the Bank and in case of tractors, it should be seen that they are registered in the names of borrowers with the Regional Transport Officers concerned.

23.11. ***Verification of utilization of loans (Spot inspections) :-*** Agricultural and Rural Multipurpose Development Banks advance very large amounts for land improvement, digging of well and other purposes, which increase the productivity of land. It is, therefore, necessary to see that the proceeds of the loans obtained from the Agricultural and Rural Multipurpose Development Banks are utilized by the borrowers for purposes for which they are sanctioned. The purpose of financing on such a large scale is defeated, if the loans granted are not utilized by the borrowers for the purposes for which they have been sanctioned. The bank has, therefore, to make adequate arrangements by appointing necessary staff to ensure that the borrowers have actually utilized the loans for the purposes for which they had applied. Disbursement of loans has to be followed by frequent visits to the spots for ensuring proper utilization of loans. The Primary Agricultural and Rural Multipurpose Development Banks had accordingly appointed a large staff of supervisors to carry out spot verifications. They were required to prepare their spot inspection programs with the approval of the manager for Agricultural and Rural Multipurpose Development Bank. Banks are required to maintain purposewise utilization registers and entries therein are to be made on receipt of the spot inspection reports received from the supervisors of the bank, which they are required to submit after

personally visiting the lands and inspecting the improvement effected thereon. Thus, if the loan granted is for digging of a new well, the diameter of the well, its depth, depth of water, type of construction of surrounding wall, etc., are required to be mentioned in their reports. Similarly, if the loans are for construction of bunds, the height of the bunds and their cubic contents will have to be mentioned in order to be satisfied about the cost incurred thereon, which has been met from the proceeds of the loans granted for the purpose. The bank has prepared formats of spot verification reports considering the requirement of development for specific purposes of loans. Auditors should ascertain from this register, the number of cases in which spot inspections have been carried out by the supervisors of the bank and if the number of cases in which spot inspection has not been carried out is quite large, enquiries should be made. Cases in which mis-utilisation of loans has been reported should be studied and the action taken by the management ascertained. Where mis-utilisation has been reported, the Board of the Executive Committee of bank should immediately pass a resolution recalling the entire amount of the loan and proceed to take suitable action for the recovery of the loan. If there are any cases in which false utilization certificates are noticed to have been issued, serious notice should have been taken by the bank and proceedings should have been instituted. The auditor should also take up spot inspections of at least ten per cent of the loan cases, schemes which are reported to have been completed during the period covered by the audit. In cases of loans for purchase of engines and machines, the chassis number mentioned in the invoices or bills of the suppliers should be verified. In case of new loans for construction of new wells and repairs to old wells, area actually irrigated will have to be checked.

23.12. ***Recovery of loans —position of overdue :-*** The position of recoveries as compared with demand, both under principal and interest should be ascertained and the percentage of recoveries to demand should be calculated. Special efforts made by the bank to effect recoveries should be ascertained. It should be seen that adequate recovery staff as standards lay down is appointed.

Notice intimating the borrowers, the amounts of their loan installments and the dates on which they fall due are required to be issued in time. These are required to be followed up by one or more reminders and if the installment remains unpaid till the due date and after the period of one or more reminders has expired, notice should be issued to the defaulter informing him about the consequences of his default and the intention of the bank to proceed against the defaulter under provision of section 132, 133 and 137 of the M.C.S.Act, in addition to availing of the other remedies available to it. If the defaulting member does not pay due attention to these notices, proceedings should be instituted for recovery of the defaulted installment. For ensuring prompt recovery from defaulters, wide powers have been given to the Agricultural and Rural Multipurpose Development Banks. Under section 132, the bank may apply to the Registrar or the Collector for recovery of defaulted installment by sale of the produce of the mortgaged land including the standing crops thereon. Under section 137, the bank may obtain a certificate from the Registrar for recovery of the defaulted dues as arrears of the land revenue. Under section 133, the Agricultural and Rural Multipurpose Development Banks has been given power to foreclose and to sell the mortgaged property in case of default of sale made under provision of section 133, as laid down in section 134. Besides these power, provisions under section 156 of the M.C.S.Act can also be availed of by the banks for recovery of their dues.

23.13. ***Rescheduling of installment and advance recoveries :-*** Where extension has been granted or the bank has condoned, the default made by the borrower in the payment of one or more installments or rescheduled in special circumstances of scarcity conditions, floods, etc, since the borrower is generally unable to pay all the defaulted installments in one lump sum. Instructions issued by the NABARD / Apex Bank in this connection are to be followed or not should be seen by the auditor.

Many times, borrowing members of Agricultural and Rural Multipurpose Development Banks pay their installments before the dates on which they fall due. These amounts are first credited to an "Advance Recovery Account" and subsequently credited to the loan account of the borrower as on the due date. Sometimes, amounts in excess of the amounts of the installments due are remitted by the borrowers, these amounts are required to be credited towards recovery of future installment, which have not yet fallen due. In all these cases, it should be seen that necessary adjustments on account of interest accruing on advance recoveries are made correctly. The rate which interest is allowed on advance recoveries should be noted and if this is too low, appropriate comments may be made in the general remarks of the audit report.

23.14. ***Non-Performing Assets :-*** NABARD has issued guidelines on prudential norms for loans and advances, for State Agricultural and Rural Multipurpose Development Banks, as well as for District Banks, in its circular NO. HO/ NR/ DOS/ HYD/ Pol/ p (57) A/ 97.98 circular No. HB.Dos.LDB/1/ 97.98 Dated 19th June 1997. These guidelines are on the lines of District Central Banks or other Banks. Main features of these guidelines are mentioned below :-

Income Recognition :

a. The prudential norm for income recognition should be based on the record of recovery and therefore unrealized income should not be taken to profit and loss account.In case it is taken, the banks have to provide it full, by charging to profit and loss account.
b. Fee, commission and other income may be treated as income only when the account is classified as standard, which means no such income of non-performing assets should be incorporated in profit and loss account.
c. Fees and commission earned by banks as a result of renegotiation or rescheduling of outstanding debts should be recognized on an accrual basis over the period of time covering the renegotiated loan or rescheduling of credit facilities.

In case of credit facilities backed by Government guarantee, overdue interest can be taken to profit and loss account only if matching provision is made.

Non Performing Assets :- means, a credit facility in respect of which interest or installment of principal is overdue.

Asset Classification :- The criteria for classification of non-performing assets are similar to the norms prescribed for DCC Banks.

A) Standard Assets :- is the asset, which does not pose any problem and which does not carry more than the normal risks attached to any business.

B) Sub standard Assets :- A non-performing asset is classified as sub standard on the basis of the following criteria :-

a) an asset, which has remained overdue for a period not exceeding 3 years in respect of both agricultural and non-agricultural, should be treated as sub-standard.
b) in case of term loans, where instilments are overdue for a period not exceeding 3 years .

C) Doubtful Assets :- An asset which has remained overdue for a period exceeding 3 years, in respect of both agricultural and non agricultural loans and in case of term loan , installments are overdue for the period exceeding 3 years should be treated as doubtful asset.

D) Loss assets :- the criteria for classifying the assets as loss assets are,

(i) The Bank / auditor/ RBI/ NABARD inspectors have identified them as bad;
(ii) where decrees or execution petitions have been time-barred or documents are lost or no other legal proof is available to claim the debt;
(iii) where the members and their sureties are declared insolvent or have died leaving no tangible assets;
(iv) where the loan is fictitious or where gross mis-utilisation is noticed; where the assets financed are totally destroyed and borrower has no other means to repay the loan;
(v) where the title to the security is defective and cannot be legally proceeded against;
(vi) where loan liability itself is disputed; and,
(vii) where loans which have become in-fructuous and subsidies or compensation had not been adequate.

Provisioning Norms :- The required provisions for Bad and doubtfull debts for non-performing assets are detailed below :

Classification of Assets	Period of overdues	Percentage to provide on outstanding of loan	percentage to provide for unsecured portion of loan
Standard		not required	not required
Sub Standard	Below 3 years	10%	100%
Doubtful 1	3 years to 4 years	20%	100%
2	4 years to 6 years	30%	100%
3	exceeding 6 years	50%	100%
Loss Assets		100%	100%

All Agricultural loans are treated as Secured loans, as the charge on land is provided.

The Other prudential norms for loans against fixed deposits, NSC certificates, IVP. KVP. LIC etc are similar to the provisions of DCCBs, which are explained in manual elsewhere, auditors should study the same, and apply accordingly.

23.15. ***Sale of Rural Debentures :-*** In order to meet the long-term loan requirements of agriculturists and enable them to improve the productivity of their lands, the Apex Bank has to raise funds and every year, ordinary and rural debentures are issued by it, in accordance with the program for borrowings approved by the Government and the NABARD. As regards ordinary debentures, since these are contributed mostly by institutional investors, the primary Agricultural and Rural Multipurpose Development Banks have an active role to play, but so far as rural debentures were concerned, primary banks had to take positive steps to make them popular inasmuch as these rural debentures play an active part in mopping up rural savings and attracting rural investors who are generally shy and ignorant of the numerous avenues for profitable investment of their savings. The Bank is also required to maintain a special register for recording receipt of sale-proceeds of rural debentures. Entries in this register should be checked from the carbon copies of the receipts issued to the purchasers of the debentures. Amounts for rural debentures need to be recovered out of saving of the rural population. They may not be recovered out of the loan amounts disbursed to the borrowers as development programs might suffer.

23.16. ***Classification of overdue :-*** As on 31st March, a statement of overdues period-wise should be prepared and checked with the balances appearing in the personal accounts. Action taken by the bank for recovery of the defaulted installments should be noted. Since adequate security in the form of mortgage of lands, in addition to mortgage of engines, motors, pumping sets and other machinery has been obtained.

23.17. ***Interest Accrued and overdue :-*** All accrued interest and also interest accruing up to 31st March every year will have to be calculated and it should be seen that adequate provision has been made for all overdue interest.

23.18. ***Reconciliation of Branch Accounts :-*** The auditor should see that the accounts of all the branches in the District with the principal office in the District are reconciled. The statements of accounts received from the branches should be compared with their ledger accounts and the closing balances reconciled. The reconciliation statement should be carefully checked and if there are any long-standing items, which are yet to be reconciled, enquiries should be made.

23.19. ***Agreement of ledger balances :-*** It should be seen that all personal ledger balances agree with the balances in the respective accounts in the general ledger. In particular, it should be seen that balances in accounts such as loans, advance recoveries, suspense, deposits etc., agree with the totals of the list of such accounts. Since the loan accounts are maintained according to rates of interest and also according to purposes, the number of loan accounts in each branch or sub-office are likely to be very large and agreement of the loan balances sometimes becomes very difficult. However, it should be seen that the bank maintains a number of control accounts in the general ledger or subsidiary ledgers which would facilitate agreement of the ledger balances . If there are any differences, efforts should be made to trace them, and if they are not traced, the bank should be asked to take special steps to locate the differences. Special mention should also be made of the existence of differences in ledger balances.

23.20. ***Agreement of Apex Bank's Accounts :-*** The statement of accounts received from the Apex Bank should be exhaustively checked and the balances at the close of the year reconciled. Long standing items, in particular, disbursements made for which no reimbursement or only partial reimbursements have been obtained should be enquired into.

23.21. ***Audit classification :-*** Instruction of the NABARD contained in its circular No. NB.DOs.HO. HYD./POL/ J.1/7109/97-98 Circular No. DOS./RCS/ 04/ 97-98 should be noted, while awarding audit classification for the Apex /District Agricultural and Rural Multipurpose Development Bank.

CHAPTER No. 24

PRIMARY AGRICULTURAL CREDIT / MULTI-PURPOSE / SEVA SOCIETIES. (INCLUDING ADIWASI VIKAS SEVA SOCIETIES)

24.1. ***Membership :-*** The area of operation of the society should be ascertained from the byelaws and it should be seen that all the members are residents of village or villages forming area of operation of the society.

24.2. ***Funds :-*** Although the primary objects of these societies is to provide loans for agricultural production, the thrift aspect of the functioning of the society needs to be seen by insisting that each borrowing member of the society shall make additional share contributions every time he borrows, until the total shares held by him reach the prescribed limit. Thereafter also, special deposits in lieu of shares are collected. This aspect of the functioning of the society has to be examined carefully during the course of audit.

24.3. ***Government Share Capital Contribution :-*** Primary agricultural credit societies fulfilling certain conditions prescribed by Government are entitled to receive share capital contribution from Government. Government contributes to the share capital through the District Central Co-operative Bank. The terms and conditions governing share capital contribution by Government have been contained in Government Resolution, Industrial and Co-operation Department, No. *MISC. 323555/27741-COP-I, dated 13-6-58*, which should be carefully studied by the auditors. Although there is no ceiling on the amount to be contributed, the Reserve Bank, which provides funds for the purpose, has laid down that the contribution should be on a matching basis subject to a ceiling of Rs.10,000/-. Government is entitled to receive dividend on the shares held by it like any other share holder and the amount of dividend due to Government has to be paid into the District Central Co-operative Bank, in whose name the share certificates are required to be issued.

The central Bank through which the Government share-capital contribution has been received has the right to nominate one representative on the managing committee of the society. Paragraph 12 of the terms and conditions lays down that this nominee shall have the right of appeal to Government through the Registrar in cases where he considers any resolution adopted by the board in spite of his advice is likely to be injurious to the interests of Government.

Every society receiving share-capital contribution from Government is required to create and maintain a Share Capital Redemption Fund and to contribute to it every year for the period for which it has been sanctioned. The amount of share-capital Redemption Fund is required to be invested outside the business of the society.

24.4. ***Assets Register :-*** Every agricultural credit society is required to maintain an Assets Register of its members showing particulars of lands held by each member. This register is written up on the basis of information available from the village revenue records for which purpose all members are required to furnish necessary extracts pertaining to the lands held by them, showing survey numbers, area, assessment and other particulars. These documents should have been properly filed. The assets Register would also show whether the lands are dry or irrigated, source of irrigation (whether well or canal) and crops grown. The Assets Register is required to be verified every three years from the village revenue records. The date on which the Assets register was last verified and the officer who verified it (usually the Inspector of the Bank) should be noted.

24.5. ***Crop Loans :-*** Primary Agricultural Credit Societies advance only short-term loans for seasonal agricultural purposes and medium term loans for land improvement and other purposes. The Registrar under his Order No. BNK. 110/FIN, dated 8-9-64, has laid down detailed procedure for grant of crop finance to members of agricultural credit societies. In this order, the essential features of the crop loan system through the integrated credit structure evolved for Maharashtra State have been explained in detail and in order to bring about uniformity in the entire State, in the pursuit of procedural matters, detailed instructions have been issued. The procedure laid down by the Registrar in the said circular is based on the recommendations of the Reserve Bank of India.

24.6. ***Annual Field Worker's Conference :-*** Every year, before the commencement of the recovery season, a Field Workers Conference is required to be convened by the District Co-operative Board and the District Central Co-operative Bank. Besides representatives of agricultural primaries, representatives of other important institutions such as the marketing societies, processing societies, industrial societies, etc. are also invited. The directors of the Bank and officers of the Co-operative and Agricultural Departments and the Zilla Parishad also attend these conferences. In this conference, all policy matters relating to recovery of dues and provision of fresh finance to members of agricultural credit societies and also scales of finance for all the important crops grown in the district are determined and suitable recommendations are made to the Central Bank. The recommendations are considered by the Directors of the Bank and the policy regarding crop finance is announced by the Bank by about the end of October or beginning of November every year.

24.7. ***Normal Credit Statement :-***These are required to be prepared every third year. They form the basis not only for the loans to be advanced to individual members of the society, but also for fixing the maximum credit for the society as whole by the Bank. Normally, only one statement is prepared covering both *kharif* and *rabbi* crops. However, supplementary statements based on the actual crops to be grown are accepted by the bank in special cases. Normal Credit Statements are prepared on the basis of crop loan requirements of individual members communicated to the society by way of written applications in the prescribed forms or ascertained by the committee by making oral enquiries with each member. While approving the demands of individual members, the committee is required to see that they are based on actual cultivation needs and are in accordance with the policy announced by the bank and the scales approved by it. Where demands to the full extent are sanctioned, it should be seen that the standard of production is not less than the average prescribed and the members concerned have complied with all the terms and conditions governing grant of crop finance, including sale of produce through the marketing society. The Normal Credit Statement complete in all respects is required to be submitted by the society to the District Central Bank, through the Inspector and Divisional Officer of the bank before 15th December. The statements when received by the bank are scrutinized by its inspectors who will make such further inquiries or verification as may be considered necessary. They are required to visit the villages and scrutinize the statements in consultation with the committee members of the society. Qualitative and quantitative checks to be applied by the bank's staff are to be fixed by the bank in consultation with the District Deputy Registrar. After scrutiny by the staff, the Board of Directors of the bank passes final orders by about the end of February, so that actual financing of members may commence form 1st April.

24.8. ***Loans to members :-*** Loans to individual members will be based on the loan limits fixed for them in the Normal Credit Statement. Maximum limits for individual members and total limits for different types of loans are generally fixed in the byelaws. The Auditor has to see that the maximum limits fixed under the byelaws are not exceeded without proper sanction. Loans in excess of twice the limits specified are required to be sanctioned both by the bank and the registering authority while loans up to twice the limits are required to be approved by the bank, as per provisions contained is sub-rule (2) of rule 43 of the Maharashtra Co-operative Societies Rules.

The auditor has also to examine the loaning policy of the society as per policy laid down by the Department. At least 20 per cent of the total loans advanced, should have been sanctioned to weak and marginal farmers.

24.9. ***Disbursement of loans :-*** The procedure for drawal of amounts from the maximum credit sanctioned to the society has been explained in detail in the section relating to the audit of Central Co-operative Banks. Every time a drawal is made, an application or Demand Statement has to be submitted to the bank. The auditor should see that necessary resolutions regarding grant of fresh loans to borrowing members who have repaid their dues and applications to bank for permission to draw the amounts are passed by the committee. The resolutions should be clear and specific and should contain all particulars, such as name of member, amount of loan sanctioned, names of sureties or particulars of lands declared under section 48 of the M.C.S.Act, etc. Where the crop loan system has been adopted, the amounts of loans sanctioned are required to be disbursed in installments in cash and in kind, the kind portions first

and then the cash portion. The kind portion, which is mainly required for purchase of fertilizers, insecticides, etc., is disbursed through the marketing society or other agency, which stocks them. The amount is paid direct to the marketing society. The cash portion is disbursed subsequently, but a loan-bond for the full amount is obtained at the time of disbursement of first installment and subsequent disbursements are made against separate acknowledgments, popularly termed as "D" receipts. The Reserve Bank / NABARD has subsequently relaxed the condition for disbursement of kind portion, and it can be disbursed now in cash also, as per the choice of the farmer, where ever they want to purchase the required fertilizer or pesticides etc.

The Registrar in his order mentioned above has directed that loans for different crops should be disbursed at the appropriate time for carrying out the agricultural operations and loans thus made should be made repayable on the harvesting of crops, but not later than twelve months from the date of advance for all the crops including late maturing crops. Loans made for growing kharif crops are accordingly made repayable before 31st March and those rabbi crops, before 31st May every year irrespective of the dates on which they have been advanced.

24.10. ***Kisan Credit Cards :-*** The NABARD has issued various instructions for simplification of disbursement of loans and has introduced the Kisan Credit Cards system for the same purpose.The eligible member who complies with the conditions of this scheme is issued a credit card by the Society. The borrower member's credit limit is entered in the card by the branch of the DCC bank, as per normal credit statement sanctioned by the bank. The borrower member is allowed to draw to the extent of his limit, as and when it is required by him for growing the crops as per his land records and information supplied and applied by him for crop purposes. Detailed procedure has been explained in DCC banks chapter.

24.11. ***Loan Account :-*** The proceeds of drawals sanctioned against the maximum credit limit sanctioned to the society is disbursed by crediting it to the saving account of the borrower. As regards disbursement of loans in kind, cheques are issued in favour of the dealer or marketing society, which stocks fertilizers and pesticides, on receipt of bills from them. In some of the societies, a cheque for the full amount of the kind portion of the loan sanctioned to the member is drawn in favour of the marketing society or dealer after receipt of bills or invoices in the name of the borrower member, with advice to the bank for crediting the proceeds to the dealers account. If the value of the stocks supplied is more than the amount of the cheque, the member concerned has to pay cash.

Loan-bonds executed by members should be scrutinized carefully. It should be seen that they are complete in all respects and no blanks are left. They should also have been properly witnessed. Where sureties are taken, it should be seen that signatures of the sureties are taken at the spaces provided there for the purpose and properly witnessed. All thumb-impressions should have been properly transcribed and attested.

24.12. ***Supervision over Utilization of Loans :-*** The managing committee and the secretary are expected to keep a watch over the utilization of the loans sanctioned. Societies are expected to submit utilization certificates to the bank within a fortnight from the date of drawal of the amounts from the bank in the form prescribed by the bank. In case of cash crops, societies are expected to maintain crop registers, showing particular of crops grown by the members, are under different crops, loan sanctioned, etc.

Under Rule 46 (1), the committee has power to recall any loan sanctioned by it when it is satisfied that the loan has not been utilized for the purpose for which it was sanctioned. The auditor during the course of his audit should ascertain whether there is any case of mis-utilisation of loans and if so, what action has been taken by the committee. Such enquiry is particularly necessary in case of loans advanced for growing cash crops. The Crop Register maintained by the society should be examined carefully.

24.13. ***Security for Loans :-*** Creation of charge on lands under the scheme of crop finance, the security for loans has shifted from lands to the crops to be grown on the lands and the emphasis now is on the production-worthiness of the purpose of the loan rather than the credit-worthiness of the borrower or the adequacy or otherwise of the security offered. However, in order to ensure that the borrowing members do not create any encumbrances on the lands held by them, thus impairing the security available to the society, section 48 of the Act provides that all borrowing members of agricultural credit, multipurpose

and seva societies should furnish declarations in respect of lands held by them either as owners or as tenants. The form in which such declaration is to be furnished has been prescribed under Rule 48 (Form "L"). The declarations executed by the members create a charge on the lands held by them in favour of the society. The charges created under these declarations are also required to be entered in the village revenue records by the talathi/ patwari, or other village officer, who is also required to record his certificate for having done so below the declaration in the space provided for the same. Where such a certificate has not been recorded by the talathi/ patwari, it would mean that the relative entry creating charge on the loans in favour of the society has not been made in the village revenue records. The auditor during the course of examination of the declarations should see that the certificates have been duly signed by the talathi/ patwari.

The society is also required to maintain a "Register of Declarations" under section 48 in form "M" prescribed under the rules. While comparing entries in the Registrar, auditors should satisfy themselves that all the requirements of section 48 and rule 47 have been duly fulfilled.

24.14. ***Declaration of membership of other societies :-*** It is also likely that some of the members of agricultural credit societies are also members of other co-operative institutions dispensing credit. Such members are required to furnish declarations specifying the names of the societies of which they are members and the name of the society from which alone they would borrow. It should be seen that declarations, which are required to be in form "K" prescribed under rule 45 of the Maharashtra Co-operative Societies Rules have been obtained from all members who are members of more than one credit society, other than District Central Banks and the Agricultural and Rural Multipurpose Development Banks.

24.15. ***Personal Surities :-*** Where the security available under the charge created is not adequate, *i.e.* where the value of the lands declared is less than double the amount of the loan sanctioned or where the lands declared are not owned by the member, but held by him as tenant, personal sureties have to be furnished. Generally, two sureties, the value of the lands held by whom exceeds the aggregate amount of loans sanctioned to them as surety are required to be furnished. The society should also maintain a Surety Liability Register showing particulars of amount borrowed and liability incurred as surety by each member. This register should be inspected during the course of audit and it should be seen that the liability incurred by any member does not exceed his credit-worthiness.

24.16. ***Repayment of Loans and Provision of Fresh finance :-*** The Reserve Bank in its Manual on Crop Finance has recommended that there should be a time lag of at least a 7days between the date of recovery of the previous loan and disbursement of new loan to the member. However, in most of the banks, a time lag of only seven days or even less is insisted upon. Whatever the policy adopted by the bank, it should be seen that the prescribed time lag is allowed to pass before fresh loans are given to members. All repayment of loans made by members should first be credited into bank in tact and no portion of the recoveries effected should be retained on hand or disbursed as loans to been drawn from bank or in other words all disbursements should have been made by cheques drawn against current account of the society to which the amounts sanctioned by the bank are credited or concerned loan account. It has also to be noted that according to provisions of rule 107-C of the Maharashtra Co-operative Societies Rules, all cash in excess of Rs. 10000/- is required to be paid into bank within three days from the date of receipt of the amount. As already stated all disbursement of loans should be made by cheques drawn in favour of the borrower and the cheques should be en-cashed by the payees themselves and not collected by the Chairman or the Secretary and presented in one lot to the bank for payment. Rule 107D provides that, all payments by or on behalf of a society shall be made only by means of crossed cheques drawn on a bank subject to provisions of the Income Tax Act, 1961.

24.17. ***Recovery of loans :-*** Loans advanced for growing different crops should be recovered immediately after the harvesting of the crops by insisting on the sale of the produce through the co-operative marketing society, although dates fixed for repayment may be further off. Extensions may be granted to borrowing members only if their inability to repay the loan is due to failure of crops or other circumstances beyond the control of the borrower. Extensions should be granted on the basis of specific

application of the members and after necessary enquiries are made by the committee into the circumstances of the default. Where the loan has been granted against sureties, consent of the sureties for granting the extension should be obtained. Ordinarily, no extension should be granted in areas where no remission or suspension of land revenue has been officially granted. In any case, extensions should only be granted with the concurrence of the bank. In all cases of willful default, immediate action should be taken by resort to coercive measures such as applying for certificate under section 101 or instituting arbitration proceedings. As far as possible, members should be encouraged to repay their loans through the marketing society by offering some inducement such as sanction of finance at slightly higher scale, increase of credit limit, etc. A register of members, who have sold their produce through the marketing society and a paid their dues through the marketing society and the amount recovered from them should be noted. As regards agricultural commodities coming within the purview of the monopoly procurement scheme evolved by the State Government, the society should furnish lists of its borrowing members together with the amounts due from them to the sub-agent of the Marketing Federation or Maharashtra Cotton Growers Federation, with a request to deduct the dues of the society at the time of making payment to the grower.

24.18. ***Interest Calculations :-*** Interest calculations in at least fifteen percent accounts of the total accounts but not less than fifty accounts should be checked as per circular instructions issued by the Registrar. If mistakes are noticed in more than 50 accounts, a more exhaustive checking should be carried out. Interest calculations should be checked in all accounts in which the principal exceeds Rs. 100000/- or interest has been outstanding for more than two years.

Only interest actually received should be taken to profits. Agricultural credit societies do not ordinarily take into account unrealized interest (*i.e.* interest which is not received in cash) while calculating net profit. Since no overdue interest is included in income, the question of making provision for overdue interest does not arise. Where, however, interest accrued but not recovered is taken into account, it should be seen that such overdue interest is excluded from profits or necessary provision is made therefore, as per Section 65 and rule 49A and prudential norms prescribed by the NABARD to Primary Agricultural Societies. It should be seen that the societies calculate interest on regular and overdue accounts up to the close of the year and mention the same in the loan ledgers.

24.19. ***Advances against Agricultural Produce :-*** Where advance are made against pledge of agricultural produce, it should be seen that necessary provision for undertaking such business is contained in the byelaws. The amount advanced should not generally exceed sixty per cent of the market value of the produce pledged. Such advances are ordinarily repayable within six months from the date of advance, which may in exceptional cases be raised to nine months. Arrangements for the storage of the produce and its insurance should be seen. Where the goods are not storage of the produce by the society or in godowns hired by it, there is considerable risk of the security vanishing in as much as the borrower has ample opportunity of disposing of the produce stored only in the godowns owned or hired by the society and the keys remain with the society. The produce should also be insured against fire. It should also be seen that the proceeds of pledge loan sanctioned are applied to repayment of crop finance.

24.20. ***Examination of over dues :-*** Under sub-section (2) of section 81, examination of overdues has been made a special responsibility of the auditor. A list of all over dues should be prepared in the form prescribed by the NABARD in its prudential norms circular and checked by the auditor. Action taken for recovery of overdues should be noted and if the management has failed to take coercive measures against recalcitrant defaulters, members of the committee should be apprised of the consequences of their inaction and of their responsibility in the matter.

24.21. ***Classification of over dues :-*** All over dues are required to be classified in accordance with the instructions of the NABARD, contained in its prudential norms circular No.NB/DOS 23rd July 2009. It should be noted that even more important than the classification of overdue debts is the advice that the auditor should tender regarding proper treatment thereof. Where outstanding debts are considered good and the default is deliberate, the society should be advised to take coercive measures immediately. It is always necessary to make very searching inquiries as to the causes that might have led to the fall in the

repaying capacity of the borrowers and if defaults are due to reasons beyond the control of the borrowers, grant of extensions in accordance with the provisions contained in the byelaws may be considered. However, where the default is due to reasons other than the inability of the borrower, more searching inquiries should be made in order to be satisfied that there were no irregularities in the sanctioning or disbursement of the loans.

24.22. ***Prudential Norms for Primary Agricultural Societies :-*** Nabard has vide its circular dated 23/07/2009, specified prudential norms of Income Recognition, Asset Classification & Provisioning. Auditor should refer this circular and see whether the society has complied with the norms specified in this circular.

24.23. ***Writing off of bad debts :-*** Rule 49 is not applicable for the Primary Co-operative Agricultural Credit Societies. These societies shall write off bad debts and losses on the approval of general body in confirmative with guidelines of Reserve Bank of India and NABARD. The auditor should see guidelines issued by RBI/ NABARD in this regard.

All pending arbitration cases and applications under section 101 made to the registering authority for issue of certificates should be checked from the Register of Arbitration Cases and Recovery Certificates. Where awards or recovery certificates have been obtained, but have not been sent for execution, reasons for the same should be ascertained.

24.24. ***Verification of Members' Accounts and checking of Pass Books issued to members :-*** All the members of the society should be requested to meet the auditor when he visits the society for audit, with their passbooks and other documents relating to their dealings with the society and get their accounts verified. It should be seen that passbooks are issued to all members and all their dealings with the society are entered in them from time to time. Passbooks should have been written up-to-date. Where passbooks have not been issued to members, the society should be advised to issue them immediately. In some of the bigger societies, a system of issuing quarterly or half-yearly statements of accounts is in practice. In such societies, members should be asked to attend with copies of their statements of ledger account. Personal verification of member's accounts and examination of passbooks should be conducted throughout the stay of the auditor in the village and should not be left over for being attended to after completion of the audit. By putting intelligent questions and encouraging the shy and simple members, most of whom are illiterate, to speak out, it should be possible for the auditor to unearth most frauds and other irregularities perpetrated by the office-bearers or employees of the society, taking advantage of the ignorance and trusting nature of the members. A list of members whose accounts have been verified should be prepared and signatures of the members verified should be obtained against their names in token of their acceptance of correctness of the balance shown against their names. A members' verification Register should be maintained by the societies in the form prescribed by the Registrar in his Circular No. ADT/243, dated 9-5-1972. This Register should be examined and a note needs to be made of the members whose accounts have not been verified during the last three years. Instructions issued by the Registrar in his above cited circular should be carefully noted. Enquires should be made as to why accounts of certain members could not be verified during the last three years.

24.25. ***Audit Classification :-*** A system of awarding audit classification on the basis of marks secured according to the extent of fulfillment of the various criteria laid down has to be adopted for awarding audit classification to agricultural credit, multi-purpose and seva societies. Instructions contained in Registrar's/ NABARDs Circular should be followed.

24.26. ***Medium Term Loans :-*** Medium term loans are repayable within a period of three to five years and are sanctioned for the following purposes:

a. Purchase of Bullock cart
b. Purchase of milch cattle.
c. Purchase of oil engines, electric motors and pumping sets.
d. Purchase of iron ploughs, disc harrows, power operated sprayers and other agricultural equipment.
e. Purchase of tractors, trailers, trucks, etc.
f. Repairs of wells.

Medium term loans are also sanctioned to members of agricultural credit societies for purchase of shares of processing societies, subject to the condition that the member contributes a certain percentage of the value of the shares from out of his own resources.

Medium term loans are sanctioned for the above purposes after a careful appraisal of the repaying capacity of the borrower, which is ordinarily taken as one-sixth of his annual income. As regards security for the loan exceeding Rs.1,500/- for milch cattle or agricultural or other machinery purchased, etc., they are required to be mortgaged to the society.

24.27. ***Conversion of short term loans into medium term loans :-*** In accordance with the provisions of their byelaws, the Apex Bank and the District Central Co-operative Banks are required to create and maintain a *"Credit Stabilization Fund".* The object of constitution of the Credit Stabilization Fund is to facilitate the installment of medium term loans in circumstances in which total or partial failure of crops resulting from natural calamities renders the repayment of such short term loans or installments of medium term loans impossible without hardship to individual agriculturists.

Rules for the establishment and use of the Agricultural Stabilization Fund at the Apex and District Central Banks' level are appended to Government Resolution, Agriculture and Co-operation Department, No. CCR. 1869/22948-C-1, dated 17 February 1971 as amended by Government Resolution of even number dated 9th December 1971. They lay down the manner in which the fund is to be constituted, its objects and the procedure for conversion of short-term loans into medium term loans. The auditors should carefully study these rules.

Clause (f) of the above mentioned rules provides that the fund has to be utilized firstly for the conversion of short term loans in the case of borrowers coming from those areas where the crops for which the loans were taken have failed and where the crop yield has been declared below 50 paisa (anewari) . The procedure for determining the circumstances justifying the use of the fund and the terms and conditions of operations have been laid down in rule 5 of the rules. According to the procedure laid down, applications are required to be taken from individual members of the society expressing their inability to repay the loans. The society in turn has to inform the District Central Bank giving all particulars regarding the number of applications received, amounts involved, etc., as prescribed by the District Central Bank. The society is also required to make an application requesting conversion of short term loans into medium term loans and conversion facilities to the installment of medium term loans, accompanied by a resolution of its managing committee. Only on the advice of the Bank in writing that the conversion has been granted, the primary society will proceed to take further action. As regards security for the loans so converted, the Reserve Bank in its Letter No. ACD. Plan. 3172/PR. 26 (Mah.)-70-71, dated 5-4-71 has permitted societies to obtain a "Charge" instead to "mortgage" in respect of short term loans converted into medium term loans exceeding Rs. 1,500/- provided it is ensured that the charge is properly registered in the village records. The society is required to furnish a certificate to that effect to the Bank and to permit it to allow conversions against declarations creating charges on their lands already obtained from the borrowing member and registered in the village revenue records. The ultimate borrowers, *i.e.* members of the primary agricultural credit societies are also required to furnish fresh loan bonds or promissory notes in favour of the society which shall correspond to the plan of repayment of medium term loans or converted medium term loans as the case may be and such undertakings in regard to the sale of their produce through the co-operative marketing society specified by the society. The conditions may, however, be dispensed with in special cases.

24.28. ***Accounting of conversion transactions :-*** The short-term loan accounts or the installments of term loans should be credited with the amounts of the principal due, by a corresponding debit to medium term loan accounts or medium term conversion accounts to be newly opened. All recoveries in respect of such medium term loans thus advanced for conversion loans shall be straightway credited to their respective loan accounts. All sums received by way of repayment of converted medium term loans and medium term conversion loans are required to be remitted to the bank without any delay. Separate accounts are also required to be maintained in respect of such converted medium term loans so as to distinguish them from the other loans received by the society.

24.29 *Other Activities run by PACS :-*

Other activities like purchase and sale of fertilizers, pesticides, agricultural implements, seeds, food grains, kerosene etc. or society is running businesses like cloth store, fair price shop, petrol pump, medical etc. or any other service activities are carried out by some PACS.

In such cases auditors should examine special features of each activity, and prepare audit programme, check list and questionnaire accordingly for audit of books of accounts of such activities.

24.30. *Common Accounting System :-*

1. OBJECTS : Under program of Implementation of Revival Package for STCCS , NABARD has issued guidelines on common accounting system. The Nabard has issued Circulars bearing Nos. DCRR/ CAS/ 2007-08 dated 18/5/2007 and No. 83/ DCRR04-05/2007 dated 4/6/2007 on the procedural aspects of common accounting system. In it, it has explained objects of this system as follows :-

(i) Applicability of universally accepted basic concepts and principles.
(ii) Adoption of standard financial statements, *viz.*, Balance Sheet, P&L A/c. and Trading A/c.
(iii) List of a common set of General Ledger Heads of Account compatible with financial statements; and
(iv) Maintenance of minimum essential and Standard Books of Accounts.

Accounting system is defined in it as- "An accounting system is a series of tasks in an entity by which transactions are processed as a means of maintaining financial records. Such a system should recognize, calculate, classify, post, analyze, summarize and report transactions."

2. FUNDAMENTAL ACCOUNTING ASSUMPTIONS :-

The circulars have explained fundamental accounting assumptions in regard to PACs as -

a) ***GOING CONCERN***- The society is viewed as a business concern that will continue its operations in the foreseeable future. This implies that the entity does not intend to, nor will it be necessary to, materially curtail the scale of its operations or be liquidated in the foreseeable future.

b) ***CONSISTENCY*** - It is assumed that the accounting policies adopted are consistent from one period to another.

c) ***ACCRUAL*** - Revenues and costs are recognized as they are earned or incurred and not as money is received or paid, and are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

If any of the accounting assumptions do not hold well in the preparation of the financial statements, the same must be specifically disclosed.

3. NON-CREDIT BUSINESS :- of the PACS has beeb divided into five broad groups-

(i) Agricultural inputs;
(ii) PDS commodities;
(iii) Non-PDS consumer items;
(iv) Foodgrains and other commodities under Govt. Procurement Schemes; and
(v) Socially relevant schemes like Mid-day Meal Scheme.

The intention of group as above is to exhibit a true and fair picture of the profitability and financial position of the business.

4. DOUBLE ENTRY SYSTEM - RULE :- Every debit must have a corresponding credit and *vice versa*. This rule helps to check the arithmetical accuracy of records by preparing the 'trial balance' statement.

5. **RULES FOR RECORDING TRANSACTIONS -** The two elements of every transaction must be grouped under **three types of accounts** and each type of account has its rules for recording the debit and the credit aspect of the transaction.

The two **principal types of accounts** are (i) **Personal Accounts** and (ii) **Impersonal Accounts**.

Impersonal Accounts are sub-divided into a) **Real or Asset Accounts** and b) **Nominal Accounts.**

Personal Account contains a record of transactions with a **'person'** that could be an individual, group, society, bank etc.

Real Accounts are accounts of properties or assets and contain a record of purchases and sales of the properties or assets, like land, building, goods, cash etc.

Nominal accounts are accounts of expenditure and income and record gains and losses. The accounting rules to be followed for the three types of accounts are :

Type of Account	Rules of entry	
	Debit	Credit
Personal	Receiver	Giver
Real	What comes in	What goes out
Nominal	Expenses and losses	Incomes and gains

6. Fundamental principles of accounting

Accounting Principles that have been explained in these circulars are -

a) All transactions to have debit and credit vouchers of equal amount.
b) Distinctions between capital expenditure and revenue expenditure and capital receipts and revenue receipts.
c) Financial statements must be prepared on historical cost basis and should conform to statutory provisions and practices.
d) Investments must be valued at the lower of cost or market value.
e) Book debts must be valued only at the realizable amounts and in accordance with regulatory norms/ guidelines.
f) Expenditure and income to be treated on accrual basis.
g) Provisions for doubtful advances must be made to the satisfaction of the auditors and in accordance with guidelines issued by the regulatory authority.
h) Unsold stock at the end of the year should be brought into accounts and valued on a recognized basis that is consistently being followed in the organization.
i) Premises and other fixed assets must be accounted for at historical cost.
j) Depreciation should be provided for on depreciable assets on straight line or diminishing balance method, on a consistent basis.
k) Provisions for gratuity and provident fund benefits to staff are to be made on accrual basis. Separate funds for gratuity and provident fund are to be created and should not be mixed with the funds of the PACS.
l) A clear demarcation to be made in regard to provisions and contingencies on the one side and reserves on the other. While provisions and contingencies are to be made from P&L Account, statutory and other reserves are made out of appropriation of profits.
m) The net profit disclosed in the Profit and Loss account must be computed after provision for standard loans, bad and doubtful debts, provision for overdue interest, depreciation/ erosion in the value of securities and other assets, transfers to contingency funds and other usual or necessary provisions.

7. Financial Statements : **A)** Financial Statements of PACS would include the following statements :

(i) Trial Balance
(ii) Trading Account
(iii) Profit & Loss Account; and Appropriation of Profits.
(iv) Balance Sheet

B) OBJECTIVE of exhibiting truly and fairly the profitability and the financial position of the entity.

C) Annual Closing of Accounts - Ledger accounts of Real and Personal accounts are to be closed at the end of the year and the closing balances carried forward to the next year as opening balances. Balances in Nominal accounts are to be closed by transfer to the profit and loss account.

D) Periodicity for Financial Statements - The trial balance, trading account and profit and loss account may be prepared on a monthly basis while the balance sheet may be prepared on a yearly basis.

E) Chart of Accounts Suggested for Pacs

1) ensure uniformity and common understanding of accounts;
2) guide in the installation of accounting and internal control systems;
3) enhance transparency; and
4) Facilitate the analysis and evaluation of financial and management performance, monitoring, supervision and business linkages.

F) Books of Account

The books of account maintained by PACS are a means to facilitate proper recording of all transactions in conformity with the accounting principles and policies followed by PACS.

- Share Capital Ledger
- Membership Register
- Deposits

Main books to be maintained for deposits are-.

(i) Savings Account Ledger
(ii) Fixed Deposit Ledger
(iii) Recurring Deposit Ledger
(iv) Reinvestment Deposit Ledger
(v) Accounts Opened and Closed Register
(vi) Due date register

- **BORROWINGS -** Highlights for maintaining the Borrowing Ledger:

i. Separate folios must be allotted for recording loans based on the type and purpose of loan, *e.g.* short term agricultural, medium term, medium term conversion, Gold loan etc.
ii. Allotment of separate folios for different interest rates under the same type of loan would facilitate computation of cost of borrowings.
iii. Repayments must be adjusted against borrowings in the order of due dates.
iv. The format provides for several loan numbers to be recorded in a single folio for the same type of borrowing with the same interest rate from an institution.

a. Cash and Bank Balances – Cash balance should tally with the balance as shown by cash book. Auditor should verify cash surprisely. He should preferaly check opening cash balance.

Bank balance as shown by society should tally with the balance as shown by bank passbook or statement of account. If there is difference, he should check reconciliation statement.

b. Cash Book – Cash book for PACS should be in a format as given by Nabard vide its guidelines on Common Accounting System for PACS. It should show opening balance, cash receipts during the day, cash payments during the day and closing cash balance.

Cash book should also show denomination of cash balance.

c. Investments

Important aspects in recording and accounting for investments :

(i) Investments must be properly classified and grouped according to type, investee institution, term, interest rate and recorded in separate folios.
(ii) Periodical interest / dividend due must be collected as per due dates and accounted for a separate due date register must be maintained for the purpose.
(iii) Where investments are lodged as security with lending institutions, certificates of confirmation for the investments lodged must be obtained every year from the institution concerned.

(iv) Physical verification of securities must be carried out annually and on a surprise basis.

i. Investment Ledger
ii. Loans and Advances
iii. Short Term Loan Ledger
iv. Produce Pledge
v. Gold Loans
vi. Medium Term/Long Term Disbursement Cum Loan Ledger
vii. Furniture, Fittings, Office Equipment and Other Moveable Assets Register
viii. Depreciation Chart
ix. Sundry Debtors Ledger
x. Sundry Creditors Ledger
xi. Safe Deposit Locker Operation
xii. Safe Deposit Locker Operation Register
xiii. Insurance Policy Register
xiv. Minutes Book

9. Non Credit Activities : **Non credit activities of PACS - groupings :**

a. Trading of Agricultural Inputs.
b. Trading of Public Distribution System (PDS) items.
c. Trading of Non-PDS consumer items.
d. Business under Government Procurement Scheme, and
e. Business under Socially relevant programs such as Mid-day Meals Program.

1. Sales Register (for non-credit activity)
2. Stock Register
3. Day Book
4. Bank Book (Accounts Maintained with DCCB/ Other Banks)
5. General Ledger
6. Monthly Interest Payment Register (Fd)
7. Accounts Opened and Closed Register
8. Gold Stock Register
9. Maturity Register for Term, Recurring and Reinvestment Deposits Quarterly*
10. Register for Acknowledgement of Debt

a. Trial Balance
b. Trading Account
c. Profit and Loss Account
d. Appropriation of Profits
e. Format of Balance Sheet

Trading Accounts – For Different Non-Credit Activities – Summary Position thereof

To be maintained as Register (will not form part of Financial Statements)

10. Steps for Preparation of Financial Statements

A) Steps

(i) Close the cash/day book and verify and **tally** the cash balance physically.

(ii) Reconcile balances with DCCB/SCB and other Banks in deposit accounts as per bank book / General Ledger with the balance confirmed by them (through Balance Confirmation Certificates) by **preparing Bank Reconciliation statements**.

(iii) Pass accounting entries for "**Interest accrued" on Loans and advances (both overdue as well as non-overdue amount)** as also "**Income accrued" on investments** up to the close of the year (31st March).

(iv) Pass accounting entries for **"Interest accrued but not due"** (interest payable) on deposits and borrowings.

(v) Make provisions for all administrative expenses, audit fees, etc. **which are due but not paid** up to 31st March.

(vi) Ensure that all the investment receipts and share certificates are in agreement with the investments shown in the books of account.

(vii) In case there is depreciation in the value of investment, necessary provision for the same should be made.

(viii) In case the PACS is engaged in non-credit activity (PDS, Non-PDS etc.) closing stock should be **physically verified** by the Auditor of PACS. On verification, actual stock should be compared with the stock as per stock register. The deficit, if any, should be brought to the notice of management for taking corrective action. Closing stock should be valued **on the basis of cost or market price whichever is less**. Damaged or degraded stock should be valued at realizable price.

(ix) In the books, entries for accounting closing stock of all the items should be passed with reference **to actual stock** and **not stock as per stock register** after **physically verifying** the stock.

(x) Make provision for Non-Performing Assets by assessing performance of each loan account. Accounts which have become NPAs **as per prudential norms**, should be considered for making provision. Provision for standard assets should be made as per norms.

(xi) Make provision for **overdue interest on Loans** and **Investments** for the year.

(xii) Verify the entire fixed asset **physically** and ensure that there is no shortage of assets vis-à-vis assets as per dead stock register. Further, also ensure that no damage to the asset has been caused to the extent that the asset has become unusable. If it has, the asset should be **written off**.

(xiii) Prepare depreciation chart indicating all fixed asset and make entries for depreciation on fixed assets. The depreciation in value of fixed assets for the year **should match** with the amount debited to P & L Account. The written down value (WDV)/straight line method (SLM)at the year end should match and reflect in the Balance sheet.

(xiv) In case assets are purchased out of grant assistance received from / State Govt. NABARD, depreciation on those assets should be shown as utilization by debiting the respective grant account and crediting Depreciation Account.

(xv) Ensure that Share Register is **totalled and balanced**. Total of member-wise share capital should tally with the share capital as per the General Ledger balance.

(xvi) In respect of Borrowings, Balance Confirmation Certificate should be obtained from the respective institutions / lenders and balances under borrowing accounts as per General Ledger should be **reconciled / tallied** with the balance confirmed.

(xvii) All deposit accounts should be **balanced** and summary of depositor wise balance outstanding under each type of deposits should be prepared. The total of outstanding balances of all depositors under respective type of deposits **should be tallied** with the balance in each deposit account as per General Ledger.

(xviii) If there are more than one branch, inter-branch entries should be reconciled by each branch and the net of such balance should be taken to the balance sheet.

B) Preparation of trial balance - Trial balance incorporating all the account heads as per the list prescribed in the Annexure VII should be prepared.

C) Preparation of Trading Account, Profit and Loss Account & Balance Sheet - Once trial balance is tallied, all items related to trading A/c. (purchases, sales, Sales Return, Expenses related to trading and stock) in respect of all non-credit trading activities should be posted to Trading Account

All Non Trading expenses, depreciations and provisions for bad and doubtful debts, depreciation in the value of assets and overdue interest etc. should be posted to Profit and Loss Account on "expenditure" side.

All the income (interest on loans and advances, income from investments and other revenue receipts) should be posted to "Income" side of Profit and Loss account.

All the assets and liabilities should be carried / posted to Balance Sheet. All the financial statements should be prepared in the formats specified by NABARD.

Profit and Loss Account should be closed and net profit or loss for the year should be ascertained.

If there is a net profit, the same should be carried forward to P & L appropriation account. In case of loss, the same should be carried to balance sheet.

D) Balance Sheet should be prepared as per the format suggested in Annexure IV. Total of "Assets" and "Liabilities" should be tallied :- No additional General Ledger Heads of Accounts to be opened other than the ones prescribed in Annexure VII. However, subsidiary general ledger heads could be prepared for more details upto two more stages for eliciting more information under computerised environments.

E) Explanatory Note to the Financial Statements of PACS

(i) Capital Reserve :– Capital Reserve may arise on account of the following :

- Profit on sale of capital asset.
- Amount received against the forfeiture of shares.
- Govt. grant received in the form of promoters' contribution.
- Excess of assets taken over more than the amount of liability, on acquisition of business.

(ii) Building Fund :– This fund account will be credited with :

- Subsidy received from State Government /Central Govt /Other Agencies for construction of building.
- Appropriation from profit of society to the Fund.
- Donations, if any.

(iii) Recapitalization Fund :- Fund received from Government of India and the State Government towards accumulated losses and for maintaining CRAR of 7% under the Revival Package should be included here.

(iv) Investments :- Investments net of provision should be shown in the outer column. Other items may be shown in the inner column (break-up column).

(v) Expenditure and Income - Expenses shown in Profit and Loss Account include paid and payable figures. Similarly, income shown consists of both income received and income receivable.

- Management expenses include meeting expenses of Board.

(vi) Insurance and rent of godown :- The expenses on godown rent should be debited to Trading Account of different activities in proportion to space occupied for storing the specified stock.

- Insurance of stock should be charged to Trading Account for respective activity.
- Salary of salesman/manufacturing wages, electricity and rent should be charged to the Trading Account of different activities, if the services are exclusively used for those activities.

(vii) Loans and advances :- Only net figure after deducting "provision for NPAs" should be shown in the outer column.

(viii) Closing Stock :- Shortage or deficit in stock should not be shown under this head. If any amount is recovered from the salesman for deficit in stock, the same should be credited to Trading Account.

(ix) The figure of interest accrued and receivable should be shown net of "Provisions made" in the outer column.

11. LIST OF HEADS OF ACCOUNT IN GENERAL LEDGER

CAPITAL

1. Paid up Capital – Individual
2. Paid up Capital – Government
3. Paid up Capital - Others

Reserves, Funds and Grants

1. Reserve Fund
2. Capital Reserve
3. Agriculture Credit Stabilization Fund
4. Dividend Equalization Fund
5. Building Fund
6. Common Good Fund
7. Balance in Profit and Loss Account
8. Subsidy meant for Society
9. Subsidy meant for Members
10. Recapitalization Assistance Fund – Contribution from GoI
11. Recapitalization Assistance Fund – Contribution from State Govt.
12. Provident Fund
13. Other Grants

Deposits

1. Saving Deposit
2. Recurring Deposit
3. Fixed Deposits
4. Reinvestment Deposits
5. Other Deposits

Borrowings from DCCBs/SCB

1. ST (SAO) / KCC Credit Limit
2. MT/LT Agri. Loans
3. MT Conversion
4. MT/LT Reschedulement
5. SHG Loans
6. Non Farm Sector Loans
7. Fertilizer Cash Credit Limit
8. Seeds Cash Credit Limit
9. Cash Credit Limit for Agriculture Produce
10. Cash Credit Limit for Gold Loans
11. Public Distribution Scheme CC Limit
12. Consumer Commodities CC Limit
13. Other Non Credit Activities
14. Loans against Deposits with DCCB / SCB
15. Other Borrowings from DCCB / SCB (to be specified)
16. Borrowings from State Government
17. Borrowings from Other Institutions (other than DCCB/SCB/State Govt.)

Contra Items

1. Bills for Collection (Being Bills Receivable as per Contra)

Branch Adjustment Account (Applicable to PACS that have more than one branch)

Other Liabilities

1. Interest Accrued on Deposits
2. Interest Accrued on Borrowings
3. Unclaimed Dividend
4. Sundry Creditors
5. Other Liabilities.

Provisions

1. Provision for PF / Gratuity / Bonus / Pension
2. Provision for Standard Assets

3. Provision for NPAs – Sub-Standard Assets
4. Provision for NPAs – Doubtful Assets
5. Provision for NPAs – Loss Assets
6. Overdue Interest Reserve
7. Provision for overdue interest on investments
8. Provision for outstanding Expenses
9. Provision for Sundry Debtors for Credit Sales
10. Provision for Sundry Debtors (Others)
11. Provision for Depreciation in the value of Investments
12. Other Provisions

Assets

Cash and Bank Balances

1. Current Account with DCCB/SCB
2. Current Account with other banks
3. Saving Bank Account with DCCB/SCB
4. Saving Bank Account with Other Banks/Institutions

Investments

1. Government and Trustee Securities
2. Shares in Other Cooperative Institutions
3. Term Deposits with SCB / DCCB representing Reserve Fund
4. Term Deposits with DCCB / SCB (other than Reserve Fund)
5. Term Deposits with other banks
6. NSC / KVP
7. Staff PF balance with PF Trust / as deposit with Banks
8. Other Investments

Loans and Advances

1. ST (SAO) Loans / KCC Loans
2. Medium Term / Long Term Agricultural Loans
3. MT Conversion Loans
4. MT /LT Reschedulement
5. Loans against pledge of agriculture produce
6. SHG Loans
7. Non-Farm Sector Loans
8. Loans against Deposit
9. Loans for Consumer Durables
10. Gold Loans
11. Loans to Staff Members
12. Other Loans

Closing Stocks

1. Agricultural Inputs – Fertilizers
2. Agricultural Inputs – Seeds
3. Agricultural Inputs - Pesticides
4. Public Distribution System Commodities
5. Non-PDS Consumer Items
6. Food grains and other Commodities under Procurement Scheme
7. Materials under Mid-day Meals Scheme
8. Other stocks / goods / Work in Progress

Fixed Assets

1. Land and Buildings including Godowns
2. Furniture and Fixtures
3. Computers and Electrical Installations
4. Vehicles
5. Other Fixed Assets

Other Assets

1. Interest Accrued but not due on Standard Loans
2. Interest accrued but not due on NPA Loans
3. Overdue interest receivable
4. Interest receivable on Investments.
5. Tax Deducted at Source.
6. Sundry Debtors for credit sales.
7. Sundry Debtors for others
8. Deposits with Agencies/Parties
9. Prepaid Expenses
10. Misc. Income receivable.

Profit And Loss Account

A. Expenditure :

1. Interest on Deposits
2. Interest on Borrowings from DCCB / SCB
3. Interest on Loans availed from State Government
4. Interest on Borrowings from others

Establishment and Other Expenses

1. Salary and Allowances (including Contribution to PF, Bonus, Gratuity or Pension Fund)
2. Management expenses (expenditure relating to board meetings etc.)
3. Rent, Taxes, Electricity
4. Repair Costs on Premises
5. Insurance
6. Law charges
7. Postage and telephone charges
8. Printing and Stationery
9. Audit Fees
10. Vehicle expenses
11. Traveling & Conveyance expenses
12. Donations and Subscriptions
13. Depreciation on properties
14. Depreciation in value of investments
15. Other expenses
16. Provisions for Standard assets
17. Provisions for Sub standard assets
18. Provisions for Doubtful Assets (loans)
19. Provisions for Loss Assets (loans)
20. Provisions for Bad and Doubtful Debts (Others)
21. Provisions for Bad and doubtful debts (credit sales)
22. Provisions for Overdue Interest on loans
23. Provisions for Overdue interest on investments
24. Provisions for depreciation in value of investments
25. Other Provisions

Profit and Loss Account

B. Income

1 Interest on Loans and Advances
2. Dividend on Investments
3. Interest on deposits with banks/institutions.
4. Rental Income
5. Admission Fees
6. Other Miscellaneous Income (Locker Rent, Fee-based Income, Custom hiring etc.)

Trading Account

1. Purchase of Fertilizers
2. Purchase of Seeds
3. Purchase of Pesticides
4. Sale of Fertilizers
5. Sale of Seeds
6. Sale of Pesticides
7. Purchase of PDS Commodities
8. Sale of PDS Commodities
9. Purchase of Non-PDS Commodities
10. Sale of Non-PDS Commodities
11. Purchase of Food grains and other Commodities under Government Procurement Scheme
12. Sale of Food grains and other Commodities under Government Procurement Scheme
13. Purchase of Food grains and other items under Mid-day Meal Scheme
14. Sale of Food items under Mid-day Meal Scheme
15. Transport/ other expenses on Purchase of Fertilizers
16. Transport/ other expenses on Purchase of Seeds
17. Transport/ other expenses on Purchase of Pesticides
18. Transport/ other expenses on Purchase of PDS Commodities
19. Transport/ other expenses on Purchase of Non-PDS Commodities
20. Transport/ other expenses on Purchase of Food grains and other Commodities under Government Procurement Scheme
21. Transport/ other expenses on Purchase of Material under Mid-day Meal Scheme
22. Salary of Salesman/Manufacturing Wages
23. License Fee
24. Gunny Bag Sales
25. Impairment in Stocks
26. Factory Expenses
27. Commission
28. Compensation
29. Other Trading Income
30. Purchase Returns
31. Sales Returns

The auditor should verify that primary agricultural credit societies follow common accounting system in preparation and presentation of financial statements scrupulously.

CHAPTER NO. 25
SALARY EARNERS' SOCIETIES

25.1. ***Membership :-*** Along with application for membership, declarations in from "K" regarding membership of other societies as required under rule 45 (1) of the Maharashtra Co-operation Societies Rules, 1961, should be obtained. These should be checked by the auditor.

25.2. ***Recovery of dues of the society :-***

*(*a) Agreements executed under Section 49 of the Act, by the members in favour of the society authorising their employers to recover dues of the society from the salaries or wages payable to them should be seen. Generally, these are contained in the applications for loans.

(b) Monthly Recovery Sheets sent to the employer showing dues of the society under different heads to be recovered from the salary/wages of the member should be checked and the total amount posted to the individual accounts of the members should be reconciled with the total amount of cash remitted by the employer on account of recovery of society's dues, deducted from the salary of the members. A statement showing total demand of the society, amount recovered by the employer and paid to the society and balance not recovered, together with a list of persons from whom recoveries could not be made and reasons therefore should be prepared every month and considered by the committee. A list of over dues should also be prepared.

(c) ***Agreement of personal ledger balances*** *:-* Balances from personal ledgers should be extracted once at least every three months and the total agreed with the balance in the total contra account in the general ledger. Differences noticed should be traced. This is necessary since postings are made direct from the recovery sheets.

(d) An extra-perforated copy of the recovery sheet should be supplied to the employer from which slips pertaining to the accounts of individual members can be torn off and delivered to them so as to enable them to know the state of their accounts and the amount, which would be deducted from their salaries and wages.

(f) Cases in which there has been undue delay on the part of the employer in remitting the amount collected by him should be noted. Action as contemplated under section 49 of the Maharashtra Co-operative Societies Act, 1960 and other Acts will have to be taken, where remittances have been unduly delayed.

25.3. ***Sanction of Loans :-***

(a) All applications for loans should have been entered in the Register of Loan Applications Received and the details regarding his period of membership, nature of his appointment and salary drawn by him, amount of shares and compulsory deposits held by him, balance of existing loan, liability as surety, etc., should have been properly verified from the records maintained by the society. *The Member's Creditworthiness and Surety Liability Register maintained* by the society should be brought up-to date.

(b) Where a loan sub-committee has been appointed, it should be seen that loans sanctioned by it are confirmed by the Managing Committee at its next meetings. *It is not advisable to authorise the Chairman, Vice-Chairman, Secretary or other members to sanction loans to the members unless provided for the byelaws.* It should be seen whether individual and total limits fixed for different types of loans and advances as per byelaws have not been exceeded. It should also be seen that the amount of the loan sanctioned does not exceed the credit limit of the borrower arrived at on the basis of his salary, share holding, liability as surety, etc. Where the previous loan has not been fully repaid, it should be seen that the prescribed number of installments have been recovered from salaries as per byelaws before fresh loan is sanctioned. It is quite irregular to utilise fresh loan for repayment of some of the previous loan installments for enabling him to qualify for fresh loan as per byelaws.

(C) Loan applications and loan bonds should be checked carefully and it should be seen that no unauthorized corrections are made therein. This is particularly necessary since in many societies, loan bonds or agreements are dully filled in and submitted along with the application for loans. It should be seen that all loan bonds for amounts exceeding Rs. 5,000/- are properly stamped. Where regular loan bonds have not been properly stamped, auditor should comment on it in his audit report.

25.4. ***Disbursement of loans :-***

(a) In case of 'inclusive loans', it should be seen that outstanding balance of previous loan together with accrued interest has been correctly deducted, from the amount of the fresh loan and credited to the account of the borrower and the account closed. Acknowledgements obtained should be for the net amount disbursed unless regular receipts from the official book are issued for the amounts deducted.

(b) Where disbursement of loans is made in cash, it should be seen that the borrower has been properly identified and payment is made in the presence of one of the committee members or the head of the section or department in which the member is working. This practice should be discouraged as the provisions of Rule 107 (d) provides to pay all amounts by way of cheque as provided in Income Tax Act.

25.5. ***Deduction of subscriptions and compulsory deposits :-*** It should be seen that subscription and compulsory or saving deposits, at rates prescribed in the byelaws are collected from each member. Subscriptions collected during the year are converted into shares and shares certificates are issued for the amount of full shares recovered during the year. When the value of shares held by a member amounts to the maximum amount of share holding prescribed in the byelaws, further collections are credited to compulsory or cumulative deposits as provided for in the byelaws.

25.6. Where ***emergency loans*** are sanctioned against security of cumulative or compulsory deposits, it should be seen that these have been shown as loans sanctioned and not as withdrawals from deposits. It should be seen that the society has maintained proper liquidity as required by rule 41 of the M.S.C. Societies Rules 1961.

25.7. ***Cash payments by members :-*** (a) Where payments of the dues of the society are made in cash by the members, reasons should be ascertained and it should be seen that these have not been made to bring down the outstanding balance of the existing loan to a level which would entitle the member to apply for fresh loan.

(b) Official receipts showing particulars or heads to which the amount has been credited should be issued to the member paying the amount.

25.8. ***Miscellaneous :-*** (i) ***Register or Member's Creditworthiness*** and Surety Liability in the form prescribed by the Registrar in his Circular No. URB/17, dated 7-12-1943. This Register will always have to be maintained up-to-date and referred to while scrutinising the applications for loans by members.

(ii) ***Preparation of overdue list :-*** Overdue list should be prepared year wise. The Arbitration Register should be examined and progress of recovery of over dues review from time to time by the committee. It should be seen whether proper provision for Bad and Doubtful debts has been made by the society, and while writing of bad debts, proper procedure has been followed as mentioned in Rule 49 of the M.S.C. Societies Rules 1961.

(iii) ***Compliance of audit and inspection reports :-*** Implications of inspection reports received from the Apex/ DCCB Bank and also compliance of interim audit reports and statutory audit reports should be seen and it should be seen that rectification reports are submitted promptly.

(iv) It should be seen that necessary fluid resources are kept by the society as per standards laid down by the Registrar under Rule 41 of the Maharashtra Co-operative Societies Rules, 1961.

(v) Where extensions are given, it should be seen that they are given for valid reasons and consents of the sureties obtained.

25.9. The following are the ***Special Account Books*** and Registers, required to be maintained by salary earners' societies should be obtained.

1) Register of undertaking executed under section 49 by members.
2) Files containing office copies and duplicate.
3) Copies of monthly recovery sheets sent to the employer.

4) Register showing Monthly Demand Collection and Balance Register and Reconciliation Statements, agreeing total amount posted to accounts of members with the total cash remitted by the employer.
5) Register showing Monthly Demand Collection and Balance Register and Reconciliation Statements, agreeing total amount posted to accounts of members with the total cash remitted by the employer.
6) Quarterly balance books recording quarterly closing ledger balance under different heads.
   i. ***Deposits from non-members :-*** It should be seen that the salary earners' societies have not collected deposits from the Non-Members, as they are not authorised to do so.
   ii. ***Considering the amendment in Co-operative Societies Act, 1960(2013) necessary compliance regarding returns,*** membership classification, convening of Annual General meeting, appointment of auditor and audit and its rectifications should have been done by the committee.
   iii. ***As the Salary earners' societies do not depend on the deposits from the public or non member, while calculating C.D. Ratio this point should be considered and accordingly the Ratio should be arrived at and commented in the audit report.***

B) SERVICE SECTOR SOCIETIES - PROCESSING SOCIETIES SECTION

CHAPTER No. 26

CO-OPERATIVE SUGAR FACTORIES

26.1. ***Membership and shares :-*** Extracts from village records of rights showing particulars of lands held, and also an agreement to deliver to the factory all the sugarcane grown by the applicant on the lands held by him need to be enclosed along with the applications for membership. Producer members are also required to hold shares in proportion to the acreage under sugarcane held by them. A register of agreements obtained should be maintained and quantities of cane delivered by members checked against acreage under sugarcane held by them. A list of members who have not supplied cane as per agreements executed by them should be obtained and action taken against defaulting members should be ascertained.

Where calls have been made, in respect of shares, but payments have not been received within the time fixed, interest charged on such delayed payments should be checked.

Where loans from Government or Bank and medium term loans have been granted through the society to enable members to purchase shares of the factory, applications for loans, agreements, recovery of installments on due date and repayment of Government and/or bank should be seen. Where such loans have been granted through the primary agricultural credit society, installments of loans as communicated by the society should be deducted from the sale proceeds of cane payable to members concerned and passed on to the lending society.

26.2. ***Classification of members :-*** Amendments made in the M. C. S. Act provides members should be classified as Active and Non-Active members.Accordingly, byelaws provide services that should be availed by the member and his attendance to AGBM should be verified, and necessary remarks shall be inserted into the audit report.

26.3. ***Receipt of Government share capital :-*** It should be seen that the terms and conditions specified in the Government orders sanctioning share capital contribution have been complied with. It should be seen whether Capital Redemption Fund for refund of Government share capital has been created and necessary contributions are made as per byelaws of the society and conditions laid down by Government. The share capital due for repayment should be repaid by the factory as per terms and conditions on due date is required to be seen by the auditors.

26.4. ***Payment of dividend on shares held by Government :-*** It should be seen that dividend at rates declared at the Annual General Body Meeting has been paid on shares held by Government. Receipted challan in support of payment made into Government treasury should be seen. Where no dividend has been declared, reasons for the inability of the factory to make adequate profits should be ascertained and commented upon in the audit report.

26.5. ***Deductions from cane payment :-*** Deductions on account of compulsory deposits from advances and 'final' payment of cane bills of producer members should be seen. Provision in the byelaws in this respect should have been complied with. It should be seen that payment of advances against cane deliveries, final payment of cane prices to grower members and non-member suppliers of cane, deductions on account of share installments and compulsory deposits from members have been made in accordance with the decisions taken by Government and communicated to the society. The Cane Statement, showing quantities of cane deliver and amounts payable to each member should be checked and compared with the quantities of cane crushed.

26.6. ***Agricultural Department :-***

1. ***Cane section :–*** Cane grower members of the factory are expected to deliver their entire cane registered to the factory for being crushed. If the quantities of sugar cane delivered by them are inadequate, arrangements will have to be made for purchases of cane from outside. Agreements entered into with outside suppliers or gate cane suppliers as they are known should be seen.

The factory is also required to purchase all the cane grown by the members. Sometimes, it is found that owing to mechanical troubles or other reasons beyond the control of the management, the factory

might not be able to crush all the cane grown by its members. Arrangements will, therefore, have to be made for disposal of the surplus cane. Agreements made with one or more neighboring factories for sale of such surplus cane should be seen. In case the factory has inadequate cane in the area, the factory is required to make arrangement for procurement of cane from outside the area of operation as per orders from the Director of Sugar, Pune from non-.members also.

2. *Cropping program :-* A cropping program should be prepared by the Agricultural Officer to ensure adequate and timely supply of cane to carry out the crushing program and keep the factory engaged throughout crushing season. A cane-harvesting program is also required to be prepared showing approximate dates on which cane standing in the fields of different members would mature and become ready for being harvested. The auditors should see that the cropping program prepared by the factory is suitable regarding recovery and maturity of the cane. Latest varieties developed by the Sugar Institute are provided to the farmers by the factory, and guidelines about these varieties are provided to them.

3. *Harvesting and transport of Cane :-* Harvesting of cane and transport of cane from fields to the factory is generally entrusted to contractors. Where trucks have been hired for transport of cane, agreements entered into with the owners of trucks should be seen. Contracts with individual cart men who generally undertake cutting and transport of cane are not entered into but contracts are made with their *mukadam* or leader or other contractor. Agreements executed by these *mukadam's* or contractors or carting agents, as they are sometimes referred to, should be seen and it should be seen that the rates are in keeping with the prevailing rates. Special conditions regarding supply of cane cutting knives, rates of wages for harvesting and for transport of cane, payment of bonus or increased rates for difficult tracts, maintenance of roads, etc., should be seen. Where advances have been made to transport contractors, it should be seen that they are deducted from their bills. Cane cutting knives and other equipment are required to be stocked by the factory and supplied to the contractors. Purchases and issue of such knives should be vouched and return of the knives at the close of the harvesting season should be checked. It should be seen that necessary deposits are obtained from the contractors before delivery of knives to them and cost of knives not returned should be recovered from out of their final bills or adjusted against their deposits.

If cane harvesting and transportation is contracted with the transport society or trust created for such purpose, it should be seen that, the proper contract has been executed, with proper terms and conditions. The terms and conditions in the contract are adhered to, and payments are made according to the quantity of harvesting and transportation.

4. *Delay in Harvesting and Transport :-* The harvesting program has great importance for the Sugar Factories, as recoveries of sugar are dependent on the time factor of transport of the cane from the fields. Delay in transport due to one or another reason causes deterioration in cane quality resulting in reduced sugar recovery. Another cost factor in this regard is excessive consumption of chemicals for processing such cane, which is delayed in transport. The auditors should verify the harvesting program and delays caused in transportation, burden on cost of sugar processing due to this reason and comment upon it accordingly in the audit report. The efforts made by the factory to minimize the delays should also be verified as the reasons which are not beyond control of management are required to be eliminated by the factory. The auditor should also see the recovery percentage of sugar with transportation time, which will clear excess burden of transportation cost on the production cost.

5. *Receipt of cane in cane yard :-* Cane harvesting and transport bills submitted by the contractors should be checked with the Daily Cane Received Subsidiary and the Daily Cane Arrivals Reports. Entries in the Daily Cane Received Subsidiary should be checked with the weighment slips on a percentage basis and comparedwith the register to test-check Reports of Cane Yard Supervisors. It is necessary that Cane Yard Supervisors or other responsible Officers re-weigh some of the cane carts and trucks or tractors and satisfy themselves about the correctness of the weights mentioned in the weighment slips. It should be seen that the weighbridges are inspected periodically to ensure that they are working properly and show correct weights. Totals of the Daily Cane Received Subsidiary should be called over into the Daily Cane Received Reports. Auditors should verify the weighing system on test basis and get confirmed that the cart, truck or any vehicle transporting cane is weighed on the same weighbridge, and if it is another weighbridge it should be objected to, as there may be difference in balancing of the weighbridges.

6. *Fair Remunerative Price (FRP) :-* With the amendment of sugarcane control order 1966 on 22-10-2009, concept of SMP of sugarcane was replaced with FRP.

Cane price announced by Central Government is decided on the basis of recommendations of Commission for agricultural costs and prices (CACP) after consulting State Government and association sugar industry.

Under FRP system, farmers are not required to wait for end of season or for any announcement of profits by sugar mills or Government.

In order to ensure that higher sugar recoveries are adequately rewarded and considering variation among sugar mills, FRP is linked to basic recovery rate of sugar with premium payable farmers for higher recoveries of sugar from sugarcane.

Accordingly, FRP for 2012-13 sugar season was determined at Rs.170 per quintal linked to basic recovery rate of 9.5% subject to premium of Rs.1.79 per quintal for every 0.1% point increase in recovery above that level. The FRP for 2013-14 sugar season has been fixed at Rs210 per quintal subject to premium of Rs.2.21 per quintal for every 0.1% point increase above that level.

In like manner FRP is fixed by Government for every sugar season and auditor has to verify whether sugar factory has paid to farmers as per FRP.

7. *Payment for cane and payment of harvesting and transport charges :-* From the Daily Cane Arrivals Subsidiary, postings into the personal ledgers of grower members and the Harvesting and Transport Contractors should be seen. Fortnightly bills submitted by the transport contractors should be checked from their accounts and payments made to them should be vouched. Fortnightly payment of advances made to grower members and gate suppliers of cane should be vouched from the personal ledger accounts and the Fortnightly Reports of Cane Arrivals prepared by the Cane Yard Supervisors. Total quantities crushed as per Cane Supervisor's Reports, and members' bills should be verified from the Manufacturing Reports submitted by the Chief Chemist. The auditors should take care to get tallied the cane actually transported and crushed with the claims made in the bills.The closing entries regarding quantity and rate should, specially, be verified, as there might be possibility of over provisioning of expenses to reduce the cane price or otherwise to misappropriate the funds through the transporting agency by way of window-dressing.

Payments made to members for *Khodki* delivered by them should be checked from the Daily Arrivals Reports and Khodki bills prepared by the Cane Supervisors. The Auditor has to check whether the cane payments are made within 14 days after crushing as stipulated in Sugar Cane Control Order 1966.Delay in payments should be commented in the Audit Report.

8. *Journal entries :-* Journal entries relating to cane supplied should be checked form whatever evidence is made available, viz., totals of cane Arrivals Register, consolidated bills for cane supplied and cane harvested and transported by contractors (if prepared) and other documents prepared to reconcile the figures of the cane purchased and cane crushed as submitted by the Agricultural Department and the Manufacturing Department, respectively.

9. Deductions to be made from cane bills :- Deduction to be made from the fortnightly payments of advances and from final bills for cane delivered are as under : -

(i) Unpaid installments of shares.
(ii) Compulsory deposits at rates fixed under the byelaws or at higher rates as may be fixed by Government.
(iii) Outstanding dues on account of pending bills of: -

a. Hire charges of tractors and other equipment.
b. Charges for tractor ploughing, bulldozer leveling and bunding, etc.
c. Workshop bills for repairs of engines, pumps and other equipment and also motorcars, motorcycles, scooters and other vehicles.
d. Hire charges of jeeps, tractors, trucks and other vehicles.
e. Credit sales of stores, chemicals and other materials.
f. Medical dues, attendance fees of the medical officer and staff, cost of medicines supplied, etc.

(iv) Other bills on account of supplies made and service rendered.

Besides the above dues, deductions have also to be made on account of third parties as under :-

a. Dues of co-operative societies, short-term loans of agricultural credit societies and installment of long-term loans advanced by the Agricultural and Rural Multipurpose development banks.
b. Land revenue, irrigation dues (water charges) and education cess payable to Government.
c. Dues of the guesthouse or the Canteen Contractors, Sports Club and other dues.

It should be seen that recoveries made on account of third parties are paid over without undue delay.

(v) Advances granted to cane suppliers against the cane supply or for other reasons.

Outstanding balances in members' and non-members' personal accounts should be called over into the Register or Schedule of Unpaid Cane Purchases. Final bills for canes supplied should be checked from the personal accounts of the grower members and other suppliers, and proper vouches duly signed by the payees should be obtained before delivering cheques to them. From the Register of Final Cane Bills, names of members who have not supplied cane on the basis of the acreage under sugarcane held by them should be ascertained and enquiries should be made as to the action taken or proposed to be taken against the defaulters.

10. Stock-taking –

1. Store stock including gunny bales :– Auditor should physically check stock of stores on sample basis. At first, he should analise items into A, B and C as per ABC analysis. A means high value items, B means middle value items and C means lower value items. He should physically count 10% of items in A category. 5% of items in B category and 2% of items in C category. If there are discrepancies, he should increase the extent of checking. If descrepancies are found, he should report in part A of audit report.

2. Stock of sugar :– Once in a year, he should count stock of sugar and verify whether the stock of sugar agrees with stock register. He should also verify the procedure laid down by management for continuous / perpetual stock taking in regard to sugar stock. He should also verify whether there is specious and safe godowns are maintained for sugar stock. He should also verify sugar stock is fully insured.

26.7. *Engineering Section :-*

1. *Performance guarantee :-* In case of newly established factories, the performance guarantee clause in the agreement entered into with the suppliers of machinery should be examined and where the actual performance is not up to the standard agreed, action taken by the management to secure the guaranteed performance of efficiency should be ascertained. The auditors should be well acquainted with this part as, if the guaranteed performance is not achieved by the factory due to improper or machinery of the required quality, it affects costs of the future productions resulting in losses to the factory. Auditors may consult with the technical experts in this regard or obtain their opinion on the performance of the factory.

2. *Purchases of new machinery :-* and replacement of costly parts should be traced into the Plant and Machinery Register and wherever possible, their installations should be inspected by personally visiting the factory. The Register of Spare Parts, Tools and Tackles should be checked with the list of free supplies made by the suppliers of machinery as part of the contract, and with the invoices for purchases made by after erection of the machinery. Issues of new spare parts should have been made against return of the old or worn-out parts, which should be entered into the Register of Spare Parts returned to the stores. Stock of spare parts and items lying in stock for over three years should be noted. While vouching expenditure over repairs, agreement with suppliers for free servicing and replacement of broken of worn out parts during the guarantee period should be seen.

3. *Purchase procedure for machinery :-* The Director of Sugar, Pune has laid down certain procedure for purchase of machinery for replacement or modernization of the plants, which amounts more than Rs. 50 lakhs. This machinery is required to be purchased through the State Level Purchase Committee, formed by the Director of Sugar as per circular issued by him vide number- sa-aa/ k-15/ machinery kharedi/ nivida/ rajya stariy samiti/ 1476/ 96 dated 30.3.96 State Level Committee is reformed by this

circular. The Director of Sugar has issued various circulars bearing no. saaa/ka-15/ machinery kharedi/ nivida/ rajyastariy Samiti/ 2325/96 dated 5 june 1996 and then saaa/ prakfra-7 / Artha-1/ 14/6/05 and even no. dated 23/11/2004 on this subject. While checking the purchase of machinery the auditors should verify the following points :

(a) Proper sanction :- Whether the factory has obtained prior sanction of Board of directors, Annual General meeting, Vasanatdada Sugar Institute (VSI) and Director of Sugar as required.

(b) follow up of purchase procedure :- Whether the required purchase procedure through the State Level Committee of calling tenders from the suppliers, producers, manufacturer's , inviting them to negotiations, preparing comparative statement for financial and technical details and other terms and conditions viz. destination of supply, taxes, octroi , excise, transportation etc.; issuing purchase or work order, follow up of quality, quantity, terms of payment, guarantees regarding performance and results has been followed or not by the factory should be verified by the auditor.

(c) Sugar factories are permitted to make capital expenditure without prior approval of Director of Sugar, Pune to the extent limit prescribed in the following chart in its circular dated 22/11/2005

Sr. No.	Crushing capacity of factory daily MT	Average audit classification in last 3 years	Factory can make capital expenditure to the tune of Rs, in lakhs	
			Previous	Current
1	up to 2500	B	Rs. 5/-	Rs. 25/-
2	2500 & above	B	Rs. 10/-	Rs. 50/-
3	above 1250	C	Rs. 1/-	Rs. 10/-
4	up to 2500	D	Rs. 0.50	Rs. 5/-

While making such expenditure factories have to fulfill the conditions laid down in these circulars.

4. *Operational efficiency :-* Shift Engineers in charge of different shifts are required to maintain log books for recording operations or performance of the following machinery :-

(i) Boiler,
(ii) Turbines,
(iii) Power house (a) Mechanical (b) Electrical.
(iv) Mill House (Juice extraction, clarification, boiling crystalizers, centrifugals, etc.)

Entries in these log books should be checked with the reports submitted by the Shift Engineers and the Chief Engineer. Meter readings of oil consumption have to be taken at frequent intervals and the rate of fuel consumption per hour and also cost of fuel per bag of sugar manufactured are to be ascertained.

5. *Efficiency of plant and machinery :-* has to be checked from the periodical reports (Weekly, fortnightly and monthly) and also the annual reports submitted by the Engineering and Manufacturing Departments as regards the following matters :-

(i) Economy in fuel consumption.
(ii) Sugar percentage in cane and efficiency of juice extraction.
(iii) Wastages during processing.
(iv) Recovery percentage.
(v) Losses due to reprocessing.
(vi) Losses due to stoppages an account of :-
   a. Mechanical defects;
   b. Periodical cleaning;
   c. Non-availability of cane; etc.

Comparative figures for the previous season should be studied and comments offered. Where differences are substantial, further enquiries should be made.

The auditor should discuss the reasons for losses with the chief Chemist and Chief Engineer and action taken by them to reduce the losses. Various standard norms are prescribed by the National Sugar Institute for the losses in time, crushing, and recovery for the factories established prior to 1971 and those

after that. Auditors should verify whether they are complied with or not. Reasons for non-compliance of standard norms should be recorded in the audit report, together with the names of persons responsible. The losses due to negligence of management results in financial losses to the factory.

6. *Workshop :-* List of workshop machinery should be obtained. It should be seen that all jobs undertaken are supported by "work orders" issued by the Chief Engineer, Job sheets or cards should be maintained for the different jobs or orders executed and entries in the Job Register should be checked from the work orders issued by the Chief Engineer. Entries in the Work Register should be checked from the work bills and work orders. Where outside jobs are undertaken, it should be seen that bills for all jobs or works executed have been promptly submitted to the parties concerned. "A Job-wise Allocation of Materials and Wages" should be maintained. It should be seen that all allocations have been properly made and have been approved by the Chief Engineer.

26.8. *Manufacturing Department :-*

1. *Maintenance of Shift log books :-* The shift chemists are required to maintain logbooks wherein operations of machines and the progress of different processes are recorded. These log books should be examined and correctness of the shift-wise production of sugar ascertained.

It should be seen that consumption of fuel and power and also the chemicals and other manufacturing stores used during the various manufacturing processes such as sulphur, lime, triple phosphate etc., is according to standards fixed by the National Sugar Institute in this regard. Where consumption is more than normal, action taken to control wastage should be ascertained.

2. *Losses during manufacturing :-* Quantities and percentage of losses during the various manufacturing processes should be ascertained from the "Daily Testing Reports" and the fortnightly, monthly Manufacturing Reports. Where these are abnormal, enquiries should be made. The manufacturing efficiency, losses at various stages of manufacturing and in different processes and percentage of wastage or losses at each stage and/or process should be ascertained.'

(i) Juice extraction ;
(ii) Juice clarification and filtering (press mud) ;
(iii) Boiling ;
(iv) Crystallization ;
(v) Centrifugal.

The qualities of sugar produced and the total quantity and percentages to total production should be stated.

3. *Sugar Recovery and losses in process*: *Standard Norms :-* The manufacturing report in form RT 8 C and RT 7 C and other periodical returns should be verified by the auditors to ascertain the reasons for losses in various process. Total Sugar in Cane, extraction of sugar in mixed Juice, and loss of sugar in various forms such as bagasse, molasses, etc., should be verified and it should be seen that they are within limits of Standard Norms prescribed by the Central Directorate of Sugar New Delhi, in its Circular No. f-97 (6) 97/ MT/ 1132/ 1506 Dated 31st May 1988 and No. DCS/S-13/91 dated 27th May 1991.

Efficiency particulars 1	Sugar factories erected before 1971 and expanded as per standard norms of 1973 2	Sugar Factories erected as per norms specified in 1987 3
Reduced Mill Extraction (Minimum)	*94.00 %*	*95.00%*
Reduced Boiling house Extraction (Minimum)	90.00 %	90.00%
Total Sugar Loss (Maximum)	2.20%	2.00%
Steam percent cane	55%	50%
Total Stoppages (Including general Cleaning)	10.00 %	10.00%
Cleaning (Excluding general cleaning)	4.50%	4.00%

Other Technical Norms are as detailed below :

1	2	3
Particulars	With which	Standard Norms
Steam	Cane	39 to 67.50%
Total time loss	With Total time of crushing	10%
Lime	Per 100 M.T. of Cane crushed	0.17 M.T.
Sulpher	Per 100 M.T. of Cane crushed	0.05 M.T.
Phosphoric Acid	Per 100 M.T. of Cane crushed	10 K.G.
Biocide	1 P.P.M.	0.02 liter
Flocculent Agent	Per 100 M.T. of Cane crushed	0.01 K. G.
Viscosity Reducing Agent	Per 100 M.T. of Cane crushed	0.03 K. G.
Caustic Soda	Per 100 M.T. of Cane crushed	2.00 K.G.
Washing Soda	Per 100 M.T. of Cane crushed	0.02 K.G.
Sault	Per 100 M.T. of Cane crushed	0.01 K.G.
Grease and oil	Per 100 M.T. of Cane crushed	0.01 K.G.

The norms prescribed above are subject to change by the concern Institute, the auditor should make them available from the factory for prevailing norms.

While applying the norms, the auditor should bear in mind that these norms are interrelated, hence, accordingly the consumption should be verified. For example, if the cane transportation is not within the time limit of transportation, the cane quality will deteriorate, and for purification, the chemicals will be required in higher percentage, than prescribed. Auditors should go beyond the reasons of such excessive consumption of chemicals, and offer remarks accordingly in their audit report, also pointing to the liability of the concerned persons responsible for the delays and may comment on the possible financial losses.

4. ***Bagging and transport of sugar :-*** Where bagging and transport of sugar to sugar godowns and hamali for loading into trucks has been entrusted to contractors, the agreements entered into with them should be seen. Possibilities of reducing cost of transport of sugar bags to godowns by introducing mechanical handling, laying of rails or other means should be studied.

5. ***Sugar Godowns :-*** Arrival of sugar in the godowns and stocks of sugar in the godowns should be checked from the Daily production Reports and the Goods Received notes issued by the Godown Keeper. Removals and transport of sugar bags should be checked from the release orders issued by the Excise Inspector and the Delivery Orders issued by the Chief Account. *No stocks should be released or delivered to buyers without proper orders issue by the Accounts Department*. Removal of sugar bags in Duty paid Godowns should be checked from the Release orders and Arrival Reports of the Godown Keeper. Dispatches of sugar to out-stations should be checked from the Delivery Orders and Dispatch Notes issued by the Accounts department.

26.9. *Sales of Sugar :-*

1. ***Sales :-*** Entries in the Sugar Stock Register should be checked from the daily Arrivals Reports and Dispatch Reports submitted by the Godown Keeper. The procedure followed for the sale of sugar stocks released for free sale should be ascertained. Generally, a sub-committee is appointed by the Board of Directors from amongst themselves for sale of sugar. Announcements are issued in newspapers advertising qualities and quantities of sugar of sale. Tenders are invited and tenders received in response of advertisements or private calls are normally opened in the presence of buyers. Separate rates for the different qualities and also the quantity of each quality which he would purchase have to be specified by each buyer in his tender. Tenders offering the highest rates are generally accepted, considerations, which justified the acceptance of the lower bids, should have been recorded in the minutes of Sub-Committee meetings and should be noted by the auditor. Where sales are made by private negotiations, reasons therefore should be ascertained and system should be objected too, since the reasonableness of the rates obtained cannot be verified. The files containing tenders received and proceedings of the meetings of sugar sale committee should be perused and resolutions accepting tenderers and prescribing conditions of sale and agreements executed

by buyers should be examined. The agreements executed by buyers should be checked with the Register of Sale Agreement *(Sauda Register)*. It should be seen that payments are made and deliveries taken by the buyers strictly according to the terms of the agreement. Cases in which undue favouratism or unwarranted consideration is shown to some of the buyers, should be noted. Credit sales will have to be objected unless to there are enabling provisions in the byelaws, auditor should suggest to amend the byelaws for not making sales on credit as this is not permitted by the competent authorities. Notes should be taken of deliveries made without payment or delay in taking delivery. Releases of stock should be checked with the delivery orders issued by the Accounts Department. Sales memos, issued to buyers should be checked with the Register of Sale Agreements (*Sauda Register*) as regards rates, quantities to be lifted, period during with delivery should be completed, etc. Entries in the Sale Register should be checked with the sale memos or bills issued to buyers. Advances of deposits against sales made by buyers should be checked with their personal accounts and final adjustments checked.The Commissionerate of Sugar has given guidelines, time to time, for the export of sugar. The auditor should check whether various guidelines so issued and have been followed by the sugar factories.

2. *Payment of Excise Duty :-* Payment of excise duty on sugar should be checked from the receipted challan issued by the Government Treasury. Where deposits or advance payments have been made or where a current account has been opened with Excise Department, Statements of accounts Received from the Accounts officer of the Excise Department should be checked. Where Accounts Statements have been submitted by the factory, office copies of the statements issued should be checked with the ledger account and it should be seen that the payment made and correctness of the closing balance have been confirmed by the Excise Department.

3. *Gate Sales of Sugar :-* Many of the factories have opened retail shops outside their factory premises for direct sales to consumers. Some of the factories have made arrangements for sale of sugar to consumers through the fair price shops or consumer stores organized by their employees. Retail sale of sugar to consumers and also to local traders should be checked with the cash memos and entries in the Daily Sale Register. Total sales should be called over into the cashbook. The Commissionerate of Sugar has given guidelines for the sale of sugar at concessional rates to the shareholders / members. The auditor should check that these have been followed by the sugar factories.

4. *Financial Norms :-* Directives issued by the Director of sugar: The Director of Sugar Pune has issued certain directives under section 79 (a) of the M.S.C. Act to the sugar factories in his order No. sa-aa / kaksha / pra/ 79 A / sakharvikri/ 2002 dated 21th November 2002.regarding sale of sugar etc., Auditors should see whether these directives and amendments made therein are followed by the sugar factories or not. These are :

A) The Sugar Factories should not sell sugar below the cost price of sugar.
B) Recruitment of new employees, use of vehicles and guesthouse, purchase of new vehicles and their use for private purposes is prohibited. Instructions regarding this should have been observed.
C) Stores should not purchase more than the required quantity, as determined; in case it is responsibility will be fixed on the Board of Directors of the Sugar Factory.
D) The conversion cost of sugar and the cane cutting and transportation cost should should be verified by the auditor, and reasonability should be verified.

5. *Cost Audit &Financial Analysis :-* Sugar Factories are processing industries, and the cost element is one of the major factors that auditor has to verify from the accounts of the factory. For this, analysis of financial statements is essential for the auditor to formulate his observations. The Central Government has made applicable cost audit to sugar factories; auditors should verify them, for arriving at conclusions. The Government of Maharashtra has also made cost audit and energy audit compulsory every year as per Government Resolutionno.sagruyo 2011 /pra.kra.359/ 14-s dated 8/12/2011. Accordingly,Commissionerate of Sugar has communicated the same to the sugar factories.

The Cost audit report requires to include capital employed, net worth, and profit before tax, etc., ratios as per Cost Audit (Report) Rules 1968 issued by the Central Government. These rules explain ratios should be compared in the following manner :

Particulars	Ratio with (as percentage of)	Remarks
Profit	With Capital Employed	Capital Employed is defined in cost rules as total assets at book values (Excluding investments outside the business), minus current liabilities.
Profit	With Net Sales	This ratio indicate percentage of profit with sales.
Current Ratio	Current assets with curren liabilities	This ratio indicates investment in current assets to current liabilities. In normal condition the ratio of 2:1 is better.
Net Worth	With long term borrowing and liabilities	Net worth, i.e. paid up Capital plus free Reserves or Capital losses, as the case may be. If there is any change in the composition of the net worth during the year, special mention may be made.
Net worth	With capital employed	
Cost of production	With capital employed	
	Working Capital	Working capital means current assets less current liabilities for the purpose of calculation of these ratios.

6. ***Reporting by cost auditor :-*** The Cost auditor has to report on the following points as per cost audit rules made by the Central Government :

a) Matters, which appear to him to be clearly wrong in principle or apparently unjustifiable.

b) Cases where the entity's funds have been used in a negligent or inefficient manner;

c) Factors which could have been controlled, but this has not been done resulting in increase in the cost of production;

d) Contracts or agreements, if any, between the entity and other parties relating to selling, purchasing etc.;

e) The adequacy or otherwise of budgetary control system if any, in practice in the entity

f) The scope and performance of internal audit if any;

g) Suggestions for improvements in performance, if any- e.g. by i) rectification of general imbalance in production facilities; ii) fuller utilization of installed capacity ; iii) concentration on areas offering scope for a) cost reduction , b) increased productivity c) key limiting factors causing production bottlenecks, ; iv) improved inventory policies.

h) The opinions expressed by the cost auditor should be based on verified date, reference to which shall be made here and shall, wherever practicable, be included after the entity has been afforded an opportunity to comment on them.

26.10. ***Audit Report :-*** The Director of Sugar, Pune has issued instructions regarding writing of the audit report of Sugar Factories, in a circular bearing no. Sa-Aa/ lep kaksha-5/ lep-aha/ rachana/ 7393 /2004 dated 20th May 2004; no. Sa-Aa/ lep kaksha-5/ lep-aha/ rachana/ 2064 /2009 dated 27th November 2009: no. Sa-Aa/ lep kaksha-5/ lep-aha/ rachana/ 2311 /2010 dated 8th January 2010. The instructions are as follows :

1) Questionnaire no. 1 and 17 should be filled properly and there should be mention of page nos. relating to observations made in detailed audit report.
2) Verifications and valuation required by section 81 (2) of the Act should be specified at the beginning of audit report, with page No., and should be complete in all respects, legal and correct.
3) Important points observed during the course of audit should be mentioned in audit report.
4) The audit report should be specific, and there should be no ambiguity or repetition of points in the audit report.

5) The audit report should be divided in 3 parts viz.,. A, B, and C.
6) The A part of the audit report should contain serious points in short and they should be described in detail in part B, on which the Registrar is required to take action. Information regarding Government financial assistance regarding share capital, guaranteed loans by government, loans given by Government, government guarantee, other central and financial institutes loans and subsidies for specific purposes should be there in forms A to F.
7) Part B should include financial analysis and valuation of the assets and liabilities, financial policy decisions taken by the management , scrutiny of financial statement, breach of rules, Acts and bye laws, decisions taken by the management , sections and departments run by the factory and there business, etc. Executive summary should be included for compliance by the factory. The auditors should include their comments on the paragraphs – i) area of operation ii) membership; iii) audit rectification report; iv) income tax audit; v) internal audit; vi) breaches of act, rules and byelaws; vii) meeting and minutes; viii) technical efficiency; ix) financial analysis; x) financial position; xi) cost audit; xii) budget; xiii) final cane price statement; xiv) purchase department; xv) cane transportation system; xvi) agricultural department; xvii) cane development section; xviii) byproducts – distillery, co-generation, liquors , ethanol, paper, particle board, chemicals etc.. ; xiv) diesel pump ; xv) Sugar sale; xvi) Machinery and equipment, xvii) Use of chemical, xviii) stock of sugar;Civil section, vehicle section, court cases, guest house and other sections.
8) Part C should include objections pertaining to vouching, and general objections and the audit classification, which is awarded by the auditor. Auditor's certificate should be issued in accordance with the provisions of Section 81 (5) (b) of the Act.
9) The various points which should be included in part A of the audit report are enumerated in the circular, the auditors should study the circular carefully and should draft audit report as per guidelines. The auditor should submit specific and special report on misappropriation and frauds and other serious financial irregularities
10) The auditor shall have to report on the – a) method of valuation of investment; b) method of valuation of raw material and finished products; c) provisions for liabilities; d) retirement benefits, income tax , sales tax, and purchase tax assessments and provisions; e) provision of interest on deposits and loans; f) depreciation; g) compensation of facilities given on cane price fixation; h) provision of cane price as per SMP (now FRP); i) provision for deposits payable ; j) provision for interest and principle of loans; k) provision for capital redemption fund ; l) government loans; m) interest payable on government loans; n) guarantee fees payable; o) capital payable; p) guarantee payable on cane transportation and cutting; q) reserve fund; r) price fluctuation fund provision; s) cane development fund; t) area development fund; and provision for bad and doubtful fund and required provision on actual position of profit and loss account.
11) Provisions for bad and doubtful fund should be made with period wise classification of amount as- for 1 to 2 years @ 20%; for 2 to 3 years @ 50% and for above 3 years amounts @ 100%. However, for writing off bad debts, procedure given in rule 49 should be followed. The Director of Sugar has issued detailed instructions regarding provisioning of the bad and doubtful debts in his circular no. saaa/ lepkashka-5/ Adv & Yeni/ Sanshyeet va budit tartud/117/05 dated 21/ 3/2005, should be followed while classifying and certifying the bad debts.
12) Depreciation should be charged as per accounting system and effect on profit and loss account after change in such system should be reported.
13) Net worth shall be calculated as per accounting procedure, and should be in specified format as per circular dated 25/6/2004; 14/6/2005 and 4/10/2011 from Director of Sugar Pune,
14) Revaluation of movable and immovable assets shall be according to AS 10, and if it is not done by factory as per AS 10, then special report for revaluation should be submitted to the Director of Sugar, Pune.
15) AS 10 :-
    1) Revaluation is permitted provided it is done for the entire class of assets.
    2) Basis of revaluation should be disclosed.

3) Increase in value on revaluation should be credited to Revaluation Reserve and not to Profit and Loss account.
4) Decrease in value of assets on revaluation should debited to Profit and loss account.
5) Depreciation should be charged on revalued figure and not on estimated residual useful life of such assets.

16) Audit Classification should be awarded as per circular issued by the Director of Sugar Pune.
17) The auditor's certificate should be as per format specified in the rules.
18) Required schedules should be attached with the audit report in forms no. 1 ,2, 3, 3A, 4 and 4A specified by the Registrar.
19) Whether the directors of factory have supplied sugarcane to the factory or not; members who have not supplied sugarcane for consecutively 3 years; sugarcane development program and production development of sugarcane in the area of operation should also be discussed in the audit report.

26.11. ***Audit Classification :-*** Audit Classification of the Sugar Factories should be made as per order of Director of Sugar, Pune, and No. Sa As / lep / kaksha-5 / le.p. varga/ 2623/ 3 dated 18th July 2003& No.SaAs/lep/kaksha-5/le.p.varga/205 /4705/2004dated 21st December 2005. The auditors should carefully study the circular, and award the classification to the sugar factories. During construction stage of sugar factory, auditor shall not award audit classification.

26.12. ***Civil Works :-*** The Director of Sugar has issued various circulars regarding procedure to be followed for undertaking civil works, approval required from him and other matters. The auditors are required to study these circulars while checking civil works executed by the sugar factories. The detailed procedure laid down by the Registrar, Directors Sugar and other authorities has been explained in the paragraph on civil works in spinning mills section of this manual.

26.13. ***Net worth calculation :-*** In continuation of circulars dated 25/6/2004; 14/6/2005 and 4/10/2011 , the Director of Sugar has issued the latest circular no. sa aa / lep kaksha-5/ naktamulya ganana/ 1964/ 2013 dated 29 January 2013, for calculation of Net worth.Auditors should study the circulars and comment on the net worth in their audit report. The method of calculation as per circular is as below:-

Sr. No.	Particulars	Amount Rs.
1	Paid up Capital	
2	+ Share suspense	
3	total Share capital	
4	(-) overdue share capital (calls in arrears)	
5	Net share capital	
6	+ Reserve Fund	
7	+ Free reserves (with details)	
8	Total of own funds (5+7)	
9	(-) Accumulate loss or (+) accumulated profit	
10	(-) deferred revenue expenditure (if any)	
	Net worth + or -	

The circular instructions have described free reserves as provisions of funds by debiting to profit and loss account except Reserve fund, and includes – price fluctuation fund, dividend equalization fund, building fund, development fund, development rebate fund, bad and doubtful fund, investment allowance fund and project fund such as molasses fund, and are invested separately.

However the auditor should bear in mind that regarding free reserves which is defined in the MCS Act, and which does not includes reserves created by charging profit and loss account and only reserves created by appropriation should be considered.The same is explained in the audit manual elsewhere.

26.14. ***Qualifying report in case of record incomplete or not available :-*** The Director of Sugar has issued instruction regarding qualifying audit report, in his circular No. sa aa/ kaksha -5/ aavsayansasaka/ dated 31/8/2012 with reference to the circular issued by the CRCS bearing no. lep/ trutak kalavadhiche audit/ h-1/ dated 15/4/1987. The circular states that, where the records are not available for the purpose of audit due to incomplete records, or there are problems in completing the audit, the auditor, administrator , or liquidator should prepare the list of such records, following the procedure laid down in circular dated 15/4/1987. The auditor should complete the audit as per available records and take action against employees, officers, board of directors as per section 217 and 218 of IPC. He should qualify his report regarding non-availability of records.

26.15. ***Deposit with Urban banks and Urban Co-operative societies :-*** The Director of Sugar has prohibited depositing of factories' funds in Urban Co-operative Banks and urban Co-operative credit societies, having minus net worth, as directed in the circular no. na banka/ D-4/ une nakta mulya banka/ 1lakahavari thevi/2010 dated 6/10/10 and G. R. no. shikana/ 1201/ prakra 11/07-s dated 18/9/2011.

26.16. ***Auxiliary Activities :-*** Sugar industry has more diversification of business than any other Co-operative societies. They have undertaken activities based on raw material and by-products of sugar cane. Among these activities includes production of alcohol, denecharant spirit, extra neutral alcohol, chemicals, paper , co-gyration of electricity, ethanol, brown sugar and many other products which are based on molasses, baggase and filter mud. Auditor have to audit accounts of these products also, as they are part of business of sugar factory. Some important points regarding audit of these products are elaborated in next paragraphs.

1. ***Efficiency of plant and machinery :-*** has to be checked from the periodical reports (Weekly, fortnightly and monthly) and also the annual reports submitted by the Engineering and Manufacturing Departments as regards the following matters :-

(vii) Economy in fuel consumption.
(viii) Wastages during processing.
(ix) Recovery percentage
(x) Losses due to stoppages an account of :-
  d. Mechanical defects;
  e. Periodical cleaning;
  f. Non-availability of raw material; etc.

Comparative figures for the previous season should be studied and comments offered. Where differences are substantial, further enquiries should be made.

The auditor should discuss the reasons for losses with the plant in-charge engineer and action taken by him to reduce the losses. Various standard norms are prescribed by the competent authority (VSI, NSI etc.) shall be taken from the factory and compared with for variation. Auditors should verify whether they are complied with or not. Reasons for non-compliance of standard norms should be recorded in the audit report, together with the names of persons responsible. The losses due to negligence of management results in financial losses to the product and resulting into reduction of cane price.

In case of distillery the recovery of alcohol with molasses should be compared. The auditor should keep mind the processing system used for production on which the recovery depends. Batch system may give less recovery than automated system of processing. Generally the recovery is 220 to 230 liters from 1 M.T. of molasses.

In case of paper mill per metric ton of pulp may yield kgs. of paper depending upon the GSM of paper and quality of pulp used for production or the paper type made from the pulp.

Chemicals production is depending upon the captive material like sugar, molasses , alcohol etc. used for production.

While generating electricity the baggase used and percent of moisture will performed the quality and quantity of units produced.

2. *Operational efficiency :-* A) Engineers in charge of plant are required to maintain log books for recording operations or performance of the following machinery :-

(v) Boiler,
(vi) Turbines,
(vii) Power house (a) Mechanical (b) Electrical.
(iv) Production House

Entries in these log books should be checked with the reports submitted by the Engineers. Meter readings of oil and other fuel consumption have to be taken at frequent intervals and the rate of fuel consumption per hour and also cost of fuel per unit manufactured are to be ascertained.

B) OPERATIONAL EFFICIENCY

1. The following are the factors, which determine the operational efficiency of a product :-

(i) Full utilization of installed capacity.
(ii) Avoidance of invisible losses during production.
(iii) Proper control over various items of expenditure.
(iv) Avoidance of wastages at different levels.
(v) Maintenance of proper records.

(i) ***Full utilization of installed capacity :-*** It should be seen that the installed capacity of the product is fully utilized by working it in multi-shift for all the days during the year by increasing the efficiency of the workers and the productivity of the machinery and by working it at maximum speed. Percentage of idle time production per hour worked should be calculated and compared with norms fixed.

As regards full utilization of the installed capacity, it has to be noted that the ideal way is to work the plant for all the 24 hours of the day all the years round. Assuming 7 days as paid holidays during the year, the plant should work in three shifts each of 8 hours for 360 days during the year and 95 per cent of the production capacity calculated on the above basis may be taken to be the standard utilization. The auditor should verify the project details for its seasonal capacity if it is installed for seasonal working. However, due to power shortage, it may not be possible to work on all the thirty days during the month.

(ii) ***Inevitable Losses :-*** Actually, a plant with the latest technology should have no invisible loss or the percentage is less. If the invisible loss assumes larger proportions, the auditor has to verify the reasons for the losses and confirm whether they are due to negligence of the management or any other reason for ascertaining losses.

3. *Payment of Excise Duty :-* Payment of excise duty on sugar, molasses should be checked from the receipted chalan issued by the Government Treasury for captive consumption and claims submitted for refund to be verified. Where deposits or advance payments have been made or where a current account has been opened with Excise Department, Statements of accounts Received from the Accounts officer of the Excise Department should be checked. Where Accounts Statements have been submitted by the factory, office copies of the statements issued should be checked with the ledger account and it should be seen that the payment made and correctness of the closing balance have been confirmed by the Excise Department.

4. *Allocation of construction material for civil works :-* Allocation of materials, wages and supervision charges according to specific buildings works and / or job should be checked. It should be seen that the basis adopted for allocation is proper. The basis for allocation of indirect expenses like services of construction machinery such as concrete mixers, vibrators, etc. and also salaries of the Civil Engineer, architects fees, etc., should also be ascertained. All reports like the Daily Reports of materials Received and Issued, Daily progress reports, Acquaintance Rolls for payment of wages, Works and jobs Completed Reports, Allocation Sheets etc., should be signed both by the building Supervisor of the construction and the Civil Engineer. Entries in the Works or Job Registers, Materials Issued Register etc., should also be initialed by the Civil Engineer. After the works are completed, completion certificates and valuation reports should be obtained from the engineer, as the case may be. Entries made in the property Register, should also be checked. Where temporary or Katchha roads have to be constructed and maintained for transport of raw materials like Hume pipes, steel plates, rails, etc. they should be checked and certificates obtained regarding their physical existence. (Please refer to AS 7)

5. ***Allocation of stores*** should be made under proper authority. Journal entries relating to allocation of stores should be checked. Allocations should have been made on the basis of indents, which should contain full particulars of the job or process for which the materials have been supplied. A certain percentage of the entries made in the job or process Registers should be checked from the indents issued by the concerned departments. (Please refer to AS 2)

6. ***Valuation of Work in progress (WIP) :-*** Auditor should verify quantum of work in progress as at year end considering per day production capacity of the factory and process time. The WIP is to be valued as per AS 2 and includes all raw material, cost of conversion and proportionate direct overheads.

7. ***Cost of production & B.E.P. :-*** The auditor should verify the cost sheet prepared by the management and cost of production. Proper allocation of overheads and expenses to the product. Reasonable care has been taken to reduce the cost of production. Profitability of the product, its aid to cane price or reduction in cane price. Break even analysis should be verified and after discussion with the management authorities comment should be given in the audit report with his opinion.

8. ***Captive consumptions of raw material :-*** While producing some product like acetic acid, alcohol, paper etc., sugar ,molasses , baggase is used as raw material, which are produced as by-products in sugar factory. The excise and other taxes paid on them are set off as per Act relating to excise. The auditor should verify that such set off is claimed by the factory. The valuation of such raw material should be considered for this material as per cost sheet prepared by the factory, inclusive of process cost and overheads.

9. ***Purchase procedure and Purchase of Imported pulp :-*** For the production of paper of various type, pulp is used as raw material. Some time pulp is imported from foreign countries. The auditor should verify the procedure adopted for the import of pulp. Documents relating import such as bill of landing, etc., should be verified. The price paid is reasonable. The quality of pulp is verified and it is as per the purchase order, the type of pulp such as waste paper pulp or wood pulp, rules regarding import of goods etc. should be verified by the auditor. The purchase procedure is described in the manual, elsewhere, auditor should go through that, and observe the procedure is followed or not. Discrepancies should be commented upon in the audit report.

10. ***Sale of*** **Auxiliary** ***products :-*** Various products like paper, alcohol, liquor, acetic acid and other chemicals are sold through the Distributors. The auditors should verify the contract deeds made with distributors, regarding term of sale, commissions, discounts, credit sales, stocks to be maintained, deposits to be kept with factory, bank guarantees to be furnished, minimum quantity to be sold by them etc., as per agreement. Area distributed to the distributors. The marketing section of the factory should be aware of changes in price, and demand of the product, accordingly the prices are fixed by the management. The agreement with the Electricity Company for distribution of electricity, it rate per unit. Necessary price fixing formula between the company and the factory.

12. ***Sale of by products :-*** There are some by-products generated from these auxiliary products , auditor should verify proper procedure is adopted for sale of such products.

13. ***Ethenol :-*** Ethenol is an agro based product basically produced from the by-product of sugar industry viz. molasses. In the year of surplus production of sugarcane, when sugar prices are dipressed, sugar industry is unable to pay cane prices to farmers. This is mainly due to surplus production of sugar. Ethenol Blended Petrol Programme (EBPP), besides lowering pollution levels, is expected to provide another outlet for ethanol use, thus ensuring utilization of molasses produced as a by-product during manufacture of sugar. This would improve revenue stream of sugar mills.

Procurement price of ethenol will not be fixed by Government and will be decided between oil marketing companies and suppliers of ethenol. Pursuant to above cabinet decision, Ministry of Petroleum and Natural Gas have issued gazzettee notification date 2nd January 2013 for implementation of 5% mandatory ethenol blending with petrol across country.

26.17. ***Other Items : VIII, Civil Works : VIII Store Section; IX, Payment of Wages (Time Office); X, Vehicles Department; XI, Administrative Section; XII, Guest House; XIII, security Department; XIV; Medical Department***. Instructions contained under the bare headings in the note on the audit of Co-operative Spinning Mills, may be borne in mind while conducting audit of Co-operative Sugar Factories.

CHAPTER No. 27

CO-OPERATIVE SPINNING MILLS

27.1. ***Membership and Shares :-***

(1) If the spinning mill has been set up by cotton growers, applications for memberships should be accompanied by extracts from village records of rights showing particulars of lands held, acreage under cotton and also undertaking to deliver to the mill all the cotton grown by the applicants. In case of consumer type of spinning mills, i.e. spinning mills set up by handloom and power loom weavers, undertaking to purchase yarn from the society and particulars regarding looms worked, type of cloth produced, counts of yarn required etc., should be furnished along with the applications for membership of the society.

(2) The number of installments and dates on which the installments fall due, where shares are to be paid for in installments should be ascertained. Where calls have been made, but have not been paid on due dates, interest charged on delayed payments should be checked. The auditor should see that for installments of shares in arrears, necessary action has been taken by the mill as provided in the Act.

(3) Where loan from Government or medium term loans have been sanctioned through primary credit societies, for purchase of shares of the mill, arrangements made for recovery of the installments due from the amounts payable to the members should be seen. Where the society itself has been sanctioned loan for disbursement to members to buy its shares, applications for loans, agreements, recovery of installments on due dates and repayment of loans to Government and Bank should be noted.

(4) *(i)* A Register of agreements for delivery of cotton grown should be maintained and quantities of cotton delivered by grower members should be checked against acreage under cotton as ascertained from the village revenue records. List of members who have not delivered cotton as per agreements executed by them should be obtained and action taken against them, i.e. defaulting members, as per provisions of byelaws, should be ascertained.

(ii) In case of Spinning mills of SC/ST members, where around 70% members belong to SC/ ST category, State Government provides assistance to such societies in various forms. The auditors should check whether caste verification of such members and directors from the competent authority has been under taken and eligible persons are enrolled as member.

(5) *(i)* ***Receipt of Government share Capital :-*** Orders sanctioning Government share capital contribution should be seen, and it should be seen that the terms and conditions specified in the Government order have been complied with.The society after receipt of Government share capital should submit the share certificate to the State Government. It should be seen that Capital Redemption Fund for refund of Government share capital has been created and necessary contributions have been made to it and invested separately outside the business of the society as per byelaws of the society and the conditions laid down by Government.

(ii) ***Payment of dividend on share held by Government :-*** It should be seen that dividend at rates declared has been paid to Government on the shares held by it. Receipted challan in support of payment made should be seen. Where no dividend has been declared, reasons for the inability of the society to make adequate profit should be ascertained and commented upon in the general remarks accompanying audit memo.

(6) ***Compulsory Deposits :-*** Deductions of compulsory deposits from amount of sale-proceeds of cotton or advances against cotton payable to members should be seen in the producers' bill. In case of consumer's type of societies, at the time of sale of yarn to members, compliance of the provisions of the byelaws in this regard should be seen.

27.2. ***Agricultural Department :-***

(i) An Agricultural Officer, who has specialized in the cultivation of cotton, should have been appointed to assist the members in growing better varieties of cotton and increasing the production of cotton. A cropping program has to be prepared by the Agricultural officer to ensure adequate supplies of the right type of cotton all the year round.

(ii) Where the entire cotton required by the mill cannot be supplied by producer members in the case of consumer type of spinning mills, the policy framed by the management for purchasing cotton should be ascertained and it should be seen that, as far as possible, Co-operative agencies are availed of. However, with the introduction of the monopoly procurement scheme, the entire cotton grown in Maharashtra state will be sold through the agency of the State Government and only requirements of such varieties of cotton as are not grown in Maharashtra will have to be obtained from outside the state. The policy decisions to be taken by the management would relate to types and quantities of cotton to be purchased, markets from where to be purchased and quantities to be maintained in stock. ***Tendency to over-stock cotton if noticed should be commented upon***. Open market purchases should be checked on the points, that, Whether tendersare called in sufficient numbers ; they are called by observing proper procedure i.e. by advertising in press, specifying quantity required, grade of cotton etc.

(iii) In the case of spinning mills set up by weavers (consumer type of spinning mills), once the requirement of members regarding quantity and counts of yarn have been ascertained, the right type of cotton has to be purchased through Government agencies so far as cotton grown in Maharashtra is concerned, and from the open market in other states. While the price for cotton produced from grower members will be the average of the whole season, the price of cotton in consumer mills will be the price fixed by Government for purchases made in Maharashtra State and ruling market prices for cotton purchased in other state.

(iv) Since cotton purchased, contributes on an average, *sixty percent of the cost of the yarn* produced, purchases and consumption of cotton should be properly controlled. It should also be seen that adequate quantities of the required type of cotton are always kept in stock to ensure that there are no production stoppages on account of non-availability of raw materials. In order to ensure adequate control over consumption of cotton, besides the cotton stock register, a cotton issue book and a cotton-mixing book are required to be maintained.

27.3. *Civil Works :-*

1. ***Plans and estimates*** should be prepared and got approved from the committee before any work is undertaken. Where works of considerable value have to be got executed, an Architect should be appointed for preparing layout plans and estimates. A qualified Civil Engineer assisted by an adequate number of supervisors, *mistries and building clerks* should be appointed for supervision over new works and maintenance of buildings, roads and other works. The mistri or clerk or the supervisor of work should take measurements and supervise over the day-to-day construction work. He should also maintain proper accounts of building materials and stores received and issued from day-to-day. Arrangements for obtaining supplies of building materials like sand, bricks, building stones, lime, cement etc., should be examined and it should be seen that as far as possible, supplies are obtained from approved suppliers whose tenders have been accepted. The works clerk should maintain proper accounts of materials received and issued, since these would mostly be lying in the open and taken to the construction work as and when required. Cement, steel and timber should be properly stored and should be adequately insured. Building stores like nuts and bolts, nails, hinges, door and windows handles, etc., should be under the control of the storekeeper who should issue them only against duly approved indents.

Where work has to be executed by contractors, tenders should always be invited and except for special reasons, which should be recorded in the minutes, the lowest tender should normally be accepted. Where no tenders have been invited due to urgency for execution, small value of the job, etc., enquiries as to prevailing rates should have been made with approved contractors. Agreement should always be entered into with contractors. The terms and conditions should be studied with special reference to supply of materials, payment of advance, retention money to be deducted, period during which work should be completed, etc. The building supervisor or Clerk of works should maintain necessary measurement books and measurement of works completed should be entered therein. Payment of advances to contractor should be made only against certificates issued by the Architect or the Engineer in charge of works. *The running bills received from the contractors should be checked with reference to rates, quantities, calculations, extensions and totals*. The certificates issued by the architect should mention the value of

the work executed up to the date of the bill, amounts paid against previous tills, retention money and amounts already paid and cost of materials supplied, and income tax if applicable to be deducted and the net amount recommended to be paid. After the construction work is completed, architect or the engineer should furnish a completion certificate and also a valuation certificate, which should have been arrived at independently. *Final bills submitted by the contractor should be thoroughly checked and the total expenditure incurred should be compared with the estimates*. *Increase in the actual expenditure, if material, should be investigated*. 'Material' here means the impact of the expenditure will heavily change the estimates. Where construction work is being got executed departmentally, arrangements made for the engagement of the various categories of laborers, such as masons, carpenters and other skilled and unskilled laborers should be ascertained. It should be seen that proper muster rolls showing their attendance and acquaintance, and rolls for disbursement of wages are maintained and these should be checked. Job cards and job Registers maintained for piece workers and petty contractors should be checked. Variations in the estimated value should be got approved from the competent authority, if it is previously required to be approved by him.

2. ***Allocation :-*** Allocation of materials, wages and supervision charges according to specific buildings works and / or job should be checked. It should be seen that the basis adopted for allocation is proper. The basis for allocation of indirect expenses like services of construction machinery such as concrete mixers, vibrators, etc. and also salaries of the Civil Engineer, Architects fees, etc., should also be ascertained. All reports like the Daily Reports of materials Received and Issued, Daily progress reports, Acquaintance Rolls for payment of wages, Works and jobs Completed Reports, Allocation Sheets etc., should be signed both by the building Supervisor of the construction and the Civil Engineer. Entries in the Works or Job Registers, Materials Issued Register etc., should also be initialed by the Civil Engineer. After the works are completed, completion certificates and valuation reports should be obtained from the engineer, as the case may be. Entries made in the property Register, should also be checked. Where temporary or Katchha roads have to be constructed and maintained for transport of raw materials like Hume pipes, steel plates, rails, etc. they should be checked and certificates obtained regarding their physical existence. (Please refer to AS 7)

3. ***General deficiencies in Civil works :-*** In the societies which undertake civil works, following deficiencies are found, auditors should take care while auditing these records, and check whether the deficiencies could be avoided or not.

i) ***Estimates :-*** The estimates are not properly prepared; either there are underestimates or overestimates of work. Many times the rates considered in estimates do not match market rates prevailing at that time. The auditors should see that the estimates are based on the current DSR rates or market rates should be obtained. Proper care has not been taken such as taking of trial pits for confirmation of nature of soil for excavation, which results in high or short estimates of material consumption like steel, cement etc.,

ii) ***Calling of tenders :-*** If the proper advertisement in large circulation papers is not issued by the mill / society, and it is issued in small local paper, which does not provide competitive rates, objection should be raised. While advertising, the class of contractor, necessary equipments required with him are not disclosed. Tenders received, issued are not recorded properly. The comparative statement prepared should contain the comparisons of technical and financial comparative figures, with specific notes regarding technical specification, and variation therein. If this is not done by Mill / Society it should be objected to. While accepting the tender of higher rates reasons for accepting that, are not explained in the comparative statement and minutes.The auditor should verify all these irregularities and comment upon in his audit report, with suggestions thereon.

4. ***Agreements and terms and conditions :-*** The concerned Civil Engineer of the Mill / society is required to make agreements with the Architect, supplier, contractor, for the jobs assigned to them. However, if it is not done properly, and terms regarding escalation of rates, material quality, specification, terms of payments as per construction, are not included in the agreements, it results in inferior quality, and loss to the Mill / society. (Please refer to AS 7)

27.4. *Store Section* :-

1. *Various Levels of Stocks & Purchase Policy* :- Minimum and maximum stocks and ordering level should be fixed for all items in stock and mentioned at the top of the bin cards. When stocks fall below the minimum quantity or the ordering level fixed, the store-keeper should submit requisition for replacing the stock. There should also be a proper system of obtaining requisitions from the various departments, sufficiently in advance to ensure ***timely purchases at reasonable prices***. The Purchase Department should maintain a list of approved suppliers. The system in operation for making purchase, inviting tenders or quotations, or making enquiries with different stockists or dealers, issue of purchase orders from printed order books, inspection of goods when received etc. should be examined and suitable suggestions made for improvement. It should be seen that proper control and supervision is exercised at every stage. Goods should be inspected immediately on receipt, ***as to quality, quantity, physical condition***, etc. and inspection reports submitted to the Purchase Department. Where goods are returned for reasons such as damaged in transit, not according to specifications or sample, etc., credit notes should be obtained from the suppliers or note made on the copy of the invoice so that the Accounts Department would deduct the amount at the time of payment. Bin cards should be maintained for all items in stock. All receipts and issues of store should be immediately entered on the Bin cards. Besides quantity, accounts maintained on the bin cards by the storekeeper, the accounts department should also maintain necessary stock ledger. The Store keeper should maintain a Goods Inward Register. The purchase Register or the invoice register maintained by the accounts Department should be checked from Goods Received Notes issued by the store keeper or certificates recorded by him on the invoice Entries on the bin cards also should be test-checked.

2. *Issue of stores* :- Issues of stores and other materials from stores should be made only against properly authorised indents submitted by the heads of the Departments or other authorised officers. Entries in the stores issue Register should be test checked from the indents received from the various Departments and filed by the store-keeper. Daily summary sheets of stores issued should be prepared by the store-keeper from the issue Registers and the totals called over into the fortnightly or monthly abstracts from which postings are made into the stock ledgers. Posting into the stock ledgers should also be checked.

3. *Allocation of stores* should be made under proper authority. Journal entries relating to allocation of stores should be checked. Allocations should have been made on the basis of indents, which should contain full particulars of the job or process for which the materials have been supplied. A certain percentage of the entries made in the job or process Registers should be checked from the indents issued by the concerned departments. (Please refer to AS 2)

4. *Valuation of Work in progress (WIP)* :- Auditor should verify quantum of work in progress as at year end considering per day production capacity of the factory and process time. The WIP is to be valued as per AS 2 and includes all raw material, cost of conversion and proportionate direct overheads.

5. *Sale of stores* :- Where stores have been sold; credit bills or cash memos should be checked. Posting into the debtors ledger and also the stock ledger should be seen. Where stores or other materials like spare parts are lent, it should be seen that they are duly returned back and in good condition, and replacement and hire charges as fixed by the committee are recovered.

6. *Materials returned to stores* :- The register of materials returned to store should be checked from the materials returned notes accompanying the returns and acknowledged by the storekeepers. Entries in the bin cards and the stock accounts should also be seen.

7. *Some deficiencies in Purchase Procedure* :- Societies like spinning mills and sugar factories that process, require various types of stocks, tools and tackles, spares etc., which are purchased from open market, as per the procedures laid down by the competent authorities like, Director of Sugar, Director of Handloom and Power loom and Textiles, or Registrar. The Purchase policy of these societies should be based on qualitative goods, reasonable price, and required quantity to avoid overstocking, and to exercise control on cost of production. They should follow the limits laid down by these authorities while purchasing, and purchase the stocks through State level purchase committee or the Board of Directors as they are authorized in prescribed monetary levels. However, some ***deficiencies*** are found in the

purchase procedure. Auditors should bear in mind that, these should be avoided, and suggestions regarding this should be made in the audit report, if they are observed during the course of audit. The deficiencies are as follows :

1) The store indents are not based on the last three years' average consumption and proposed crushing or production budgets. Either they are over estimated or short estimated, which leads to urgent or local purchases at higher rates, or without competitive rates.
2) The purchases are not made from the registered suppliers, dealers, or manufacturers, from the list approved by the Board of Directors or the competent authority.
3) Enquires are sent to specific dealers, suppliers other than those approved, resulting in inferior quality, and high cost stores.
4) The enquiry letters are sent in a manner that the approved dealers, suppliers should not get them in proper time that is mentioned in enquiry letter resulting in bypassing of competitive rates.
5) The comparative statements are not prepared considering the terms of duties, taxes, octroi / local cess and other levies, destination of supply, which results in improper financial comparisons, and increasing the cost of stores. As well as the comparative statement should give the full details of technical comparison, so that there should be a comparison based on equal footing. Variations in technical norms should be specifically mentioned in the comparative statement.
6) Reasons are not specified for rejecting the lowest tender.
7) Terms and conditions laid down in the purchase order are not properly observed by the purchase department.
8) Necessary penal action is not initiated against the suppliers or dealers who have not observed the time schedules or conditions of supply in the purchase order, resulting in high cost of purchase from local markets, as urgent purchases.
9) It is necessary that there be confidentiality in calling tenders, opening them, and comparing them, which is not rigorously maintained.
10) The auditor should observe whether the stores purchased during the audit period were required and utilised, and there was no unnecessary purchase and stocking.
11) Whether advances made against supply are not adjusted, and if so, proper action for recovery of advances has been taken against the suppliers to whom such advances have been made but also have not supplied the goods ordered.
12) The auditors should note whether the purchases are made from the specific dealers, suppliers and their sister concerns, which results in bypassing the competitive rates.

27.5. *STOCK VERIFICATION* :-

1. ***Arrangement for stock verification*** **:-** The intervals at which stocks are verified should be ascertained. The work of annual stock taking will have to be attended to and supervised by the members of the board of Directors, Managing director and other officers who are not connected with the working of the stores. Final stock sheet duly signed by the managing director and heads of the departments concerned should be thoroughly checked and compared with the closing balances in the stock ledgers. Lists of excesses and shortages should be obtained and differences where material should be enquired into and explanations obtained. All excess and shortages should have been considered and approved by the board. *Slow moving and non-moving stocks should receive special attention of the auditor and suggestions should be made regarding their disposal*. If certain stocks are excessive, the management should be apprised of the same. ***Proper appraisal of the stock positions is one of the most important duties of the auditor. Necessary certificate regarding verification and valuation of stock should be obtained by the auditor for his record from the management of the society in the formats prescribed in AS 2.***

2. ***Empties*** **:-** A register of empties and saleable packing materials such as plywood boxes, empty tins, iron patties, etc., should be maintained and all durable and resalable containers should be entered therein where containers such as barrels, etc., are to be returned to the suppliers. It should be seen that they are returned in time and refund of amount deposited or kept with suppliers obtained.

3. *Purchases of hessian or gunny cloth, gunny bags* :- Arrangement made for purchases of gunny cloth and other packing materials should be seen. Where purchases are not made through the federation, the purchase policy should receive very careful attention.

4. *Observance of stock taking* :- A standard program of stock observations should be prepared for the guidance of the staff deputed to attend and observe stocktaking. Weak points noticed during observance of stocktaking should be noted and attention of the management drawn thereto. All stock should have been pre-numbered before being issued to stock takers. Detailed instructions as to how they are to be filled in should have been issued. All issues and receipts of stock sheet should be properly controlled. When the stock sheets are received back, the sequence of their numbers should be checked and enquiries made into missing numbers. All stock sheets filled in should have been signed by the stock counting teams and officer responsible for the stocktaking. Final stock statement should be compared with the rough stock sheets and inquiries made into discrepancies, if any. Test checks of the stock sheets with the stocks accounts and the bin card should be made. It should be seen that discrepancies, if any, have been duly adjusted, both as regards quantities as well as values. A note regarding physical check carried out should be made on each account in the Stock Register. Auditors in charge of audit should carry out stock taking of a specified number of items in stock during the course of audit, so that they may get points regarding system of stock taking.

27.6. PAYMENT OF WAGES

1. *Time Office* :- Attendance cards should have been issued to all workers. Entries in the Muster Rolls and Late Attendance Register should be checked from the Attendance card on sample basis. Reports regarding total strength of each department and workers' attendance should be submitted daily to the Administrative Officer by the Time-Keeper. Where the system of punching cards/ biometric system is used, the auditor should verify that the system is properly working and all records of arrival and departure at every time is recorded by the machine automatically.

2. *Establishment records* :- All appointments, promotions, increments, as enquiries ordered or other disciplinary action taken, fines and punishments imposed, suspensions, etc. should have been properly authorized. Regulations for recruitment, discipline and conduct of employees should have been framed. Service Rules, Leave Rules Provident Fund Rules, etc. should also have been made. Provisions of all these rules and regulations should be gone through carefully and it should be seen that they are being properly followed.

3. *Preparation of pay rolls* :- Pay-rolls or wage sheets should be prepared in the Accounts Office from the Muster Rolls, Late Attendance of workers Register, Absentee Reports, etc., maintained by the Time office or electronically prepared. Total attendance of workers shown in the wage sheets should be checked from the establishment records. Separate pay rolls or wage sheets should be prepared for payment of overtime. Attendance should have been correctly marked in over-time attendance Register and calculation of overtime should be seen. Payment of overtime wages should be test checked. In case of pay rolls prepared on the computers based on the software prepared for the same, it should be verified by the auditor that the parameters set by the programmers meet the requirements of the factory, and they are consistent with the policy framed by the management regarding pay scales, manner of issuing increments, space for recording the changes of dates of increments, pay differences, and any punishment if it is imposed in any case. It is necessary the software should be consistent with the calendar for the year of accounting with the days declared as holidays by the Factory.

4. *Checking of wage sheet* :- All wage sheets should have been signed by the clerk preparing them and the accountant who has checked them and also by the head of the department concerned. Attendance of workers shown in the wage sheets should be test-checked from the Time Office records. Rates of wages, dearness allowance and other allowances should have been properly regulated and should be test checked from the establishment records. Calculations, extensions and totals should be checked, if prepared manually. Totals of each sheet and carry over should be checked and total wages paid called over into the Abstract or summary Sheet and the total wages paid called over into the Cashbook. Total deductions made from wages should be traced on the credit side of the cashbook and it should be seen that they

have been correctly posted into the ledgers. If these records are prepared on the electronic media, auditors should verify the points mentioned in paragraph (ii) above. The following are the deductions usually made from wages : -

(i) Provident Fund.
(ii) Employees State Insurance.
(iii) Income-tax/ Professional tax
(iv) Canteen dues.
(v) Dues of the Employees' Co-operative Credit Society and of the Co-operative Store.
(vi) Dues of the fair price shop.
(vii) Advances against wages, fines and other amounts due to the factory.
(viii) Dispensary dues.
(ix) Rent and light charges.
(x) Other dues, such as fees of sports club, voluntary, Group gratuity scheme contribution etc.

Deductions made on account of third parties such as canteen Co-operative society, income-tax, etc. should be paid over promptly. Deductions on account of provident income fund, State Insurance, etc. should be paid over to the concerned authorities on due dates.

5. ***Allocation of wages*** and products should have been correctly made. Journal entries passed for making necessary allocations and adjustments should be seen.

Arrangements made for disbursement of wages and identification of the workers should be ascertained. Acquittances obtained over pay-rolls \ wage sheets should be seen. All acknowledgements for payments of over five thousand rupees should have been stamped.

Payment of retention Allowance should be checked from the Retention Register. It should be seen that all payments have been properly authorized. Payment of gratuity should have been made in accordance with the provision of Staff Retirement benefit and Gratuity Fund rules framed by the society. The provision of these rules should be perused. They should have been duly approved by the competent authority, viz., registering authority or other authority as may have been specified in the byelaws of the society.

Where employees' provident fund accounts are maintained by the factory, monthly posting in to the Employees Provident Fund Ledger should be checked. Provident fund loans should be checked from application for loans, sanction and agreements; calculation of employer's contribution should be checked. Where the Provident Fund Act applies, all deductions of provident fund and employers' contribution should be paid to the Provident Fund Commissioner within the prescribed time. Where the provident fund is invested in the trust registered by the employees, and employer,it should be seen that proper contributions are paid to the trust. Necessary provisions of the concerned. Act are explained in volume II of the manual.

Payment of bonus should be checked from the bonus payment register. Calculation should be checked on percentage basis. Payment of leave salary should be checked from the register as also orders sanctioning leave. Necessary provisions of the Payment of Bonus Act are explained in volume II of the manual.

6. ***Security from staff*** **:-** Security from staff as per scales prescribed in M.C.S.rule 107-B should be obtained from all members of the staff handling cash and other property of the factory. Where fidelity insurance has been effected or blanket policy covering all risk is taken out.The policy should be inspected and it should be seen that it covers all risk and the amount of the policy is adequate. Dates of payment premium should be noted.

7. ***Standing order and other Acts applicable to staff*** **:-** It should be seen that the provisions of the Standing Orders and the various other Acts such as Factory Act, Industrial Relations Act, Industrial Disputes Act, Payment of Wages Act, Provident Fund Act, etc., are being properly observed and necessary registers prescribed under the various Acts are maintained. Where periodical returns or reports are required to be submitted, it should be seen that they are submitted in time to the concerned authorities. Necessary provisions of some Acts are explained in volume II of the manual.

8. ***Reservation to various posts*** **:-** The Government has directed the societies to reserve the posts for various kinds of backward classes on percent basis. The reservations are applicable to the recruitment

and promotions of the employees of these categories. Auditors should see that, proper records required to be maintained in this regards are maintained by the society, and got duly verified from the competent authorities. It should also be observed that the percentage required is maintained by the society and no backlog is pending to be cleared.

27.7. *MOTOR VEHICLES DEPARTMENT* :-

1. ***Maintenance of Vehicle Registers-Control over use of vehicles*** **:-** Where a fleet of cars, jeeps, trucks, tractors, JCB's delivery vans and other vehicles has been purchased, a register showing dates of purchase, registration number, value, depreciation charged from year to year, etc., should be maintained vehiclewise. Every vehicle should be identified by its registration number. Rules should have been framed for the use of the vehicles, and it should be seen that they are duly observed. A Logbook should be maintained for each vehicle and all movements of vehicles should be controlled by issue of duty slips singed by competent authorities. Entries in the log books should be checked from the duty slips and it should be seen that all columns viz., date, hour of departure and arrival, purpose of journey, persons traveling, distance traveled each way as per meter readings etc., have been duly filled in. Signatures of persons travelling should be obtained on duty slips. The specific purpose for which the journey has been performed should be stated. Merely mentioning "office work" or "work of the factory or "Karkhana" will not be sufficient. Details of office work or Karkhana/ society work will have to be stated.

2. ***Control over expenditure on maintenance and repairs*** **:-** Purchases and issues of petrol, oils and spare parts should be checked. Registers showing expenditure incurred over maintenance and repairs (petrol and oil bills, challan and garage expenses, etc.) separately for each vehicle should have been maintained. Payment of Vehicles Tax and Insurance Premium should be checked from the Registration book of each vehicle should be inspected during the course of audit. It should be seen that "No Claim" rebate has been received and necessary deductions made in the annual premium. Insurance policies should be inspected and dates of payment of latest premium noted. All major repairs, including periodical overhauling, replacement of tyres and cost of spare parts should have been properly sanctioned. These may be added to the cost of the vehicle or treated as ***"Deferred Revenue Expenditure"***, as may be considered expedient. In cases where these expenses have been capitalized, it should be seen that depreciation at enhanced rates has been charged. Allocation of expenditure between capital and revenue should be charged. Monthly statements of expenditure incurred under various heads over each vehicle should be prepared and approved by the Board.

The Register of Replacement of Spare Parts should be checked and it should be seen that the used parts are duly returned to the Store. A register of used and unserviceable parts returned to the Store should be seen and their disposal watched. The tractor and bulldozer operations Register should be checked from the log- books. Bills for hire charges should have been promptly prepared and recovered

3. ***Mode of Allocation*** of expenditure over maintenance of tractors and bulldozers should be checked. It should be seen that adequate depreciation is being charged on all vehicles owned by the factory.

4. ***Sale and Purchase of vehicles*** **:-** Registrar, Director of Sugar, Director of Marketing, Director of HPT have fixed norms for number of vehicles that should be maintained by the societies concern, *i.e.* DCCBs, Urban Banks, Spinning Mills, Sugar Factories, APMCs etc., for the purpose of use of Society. All these societies have to obtain permission for purchase of vehicles. In case when the vehicles are sold at a price approved by the Governement valuer or is less than the cost price (after deducting depreciation) and loss occurred is reasonable. The auditor should verify whether the vehicles are purchased following proper purchase procedure and at reasonable price and with prior permission of the competent authority. While purchasing the vehicle it should be seen that they are useful to the society, and unnecessarily luxurious vehicles are not purchased. At the time of sale, the upset price is fixed by competent authority, and the realization of sale is after adopting open auction of the vehicle. The proper procedure for auction is followed. The transactions of depreciation, vehicle cost, loss or profit are properly entered. If, depreciation fund is created, the entry for reversing the fund amount should be verified.

5. ***Hiring of vehicles*** **:-** Many times vehicles are hired for business use, like for survey by agricultural department, civil department etc. In case of banks, vehicles are hired for recovery purposes. The auditors

should confirm that the rents paid to the vehicle owners are commensurate with the rates prevailing in the market and no higher rent is paid to any person. It should also be seen that the vehicle owners are not related with the employees or the directors of the society concerned. The cost of running such vehicles per kilometer should be within the prescribed limit, and vehicles should not be used for a purpose other than that for which they are hired.

6. *Private use of Vehicles* :- Where vehicles have been used for private purposes, charges at the prescribed rates should have been recovered. Rules governing use of private purpose should have been framed. Banks are not permitted to trade as per section 8 of the Banking Regulation Act 1949. If there is general tendency of giving vehicles for private use, and charging the rents, in banks, the auditor should object to this kind of use, as it is in violation of provisions of the Section referred to above. The auditor should verify the rates charged for private use, and see that they are consistent with market rates and reasonable with the expenditure made on the vehicle, which includes petrol, diesel, oil, repairs and maintenance, and salary and allowances of drivers etc.

27.8. *ADMINISTRATIVE SECTION* :- All matters connected with applications for membership, allotment and transfer of shares, meetings of the general body, board of directors and the various sub-committees should be attended to by this department which should be headed by the Secretary or the Managing Directors, where there is no provision in the bye laws for appointments of a secretary. It should be seen that all necessary licenses and permits have been obtained and renewed in time and all taxes and fees should have been paid in time.

1. *Observance of the provisions* of the co-operative societies act and other statues governing the operations of the factory such as Factories Act Standing Orders Act etc. should be noted and necessary registers prescribed under these Acts should have been maintained. Payment of Purchase Tax, VAT, Income Tax and other taxes and levies payable to Government and local bodies (Municipality, Gram Panchayat etc.) should be checked and it should be seen that claims for refunds of excess taxes paid and allowances admissible have been submitted in proper form and within the prescribed time. Necessary provisions of some of the Acts are explained in volume II of the manual.

2. *Borrowing* :- Repayment of outside borrowings should have been made in time. All installments of deferred payments or credits for purchase of machinery, installments of loans obtained from the Industrial financial corporation, State co-operative bank or other financing agencies should have been paid in time. Government loans and share capital are paid on due dates. Necessary information of all loans for drawal,repayment, and balance, overdue should be mentioned in the audit report.

3. *Advances* :- It should be seen that payment of advances and final payments to grower members and non members suppliers of cottons and deductions of compulsory deposit have been made in accordance with the decision taken by government and directions issued to the factory. The cotton price statement should be checked and compared with the annual report of cotton purchased.

It should be seen that all periodical reports and returns prescribed by the various departments of the Central and State Governments and other authorities are submitted in time. Figures appearing in different statements should be compared with figures appearing in the books, and discrepancies noted, should be enquired into and clarification obtained.

27.9. *SALE OF YARN* :-

1. The organization and functioning of the selling department should receive very careful attention of the auditor. It should be seen that all sales are concluded by a special sub-committee of the Board of Directors in accordance with the policy decisions taken by the general body and the Board of Directors. The proceedings of meetings of this sub-committee should be perused. Although the consumer type of spinning mills are required to meet the requirements of their members and dispose of only such stocks as remain after meeting the requirements of their members, it may happen that the yarn produced by the spinning mill may not be of the required count and other specifications and, therefore, will have to be disposed of in the open market. The spinning mills set up by cotton growers are free to sell their products anywhere. However, it is desirable that the spinning mills should cultivate business relationships with

weavers' societies also, and where possible and as far as possible, try to sell their yarn directly to weaver's societies and other co-operative organizations. The tendency to appoint private merchants as selling agents or to dispose of stock through yarn merchants should be discouraged. Where private parties are appointed as selling agents, it should be seen that this work is not given to only one or two agents.

The auditor should see that no sale of yarn on credit has taken place, if not provided by the byelaws. Further, it should be seen that no commission is paid to any agent for the sale of yarn. The auditor should also see the quantity of sale of yarn in domestic as well as foreign markets, if any, and the count wise average rate obtained for such sales.

The procedures for fixing selling prices should be examined and commented upon, where necessary. It should be seen that the spinning mill keeps updated its costing Register, and manufacturing costs of different counts of yarn correctly calculated. Selling prices should also be in conformity with prevailing market prices for similar qualities and counts of yarn. As far as possible, selling prices should be uniform for all customers.

Receipt of yarn into the godown should be checked from the "Daily Production Reports" received from the Factory Manager or Production Engineer. A Daily Sale Register of yarn should be maintained. Proper stock accounts of yarn received and delivered from the godown should be maintained. The auditor should check the stocks during the course of his audit.

27.10. *GUEST HOUSE* :-

1. All purchases of furniture items and fixtures, crockery, hardware, utensils, linen, blankets, etc., should have been sanctioned by the Board and duly entered in the Dead Stock Register, which should have different sections for entering particulars of different types of articles purchased. Stocks of all articles should be verified annually and breakages and losses enquired into. Valuation of all articles should be verified annually and breakages and losses enquired into. Valuation of all articles except furniture and fixtures should be made on the basis of annual stock verification and the depreciation charged should be adequate. *Arrangement made for the Purchases of.* -

(i) Food grains (such as wheat, rice and pulses),
(ii) Groceries and other provision including butter, oil soaps and also tinned foods, biscuits, etc.,
(iii) Fruits and vegetables, eggs, milk, bread, etc., and
(iv) Sweets and other prepared dishes.

Where annual contracts are entered into for the supply of these articles, the terms of the agreement should be examined and it should be seen that the benefits of seasonal variations in prices of these articles are duly received by the factory. Prices charged should be compared with the prevailing market rates on a test basis. The Guest House Manager and the Canteen Manager should visit the markets frequently and ascertain prices of articles for the supply of which services of contractors are availed of.

A Register showing particulars of items prepared, quantities of materials issued, etc. should be maintained. The Guest House Manager should submit a Daily Report of guests arrived and left, quantities of tea or coffee, snacks and meals prepared and served, etc., Rules regulating use of the guest house need to be farmed. A register of visitors visiting the factory should be maintained. Where an officers' Mess or Canteen has been set up, meals, tea and snacks should be ordered from the canteen instead of preparing them at the guest house. Expenditure over maintenance of guesthouse should be shown under a separate heading in the Annual Budget to be presented for approval at the Annual General Meeting. This would enable the general body to exercise some control over this expenditure. The auditor should verify the allocation made to various departments as per the use of guesthouse by the departments concern.

27.11. *SECURITY DEPARTMENT* :-

1. The security staff appointed should be adequate. The chief security officer should be properly qualified. The staff should be divided according to categories as under : -

(1) Armed guards;
(2) Watchmen;
(3) Night watchman;
(4) Others such as gate- keepers.

It should be seen that necessary licenses have been obtained for all armed guards and are duly renewed at proper time. Proper accounts of purchases, issue and stocks of arms and ammunitions should be maintained, and they are properly and securly kept in the custody of authorised person. Uniforms should be supplied to all members of the security staff. An account of dresses and uniforms should be maintained.

Arrangements made for the issue and collection of gate passes should be ascertained. The Register of Gate Passes issued and collected should be test checked in order to be satisfied that proper control is exercised over all the goods and materials leaving the premises of the factory. Gate passes should be checked. Only authorized persons should issue gate passes.

Vehicle Arrival Register should be maintained by the Gatekeeper for recording arrivals of trucks, carts and other vehicles entering the factory and particulars of goods brought in. All private vehicles entering and leaving the premises should be carefully watched to ensure that they do not carry any contraband.

Where guards have been taken in the service of societies/ agencies providing security, it should be seen that the guards are duly registered with the society/agency, and agreement regarding services, their charges, period of contract has been made.

27.12. *MEDICAL DEPARTMENT* :-

1. The medical Equipment Register and the latest stock verification Report are perused. The date of last verification of medical equipment should be noted. A few items which include some of the important articles, recently purchased should be inspected.

The Stock Register of medicines, injection vials and medical stores should be examined with particular reference to purchases and issue of popular and frequently required items. Stocks of costly medicines should be verified. The latest verification report should be seen with particular reference to out-of-date medicines and injection vials. Where these are still in stock, reason as to why they have not been returned to the suppliers or manufactures should be ascertained. A few important items in stock should be checked and compared with the book balances. Arrangements made for the periodical verification of stocks of medicines and medical equipment should be ascertained.

The register of patients attending the dispensary should be examined. Separate registers should be maintained for treatment of (a) employees of the factory and members of their Family, (b) members of the society and their family members, (c) other patients. A register of Indoor Patients should also be maintained. A few entries in these Registers should be checked with the case papers. All case papers should have been properly filed.

2. Rules should be made covering the following matters : -

(i) Medical attendance of workers, supervisory staff and officers working in the factory and members of their families.
(ii) Attendance and treatment of members of the society (factory) and members of their families.
(iii) Recovery of charge for attendance and visits of the medical officer and his assistants and cost of medicines supplied, from (a) workers, supervisory staff and officers employed by the factory and members of their families, (b) members of the factory and (c) outsiders.
(iv) Charges for visits of the medical officer and other staff and division of the fees recovered between the medical officer and his staff and the factory.
(v) Concessional rates to be charged from special categories of patients.

Bill for medical attendance, cost of medicines and visits of the medical officer and his staff should be prepared promptly and recoveries effected. In case of members of the factory, bills should be prepared and the amounts debited to their personal accounts so that recoveries could be made at the time of payment of cane/ cotton prices or other payments. Cash receipts should be checked with the carbon copies of the printed receipts issued and total receipt as per Medical Attendance Register should be called over into the mill :-

27.13. *OPERATIONAL EFFICIENCY* :-

1. The following are the factors, which determine the operational efficiency of a spinning mill : -

(i) Full utilization of installed capacity.
(ii) Avoidance of invisible losses during production.
(iii) Proper control over various items of expenditure.
(iv) Avoidance of wastages at different levels.
(v) Maintenance of proper records.

(i) *Full utilization of installed capacity* :- It should be seen that the installed capacity of the mill is fully utilized by working it in multi-shift for all the days during the year by increasing the efficiency of the workers and the productivity of the machinery and by working it at maximum speed. Percentage of idle spindling to total spindlage should be worked out and production per spindle gram and production per hour worked should be calculated and compared with norms fixed.

As regards full utilization of the installed capacity, it has to be noted that the ideal way is to work the mill for all the 24 hours of the day all the years round. Assuming 7 days as paid holidays during the year, the mill should work in three shifts each of 8 hours for 360 days during the year and 95 per cent of the spindle capacity calculated on the above basis may be taken to be the standard spindle utilization. However, due to power shortage, it may not be possible to work on all the thirty days during the month. As such, if the mill has been working on an average for 26 days in a month in three shifts and achieves 96 per cent of spindle utilization, it should be considered satisfactory performance, even if the mill works for a fewer hours, say 22.5 hours, on an average making allowance for stoppages.

(ii) *Inevitable Losses* :- Actually, a spinning mill with the latest humidification plant should have no invisible loss, if the humidity is properly maintained. However, if for certain unaccountable reasons, proper humidity could not be maintained, a small invisible loss of about 0.50 to 1 per cent would be permissible irrespective of coning or reeling. If the invisible loss assumes larger proportions, say, if it exceeds 2 per cent investigations as to causes thereof, will have to be carried out.

(iii) *Expenditure* :- Expenditure over items like storage, lighting, power and other over-heads incurred for production should be checked and cost per spindle per month should be worked out and compared with the expenditure incurred over them during previous months or other comparable periods. Since Co-operative spinning mills have installed the latest machinery, expenses over spares, stores, etc., and also on power consumption should be low as compared with the older mills, which do not have advantage of latest innovations and improvements. Cost of production per spindle shift should be worked out separately for reeled yarn and cone yarn of different counts and the expenditure incurred over the different items should be compared with the standard (both low and average) mentioned at page 3 of the Registrar's Circular No. ADT/298 (AC) (SPN) dated 30th April 1970. The expenditure on various heads per spindle in terms of total expenditure should be as below:

Sr. No.	Particulars of Expenditure	% to total expenditure
1	Salary and wages	31.60
2	Store consumption	09.20
3	Energy	26.30
4	Interest	10.50
5	Other Expenses	14.50
6	Depreciation	07.90
7	Total	100

The above norms are known as Sitra Norms(South Indian Textile Research Association), which are on the assumption of 8 hour shift.

(iv) *Wastage* :- The percentage of wastages at different levels should be worked out and compared with normal wastages mentioned at page 4 of the registrar's circular referred to above. Since on an average, raw materials constitute sixty per cent of the total cost of production of yarn, every one per cent increase in the wastage of raw materials will add 0-6 per cent to the cost of production. It is, therefore,

necessary that all possible efforts should be made to reduce wastage of raw materials. The following are the stages where wastage of raw materials takes place: -

(i) Blow room,
(ii) Carding,
(iii) Others.

There would also be hard waste and invisible waste. In the higher counts, there would be additional wastage during combing. The normal percentages of wastages during different stages have been given in the Registrar's Circular No. ADT/298(AC) (SPN) dated 30th April 1970, which should be referred to.As per Sitra Norms the percentage of wastages are as below:

Sr. No.	Particulars for the 40 count cotton	Percent of recovery and wastage
1	Yarn	88.50
2	Wastage	
a)	Cotton (usable)	5.30
b)	Cotton (sellable)	5.40
c)	Hard waste	0.30
d)	Invisible waste	0.50

(v) ***Preparation of Monthly Cost sheets*** **:-** After ascertaining cost of expenses from the different sections, Monthly Cost sheets showing cost of production of yarn for the month should be prepared. The monthly cost sheets should show not only the total cost, but also cost per spindle of the various counts of yarn produced during the month. Correct allocation of overhead expenses is very important and it should be seen that the basis for allocating overheads has not been changed. It should be uniform for the whole year so as to make comparisons meaningful. As regards consumption of raw material, quantity of cotton consumed during the month should be correctly calculated after making due allowance for saleable waste. From the production of yarn at spindle point and actual cotton consumed, the percentage of yarn realized should be calculated and the actual and calculated saleable waste should be compared.

The ring production should be compared and agreed with the final production at the packing stage, in order to ascertain whether or not there is any gain at the packing stage. The estimated profit or loss for the month separately for the various counts of yarn manufactured during the month on the basis of norms fixed for production per spindle yarn, realization and normal expenditure under various heads should be compared with the actual profit or loss with a view to judging the actual performance with the estimated performance and find our reasons for discrepancy and take steps to improve productivity and reduce losses or wastages during different stages of production.

The various technical reports received from the respective heads of the sections or departments, should be carefully studied and efficiency of the working of the preparatory section, reeling section and various other sections should be ascertained in relation to the various norms laid down for the purpose. These have been mentioned in the Registrar's Circular referred to above. Standard production in grammas of various counts per spindle in an eight hour shift, hundred production and expected efficiency given in the Registrar's Circular should be noted and the actual should be compared with the standards laid down. Where differences are material, they should be discussed with the technical officers. Norms for winder efficiency according the number of drums per winder and also reeling efficiency for straight reel and double cross reel for various counts of yarn have also been specified in the circular. It should be noted that since the co-operative spinning mills have been equipped with the latest type of spinning machinery, they should be able to work at a higher spindle speed and achieve much better results. Their production should be at least five per cent more than the standard production mentioned in the Registrar's circular. Much will, therefore, depend on the efficient working of the Engineering Department.

Reports submitted by the Chief Engineer in charge of the Engineering Department should be carefully studied and on the basis of the reports submitted by him, the working of this Department should be examined with reference to the following points: -

(vi) ***Losses on account of mechanical and/or electrical defects*** **:-** Normally, permissible losses on account of stoppages for mechanical and electrical defects and repairs and stoppages due to other

reasons are *2 per cent, 1 per cent and 1 per cent* respectively. Where these percentages exceed the specified percentages, reasons for the same should be ascertained. Since the machinery is new, normally, it should need no repairs during the initial period. Where defects have been noticed which call for major repairs, it should be ascertained whether any performance guarantee has been given by the manufacturers of the different items of machinery and if so, the relevant clause in the agreement should be invoked and the manufacturers or their representatives should be called upon to carry out necessary repairs and remove the defect. It should also be ascertained from the agreement with the manufacturers whether there is an undertaking to attend to servicing and supervision during the initial period.

(vii) *Records* :- It should be seen that necessary records have been maintained by the Department and the reports submitted by it should be studied.

(viii) *Stores* :- It should be ascertained from the records relating to receipts and consumption of stores whether there has been any overstocking of stores or requisition of stores not required immediately.

(ix) *Processes Stock* :- This is a very important item, which significantly affects the efficiency of the Department. Normally, for a 12,000-spindle mill of average 40 counts, the cotton in process up to spindle point inclusive of 6,000 Ibs. of cotton either in Iap form or stock mixing, should not be more than 28,000 Ibs., and not more than 6,000 Ibs., of yarn stock in the form of spindle doffs, hanks, cones, bundles, etc.

CHAPTER No. 28

WEAVERS SOCIETIES

28.1. ***Introductory*** **:-** Handloom weaving is one of the most important industries in Maharashtra. Although the industry is spread out in all the districts, there are certain centers the products of which are famous all over India. Co-operative weavers societies have been set up wherever there is a concentration of weavers, and since handloom weaving providing occupation to a very large number of persons and is next in importance only to agriculture. Both the State and the Central Government have evolved a number of schemes for providing financial assistance to Co-operative weavers' societies. Since the pattern of assistance varies from year to year, auditors should study carefully the circulars on the subject issued by the Directorate (Handlooms) and the Registrar of Co-operative Societies and available terms and condition governing the same. The following circulars issued by the Register should be carefully studied.

1) Circular No. IND/4/MSC, dated 24-10-1955 issued by the Director of Cottage Industries regarding account books to be maintained.
2) Circular No. ADM/6/20, Weavers dated 8-11-1959 issued by the Audit Branch.

28.2. ***Activities undertaken*** **:-** Weavers' societies are permitted to undertake the following activities. The object clause of the byelaws of the society should be gone through, and the auditor should satisfy himself that the activities taken up by the society are within the purview of its byelaws. Where an activity, is not specifically permitted under the byelaws, as for example, running of a fair price shop, the society should be advised to get its byelaws suitably amended.

1) ***Supply activities*** **:-** Purchase and sale of yarn, dyes and chemicals, shuttles and other spare parts, etc.

2) ***Production activities*** **:-** Production of cloth and running of handlooms and powerlooms and employment to its members.

3) ***Processing activities*** **:-** Dyeing of yarn, bleaching and dyeing of finished cloth.

4) ***Marketing activities*** **:-** Purchase and sales of handlooms and power-loom cloth, running of sale depots and retail shops for sales of cloth.

5) ***Credit activities*** - Advancing loans to members for purchase of powerlooms, tools and equipment such as shuttle, bobbins, beams, etc.

6) ***Supply of power-looms*** **:-** Supplying power-looms to members under the scheme of conversion of handlooms into powerlooms.

(1) ***Supply activities*** **:-** Source of suppliers should be ascertained and it should be seen that as far as possible all purchases of raw materials and other requisites are made from the federal society (Regional Handlooms Federation or District Industrial Association). Only when supplies are not available from the Federation, should purchases be made from private merchants after obtaining "No Objection" certificate from the federation. Purchases should be made from recognized stockist, who are registered under the sales Tax Act.

The system of placing orders should be ascertained. Indents should have been obtained from members and purchases should be made of requirements of members. Where purchases are made for maintaining adequate stocks, it should be seen that not more than one month's requirements of members have been kept in stock, except of articles which are not readily available in the market or where supplies have been obtained under permits or licenses granted by Government. Invoices and bills received from the suppliers should be checked and it should be seen that due discount or rebate allowed on bulk purchases according to trade custom, is received and credited. Where purchases are made on credit, it should be seen that accounts of creditors are settled promptly. All credit balances outstanding at the close of the year should be got confirmed. Periodical statements of accounts received from the supplier and other creditors should be compared with their ledger accounts, and discrepancies, if any, should be enquired into.

Arrangements made for storage of goods should be seen. All stocks should be insured and proper control should be exercised over the receipts and issues of stocks from the godowns, since some of the items are costly ones and even a small difference in quantities will have considerable financial impact. Stocks should be verified during the course of audit.

28.3. ***Sales of raw materials*** **:-** The system of fixing selling prices should be ascertained. A register showing how selling prices have been fixed (Price Register) should be maintained. This register should also be carefully checked and it should be seen that selling prices have been properly fixed after due consideration of purchase cost, cost of storage and other charges.

Where sales have been made on credit, provision in the byelaws permitting credit sales should be seen. It should also be seen that credit limits have been fixed for all members to whom credit sales are to be made and that the limits have not been exceeded. The bills or credit memos should be checked and total credit sales agreed with the total amount debited to the debtors' accounts at regular intervals. Debtors' accounts should be checked and a list of overdues prepared. Reasons for default should be ascertained and action taken for recovery of overdues noted. All outstanding debts should be classified at the close of the year into good, doubtful and bad.

Cash sales should be checked with the cash memos issued. Entries in the stock registers should be checked.

28.4. ***Sales/ VAT Tax*** **:-** It should be seen that the society has got itself registered as a dealer and also as a manufacturer, whereever necessary, under the Sales-tax Act. Account of sales tax collected from purchasers and paid into treasury should be checked. It should be seen that sales tax is collected on all sales of goods, which are subject to sales tax. Some Provisions relating to Sales Tax Act / MVAT Act have been described in Volume II of this manual, which, auditor should go through while auditing,

28.5. ***Issue of raw materials for production*** **:-** Issues should be checked from the requisitions received from the producer members. Acknowledgments for receipt of the goods should be obtained on the copy of the requisition, which should be kept in a separate file. Entries relating to issues of raw materials to producer members should be checked and it should be seen that their accounts are correctly debited with the cost of the goods supplied. Finished goods delivered by members should be weighed or counted in their presence and wastage of yarn ascertained. Where wastage is more than normal, reasons for the same should be ascertained and cost thereof should be recovered from the member concerned.

28.6. ***Dye-house*** **:-** Where yarn is dyed before issue or sale, accounts of colours and chemicals used and other expenses incurred should be checked. It should be seen that cost of dyeing is properly added to the issue or selling price of yarn. Where the society has no dyeing house or has not arranged for or undertaken dyeing work itself, it should be seen that as far as possible, dyeing is got done from co-operative institutions. Where there are no co-operative institutions running dye houses or where they are not in a position to undertake the work, quotations should be obtained from private parties and efforts made to get the yarn dyed as cheaply as possible.

28.7. ***Payment of wages to producer member*** **:-** The system of remunerating workers or producer members should be ascertained. Where wages are paid on piece-rate basis, arrangements made for measuring cloth and inspecting its quality or grade and the method adopted for fixation of purchase price should be ascertained and carefully examined. Where the producer members are paid only wages, it should be seen that a system of payment on piece rate basis is adopted. In such a system, it should be seen that the rate of wages are fixed according to counts of yarn, design and width of borders, weaving pattern and design and other considerations, including skill and experience of the weaver, time occupied, etc., which are normally taken into account for payment of wages. It should be seen that the minimum wages fixed by the State Government are paid. Regular production orders should be issued and the weaver should have full information regarding the type and quality of cloth to be woven and also the period within which delivery should be given. Unless the members of the committee volunteer to undertake this work, it may be necessary for the society to appoint a "Master Weaver" or a skilled weaver as its manager. Where a system of issuing raw materials at cost price and purchasing the finished, product at a predetermined price is followed, so as to allow the producer member an appropriate margin of profit instead of paying him fixed wages, it should be seen that the finished goods delivered by the members are properly inspected and their prices determined according to standards laid down by the committee. It should be seen that only goods produced by members, who have joined the production scheme of the

society, are purchased. Where purchase is made from members who have not joined the production scheme, the goods should be kept separate. Sales of goods produced by the members and of goods purchased from members should also be separately shown.

The annual production program prepared by the committee and approved by the general body should be seen and variations there from should be noted. It has, however, to be noted that the program will have to be varied from time to time according to changes in demand, receipt of outside orders and other circumstances.

28.8. ***Advance to workers against wages*** **:-** Petty advances are required to be made to workers to meet their urgent requirements. Such advances as also installment of shares, compulsory deposits and other dues of the society should be recovered from the wages of the members who have joined the production scheme.

28.9. ***System of Production*** **:-** As already stated, the production scheme envisages two types of production methods. Either yarn of the required counts, as also staple yarn and other requirements, are issued to members and they weave the cloth at their homes and bring the finished cloth to the society or the society itself runs the factory and works its own handloom and powerlooms, in which case, it will be necessary for the society to engage the services of a master weaver as supervisor who will also work as designer. In both the cases, it is necessary that regular production orders should be issued specifying the counts, colours, length, width, and size, design of the border and the ends and other particulars. Dates for delivery of cloth should also be fixed. Detailed manufacturing instructions should be issued irrespective of whether goods are to be manufactured against orders received or for stock. The society should also maintain a "Costing Register" up-to-date in the prescribed form and the costing methods got approved from the Textile Inspector.

A Register of Tools and Equipment should be maintained. Proper account of spare parts purchased and issued should also be maintained. Societies, which have installed powerlooms, should maintain "Machinery Register" which should contain necessary details of all important parts.

28.10. ***Advances to Members*** **:-** Where cash advances have been made to members, these should be recovered from the wages payable or sale-proceeds of finished goods delivered by them. Where advances have been made for other purpose, it should be seen that necessary provision is contained in the byelaws and loans should have been advanced strictly in accordance with the provisions of the byelaws.

28.11. ***Loans for installation of powerlooms*** **:-** Under the scheme of conversion of handlooms into powerlooms, financial assistance is available from Government. The terms and conditions, subject to which loans are received from Government, should be seen and their compliance noted. It should be seen that necessary applications, agreements and mortgages and other documents prescribed by Government have been got executed from the members concerned. Repayment of loans by members to the society and by the society to Government should be watched. Where defaults have occurred, these should be inquired into. When Government loans are fully repaid, the amounts of subsidies received should be transferred to the statutory reserve funds and not taken to the profit and loss accounts. (Please refer to AS 12 regarding accounting for government aids) A Register showing full details of the loans and subsidies received should be maintained. The auditor should see the specific Government orders sanctioning the loans and subsidies and see that all the terms and conditions have been duly complied with and repayments are made on due dates. Balances of individual loan accounts should be communicated to the District Deputy Registrar and outstanding balances got confirmed. The auditors are required to furnish Utilisation Certificates regarding Government Assistance received by the society, the auditor should verify the utilisation from the records maintained by the society, and observe that the assistance is used for the purpose for which it is given. In case of non-utilisation he is required to report the matter to the District Deputy Registrar or the Director of Handloom and Powerloom, with extent of mis-utilisation and action required to be taken.

28.12. ***Sale of Finished Goods and Rebate*** **:-** Sales made to the District Industrial Association or other federal body and sales made to private merchants should be shown separately. In case of wholesale transactions, rebate at 3 per cent is allowed both to co-operative agencies and to private merchants who buy goods on wholesale basis. It should be seen in the case of rebate, that the amount of commission allowed should have been deducted from the gross sale and rebate allowed only on the amount. Rebate claims in respect of sales made to private merchants should be checked in detail. Total quantity produced and purchased from members of different varieties of cloth should be checked with the quantities shown as sold, in order to ensure that sales have not been included twice for purposes of claiming rebate. Disallowed rebate will have to be written off by debiting the same to the profit and loss account.

Where goods have been sent on consignment for sale to the District Industrials Association, Federation or to private merchants, account of sales received from them should be checked. Certificates should be obtained from consignees regarding quantity and stock of different varieties of cloth in stock held by them. These stocks with consignees should be included in closing stock at cost.

28.13. ***Retail sales*** **:-** Retail sales made to merchants or other distributors and sales made direct to customers should be separately shown. Cash memos issued should be checked from the "Price Register". Entries in the Daily Sale Register should be checked from the cash memos issued. *It should be seen that rebates have been correctly calculated*. Rebate is allowed to a customer as per rates prescribed on the amount of sales fixed by the society. Rebate is allowed to the customer at the time of sale and the society subsequently claims the amount of rebate allowed by it from Government. Bills for rebate claims submitted to Government are required to be checked exhaustively. It should be seen that rebates have been properly allowed and correctly calculated. Rebate should have been allowed only on cash sales and sales made on credit should not have been included in rebate claims. Where goods sold are subject to sales tax, it should be seen that sales tax has been charged at appropriate rates and recovered from the customer. Total sales made as per Daily Sales Register should be called over into cashbook.

Where credit sales have been made, it should be seen that necessary provision is contained in the byelaws. Credit limits should also have been fixed for individual customers and it should be seen that these have not been exceeded. Provisions of Rules 46-B of the Maharashtra Co-operative Societies Rules should also be noted in this connection.

CHAPTER No. 29

CO-OPERATIVE RICE MILLS.

29.1. ***Monopoly Procurement Scheme*** **:-** Ever since monopoly procurement scheme has been introduced in Maharashtra State, co-operative rice mills, or paddy processing societies as they are sometimes called, have been functioning as sub-agents of the Maharashtra State Co-operative Marketing Federation for procurement and processing of paddy and are arranging for storage and delivery of rice to Government.

Agreements entered into with the Maharashtra State Co-operative Marketing Federation for its sub-agency, under the monopoly procurement scheme should be examined with special reference to-

a. Arrangements for payments to growers, grading of paddy, cuts to be made from purchase price, allowance for triage permitted to the Federation, etc.
b. Storage of paddy, rates of processing charges, storage charges ,transportation charges, insurance and other expenses, payable by the Federation, supply of gunny bags for storage, etc.
c. Liability for F.A.Q. (Fair average quality) cuts and other deductions made by the Supply department.
d. Ownership and disposal of by-products.
e. Liability for failure to maintain standard outturn for rice and other by-products.

29.2. ***Purchase of Paddy*** **:-** Entries in the Purchase Register should be checked from the purchase bills, abstracts of village records, acknowledgements obtained for payment made to growers and hundies drawn on the Marketing Federation, Tribal Development Corporation in case of tribal area. Arrangements made for grading of paddy taking out samples, testing and scrutiny of testing reports should be ascertained and it should be seen that payments to producers are made according to qualities specified in the Government Notification. In no case should purchases be made from the merchants.

Deductions from purchase prices made on account of moisture content, foreign materials, etc., should be seen. Proper arrangements should have been made for the grading of paddy and payments should have been made to the growers according to the rates for different grades fixed by Government. Method adopted for taking out samples and testing of samples and system for scrutiny and follow-up of testing report should be ascertained. It should be seen that separate arrangements have been made for the storage of different grades of paddy.

Entries in the "Hundies Drawn and Discounted Register" should be checked from the carbon copies of the hundies drawn and entries in the pass Book and the daily totals should be called over into the Cashbook. Quantities shown as purchased in the hundies should be checked with the purchases made as per the "Purchase Register".

It should be seen that all daily, weekly and monthly reports regarding paddy purchased and hundies drawn have been punctually submitted and debts made to the account of the Federation have been duly responded by it. The accounts of the Federation/ Tribal Development Corporation should be checked from the periodical statement of accounts received from the Federation and the balances should be reconciled at regular intervals.

Where outside purchases have been made, quantities purchased from members and non-members should be separately recorded. Purchases from non-members should be made only when all the quantities brought for sale by members have been purchased. However, so long as the monopoly scheme of procurement of paddy is in operation, the entire paddy brought in by producers irrespective of whether they are members or not will have to be purchased.

Where purchases of paddy have been made on own account, quantities purchased and value of paddy purchased should be checked with the sale memos. (Takapatti). It should be seen that the byelaws contain necessary provision regarding outright purchases and that the amount invested in outright purchases does not exceed the limit fixed under the byelaws, if any. It should also be seen that finance obtained from the bank for other purposes is not diverted for this purpose.

29.3. ***Storage of paddy*** **:-** Different grades of paddy purchased are filled in bags of standard size and stored separately in the godowns according to grades. Entries in the Paddy Store Register should be checked with the Paddy Purchase Register and Register of "Paddy Issued for Milling."

Where godowns for storage of paddy and rice are hired by the society, lease agreements with the landlords should be seen and notes should be taken of important terms and conditions.

29.4. *Insurance of godowns* :- The insurance policy should be seen. It should be seen that all stocks of paddy, rice and by-products are adequately insured.

29.5. *Milling of paddy* :- Receipts of paddy for milling entered in the Milling Register should be checked from the Paddy Issued for Milling Register.

Shortages at the following stages should be noted and where they are abnormal, enquiries should be made. -

a. Paddy Purchase Center.
b. Paddy Godown (drayage during period of storage of paddy).
c. Rice Mill (During milling and processing).
d. Storage of rice (drayage during storage pending delivery.)

Percentage of shortages at different stages should be noted with particular reference to *moisture cuts, F. A. Q. cuts and other* deductions made.

29.6. *Outturn of rice and by-products* :- The *outturn of rice, broken rice and bran should be according to the standards or percentage fixed by Government Notifications issued by Government* on this subject should be seen. In case outturn varies significantly, reasons for variations should be ascertained.

Entries in the Stock Register of Rice, Broken Rice and Bran should be checked from the Daily Milling Reports and entries passed in the Milling Register. It should be seen that proper arrangements for storage according to qualities or grades have been made. Dates of milling should have been entered in the Stock Register of Rice and also stamped on the individual bags so as to enable correct preparation of bills for storage charges.

29.7. *Plant and machinery* :- The type of machinery installed should be suitable for the quality of paddy grown in the area. It should be seen that overhauling and every work has been carried out at suitable intervals and the plant is maintained in an efficient condition.

The Register of Plant and Machinery, Tools and Equipments should be maintained up-to-date. On the basis of the technical reports submitted by the engineer incharge, the following facts should be ascertained and commented upon when significant variations from standards or norms are noticed: -

(1) Rate of paddy milling and output per hour.
(2) Rate of fuel consumption, per bag of rice.
(3) Consumption of other stores.
(4) Working hours lost on account of mechanical defects or stoppages.

The total milling capacity of the plant should be ascertained and if it has not been fully utilised, reasons for under-utilisation should be ascertained.

29.8. *Sales and delivery* :- Issues and delivery challans should be compared with the release order issued by the supply officer. It should be seen that proper arrangements for weighment before delivery have been made. Dates of receipts and signatures of the Government godown keeper should have been obtained on the deliver challan.

Where dispatches to out-stations have been directly made by the society, copies of the pay bills issued by the transport contractors and returned copy of the delivery challan should be examined.

Action taken to ensure that stocks are promptly lifted by the Supply Department should be ascertained and delay in the lifting of stocks should be reported to the Federation.

Sales or issues of paddy for manufacture of "Poha" "Kurmura", etc. should be checked with the orders of the supply Department.

F. A. Q. Cuts; moisture cuts and other deductions made by the Supply Department should be ascertained. Where these are found to be excessive and exceed the amounts recovered from the growers at the time of purchase of paddy, enquiries should be made. Reports should be submitted to the Federation.

29.9. ***Sales of by-products*** **:-** Where the society has been permitted to dispose of, by-products itself, sales should be checked from the cash memos and total sales called over into the cashbook. If selling rates have not been fixed by Government, resolutions of the committee fixing selling rates should be seen.

29.10. ***Accounts and Record*** **:-** A list of Account Books and Registers to be maintained by Co-operative Rice Mills is given below :-

1) Cashbook.
2) Journal.
3) Central Ledgers.
4) Paddy Purchase Register.
5) Register of purchases form members and non-members.
6) Paddy Store Register (Grade wise)
7) Paddy Milling Register.
8) Paddy Sale Register.
9) Lifting of rice and movement Register (monopoly purchase scheme).
10) Stock Register of Rice (grade wise).
11) Stock Register of by-products.
12) Stock register of gunny bags (new and second-hand).
13) Machinery Register.
14) Loose tools and equipment and spare part Register.
15) Property Register.
16) Muster roll or workers' Attendance Register.
17) Wages Sheets.
18) Electricity Consumption Register. (Register showing daily consumption of electricity of meter readings register).
19) Register showing deduction of societies dues and payments made to growers for paddy purchased.
20) Hundi Register.

———

CHAPTER No. 30
GINNING AND PRESSING FACTORIES

30.1. ***General*** **:-**

(i) Cotton received for pooling and ginning should be checked from the weighment slips and Daily Carts Arrival Register.

(ii) It should be seen that cotton received for pooling and cotton purchased outright has been properly graded and arranged into suitable lots for ginning.

30.2. ***Processing*** **:-**

(i) Entries in the Cotton Ginned Register should be checked from the Register of lots and Weighment.

(ii) Un-pressed bales of lint (ginned cotton) should have been weighed, serially numbered and entered in the Register of Un-pressed bales.

(iii) Receipt of lint and cottonseed should be checked from the entries in the Ginning Register and Daily Reports of cotton ginned.

(iv) *The ginning percentage should be ascertained. Standard ginning percentages (outturn of lint and cotton-seed per kilo) are different for different qualities of cotton and should be ascertained from the Agriculture Department. The same may be obtained from the Maharashtra cotton growers federation Mumbai.*

(v) ***Pressing of cotton*** **:-** Entries in the Pressing Register should be checked from the stock Register of lint. All pressed bales should have been consecutively numbered and their weight, other particulars such as Registration number of factory, etc., should have been stamped on each bale.

30.3. ***Sale of cotton*** **:-** Cotton will be procured compulsorily by Government under the provisions of the Maharashtra Raw Cotton (Procurement, Processing and Marketing) Act, 1972. So, the question of selling cotton by such processing societies will not arise. However, procedure for disposal of cotton, cottonseed and cotton waste should be ascertained. It should be seen that sales are made by calling for tenders as far as possible. Agreements entered into with the Co-operative Marketing Societies or the Maharashtra State Co-operative (Cotton) Marketing Federation, Ltd., Mumbai on whose behalf ginning and pressing work will be done as sub-agent may been seen.

30.4. ***Billing*** **:-** Where ginning and pressing of cotton belonging to other parties has been done, it should be seen that bills for processing charges are properly prepared according to the terms and conditions agreed. Rates for ginning and pressing are generally uniform and fixed by the local association of ginning and pressing factories or by the *Maharashtra cotton growers federation Mumbai as per agreement with them.*Processing expenses (expenses for ginning and for processing) per bale of pressed cotton should be calculated and compared with the expenses of similar units in the area. Agreement made for ginning and pressing on behalf of other marketing society or Marketing Federation should be verified, regarding terms of contract, rates of ginning and pressing, and other terms.

30.5. ***Engineering Section*** **:-** The Register of plant and machinery tools and equipment needs to be maintained up-to-date. It should be examined to ascertain the capacity of the gins and the press. Where full capacity is not being utilized, reasons for not utilizing full capacity such as non-availability of raw cotton, competition from other units, mechanical defects, frequent stoppages, etc., should be ascertained. It should be seen that the processing unit is being economically run and maximum operational efficiency is achieved. It should be seen that fuel and store consumption is according to standard laid down. Working hours lost on account of mechanical defects or stoppages may be ascertained.

30.6. ***Budgetary control*** **:-** It is necessary to frame financial budgets every year by the annual general meeting.

30.7. ***Insurance policies*** **:-** It should be seen that all the properties of the society are insured against fire adequately. It should also be seen that all cotton (ginned and un-ginned) lying within the compound of godowns of the society is adequately insured by the parties concerned.

30.8. ***Other matters*** **:-** Civil Works, purchase of machinery, facilities regarding factory, are explained in the Spinning mill and Sugar Factory section. Auditor should study them and apply suitably.

———

CHAPTER No. 31
AGRICULTURAL FOOD PROCESSING SOCIETY

31.1. *Objects* :- Agricultural foods processing societies are established with the main object of processing the agricultural goods produced by farmers and selling it in the market. The agricultural goods includes different types of agricultural products such as cashewnut, Wheat, Chilly, Soya bean, Tomato, Rice, Potato's, Maize Etc.,

These societies purchase the agricultural goods, process them and sell in the market. The main objects of such society in general are as under:

1. With prior approval of Registering Authority, arrange place for purchase, Building and machinery.
2. Process the agricultural goods of the members and give them reasonable rate for their goods.
3. Building the processing units required for processing and manufacturing By-products.
4. Arranging for sale of processed goods.
5. Arranging for storage of raw agricultural goods and processed goods.

Considering the object of agricultural goods processing units, the working of such society can be divided into four parts *e.g.* Erection, purchase, processing and selling.

1. If the cost of the project of agricultural goods processing Co-Op Society is Rs.1 crore, then the N.C.D.C. will sanction :

1. Loan from N. C. D.C. — 65 %.
2. Share Capital from State Govt. — 20 %.
3. Share Capital from members — 15 %.

For the above purpose, N.C.D.C's terms & conditions are as under —

1. First of all, amount should be collected from members.
2. The project report of the society should have approval from District Industrial Center.
3. The proposal should be submitted to District Deputy Registrar together with project proposal, then it will be checked by the District Deputy Registrar and submitted to the State Government through the Director of Marketing.
4. The project of the society should be completed within the given project time frame.
5. Fresh approval has to be obtained from Registering Authority after the Moratorium Period.

In case the cost of project is in excess of Rs. 100 Lacs it has to be scrutinized by Agricultural Finance Corporation.

31.2. *Financial assistance* :- If the agricultural Society has Govt. and/or N.C.D.C. loan and share capital approval, then the following terms & conditions have been followed by the society, if not that should be mentioned in the Audit Report.

1. The Co-operative society should provide for share Capital Redemption Reserve. An amount of 1/15 share Capital should be credited to share Capital Redemption Reserve before working out net profit.
2. Members' Share Capital should not be repaid until Govt. Share Capital is repaid.
3. Until Govt. Share Capital is fully repaid, more than 4% of dividend should not be declared.
4. Within 6 months of getting the full Govt. Share Capital, Share Certificates should be issued in the name of Honorable Governor of Maharashtra State.
5. The Share Capital Redemption Reserve created by the society should not be used for day-to-day business. It is obligatory to invest it as directed by Registrar or as directed by Officers appointed by Registrar as per Section 70 and Rule 54 of Maharashtra Co-operative Societies Act 1960.
6. The dividend payable on Govt. Share Capital should be paid into the Govt. Treasury within three months from declaring the dividend and information about the same should be given to concerned Divisional Joint Registrar, Co-operative Society.

7. The appointment of Secretary / Manager etc., of the society should be made only with prior permission from Registrar.
8. The Society should take out Fire Insurance on the property of the society from Insurance Directorate, Govt. of Maharashtra.

31.3. *Membership* :- The Membership of agricultural goods processing Co-operative society should consist of agricultural goods Growing and Non-Growing members. Further, if for any reason the growing members are unable to provide the goods, then the agricultural goods should be purchased from persons other than agricultural Goods Growing Members and necessary provision should be made for verification of the same in the Byelaws of the society.

31.4. *Purchase policy* :- There should be a Purchase policy of the society for purchasing the raw material for the society outlining the procedure for looking after weighment of raw material required by the society, and the mechanism / System to rectify the weighment of goods made by the society.

No prior payment should be made to concerned supplier / seller unless the raw material is received at the place decided by the society.

After getting the information that there is suitable arrangement for verification of the quality of the material received, only 60 % of market value of the material received should be paid as an advance.

In case, purchase tax is applicable, then it should be verified whether such tax has been paid into the Government Treasury.

In case, the growing members have not supplied the goods as agreed, then in such cases it should be verified as to what action the management has taken against such members.

31.5. *Projects* :-

a. What is the procedure and the Policies of the Cost Accounting followed while converting the raw material into the finished goods? If the policy once accepted is changed, then reason for such change should be verified. (Please refer to AS 1 Changes in Accounting Policies)
b. Goods are stored in the godown for conversion. Are necessary security arrangements as per Project Report made to convert the agricultural goods?
c. When conversion takes place, process goes into different stages, in this respect, what is the policy adopted by society?
d. While doing conversion, many by-products are produced, Are separate accounts maintained for such by-products?
e. Whether the society has concentrated on by-products instead of Main Products.
f. While processing, sometimes it is impossible to run the machinery, what are the reasons for such events and whether such events have been divided into normal loss or abnormal loss?
g. What is the mechanism to verify the amount of abnormal loss? What is the quantum of abnormal loss? The reason should be analyzed.
h. The defects in mechanism for deciding the cost of goods products should be looked into. Necessary suggestions and directions should be given to reduce the cost of production.

31.6. *Committee For Purchase Of Machinery* :-

A) In case of society's Project having machinery cost in excess of 100 Lacs, society has to follow the directions given for purchase of machinery in the Circular from Co-operation & Textile Dept. Govt. Resolution Processing — 112000 / Adm.No.334 / 9.S, Mantralaya, Mumbai dated 7.11.2000 has formed the following committee.

1	Secretary (Co-operation & Marketing)	President
2	Director of Marketing	Member.
3	N.C.D.C. Representative	Member.
4	District Deputy Registrar	Member.
5	Chairman of the concern Society.	Member.
6	Consultant of the concern Society.	Member.

As stated above, where the cost of machinery is less than 100 Lacs for giving approval, the committee should be as under : —

1	Director of Marketing	President
2	N.C.D.C. Representative	Member.
3	District Deputy Registrar	Member.
4	Chairman of the concern Society.	Member.
5	Consultant of the concern Society.	Member.

As per Government Decision No. 112000/Adm.No.334. /9 S. Mantralaya, Mumbai Dated 31.8.2001 for the purpose of deciding Building Construction Contract and controlling the work of agriculture goods process Co-operative Society Project, the committee has to be as follows :

1	Co-operative Commissioner.	President
2	Deputy Engineer, Co-operation Commissioner Office.	Member.
3	District Deputy Registrar	Member.
4	Chairman of the concern Society.	Member.

B) After depositing the primary share capital in the bank, it should be seen whether any other expenditure has been incurred other than getting the society's Project Report prepared. It is necessary for the society to get the Project Report from MITCON / SICOM or any other approved Institutions.

31.7. *SALE* :- The auditor should verify the society's selling policy from the financial point of view. Necessary recommendations should be made to improve the defect, if any, in his audit report.

While making final bill to growing members, what procedure is followed for making the sale of goods easy? Whether the society has created the post of "Marketing Manager". if not, the byelaws should make such provision.

In addition to main products the society can manufactures by-products. While valuing by-products what type of cost Accounting is followed. Society has framed policy in this regards and is followed if not remarks should be given in the audit report.

———

CHAPTER No. 32

CO-OPERATIVE HOUSING SOCIETIES

32.1. ***Introduction*** **:-** Housing societies are of three types-

(1) Tenant Ownership.
(2) Tenant Co-partnership.
(3) Flat Owners.

(a) Tenant Ownership Societies **:-** In tenant ownership housing societies, the land is purchased, developed and divided into plots by the society and developed plots are allotted to members. *Land belongs to the society and leased to members*. Lease rent (ground rent) is recovered from the members and paid to Government or other landlords, if any. Where land is freehold and owned by the society, nominal rent is recovered from members.

Members construct their own houses according to the plans approved by the society. The society also undertakes construction work and possession of buildings when constructed is delivered to members. Cost of construction is recovered from members either in one lump sum or in installments according to the progress of construction. If the member is unable to pay the entire amount, finance is obtained from the Maharashtra State Co-operative Housing Finance Society or other financial Institutions.

(b) Tenant Co-partnership Societies **:-** In this type of societies, *both land and buildings belong to the society and members are only tenants* possessing rights of permanent occupation subject to payment of monthly service charges and other outgoings of the society including installment of repayment of borrowed capital, contribution to the sinking fund, etc. Agreements in form "A" are obtained from all members. Multi storeyed buildings are constructed by the society and flats are allotted to members.

(c) Flat Owners' Societies **:-** These societies are formed by persons who have purchased flats in buildings constructed by a builder on land purchased by him. The land on which the building is constructed may be freehold in which case the title is conveyed to the society on its registration or it may be leasehold, in which case, the lease rights are transferred to the reactive buyers for the sale of individual flats. These are required to be registered. The builder functions as the Chief promoter of the proposed society. He may also retain the unsold flats, shops, garages, and godowns pending their sale. Buyers of shops and garages are admitted as regular members of the society.

Since the members have paid the entire cost of the flat, the function of the society is merely to collect the monthly service charges and meet the outgoing such as municipal taxes, water and electricity charges, wages of employees, management cost etc, and attend to the proper maintenance of the building.

32.2. ***Important provisions of the byelaws*** **:-** One of the byelaws clearly specifics the object of the society which is to purchase or lease a particular plot and construct building thereon or purchase the constructed building. Hence, no society can be registered until it has purchased or entered into agreement for purchasing a building. It should be seen that after the society is registered, the plot and/or building are duly conveyed to the society by a registered deed.

Limits for authorized share capital and outside borrowings by way of deposits and loans are specified in the byelaws. Qualifications for membership are mentioned in byelaws. Every member is required to furnish full and correct information of the building, plot and flats owned by him and members of his family. Declarations furnished by members should be seen.

If a person already admitted as a member acquires a house or house site outside the society in his name or in the name of any dependent or family member, or if he ceases to reside permanently in the area of operation, necessary provisions in byelaws should be observed.

Admission of new members is the function of the director's body. The committee only receives applications and recommends to the general body. The general body is competent to allot tenements to members on the basis of policy framed by it. It will thus be clear that the society should prepare rules for allotment of plots and gets them approved from the Registrar before any allotment of flats can be made.

Every member is required to hold at least 10 shares. Each share is generally of the value of Rs. 50. However, no member can hold shares exceeding Rs. 20,000 in value.

Provisions regarding admission of new, joint/ associate members, their entrance fees and transfer fees, and other matters relating to admission mentioned in the byelaws, should be verified by the auditor and commented upon in his audit report.

Although the day-to-day affairs of the society are managed by the committee, the committee has to obtain prior permission of the general body for entering into any agreement in respect of the following : -

1) to purchase plot or plots;
2) to appoint architect for preparation of layout plans and estimates for construction;
3) to invite tenders and appoint contractors for construction of tenements. The restrictions on the powers of the committee should be noted.

32.3. *Sinking fund* :- The byelaws provide that 0.75 percent of the cost of each tenement should be collected as sinking fund along with the monthly service charge. Every five years, sinking fund contribution certificates are to be issued to each tenant member.

Form, "A" which accompanies the byelaws, contains regulations regarding tenancies to be granted by the society and forms part of the byelaws.

32.4. *Permission to let out tenement* :- Under Regulation 4, no tenant shall assign, underlet or part with the possession of the tenement of any part thereof without the previous consent of the society in writing.

32.5. *Service/ maintenance charges* : Regulation 20 specifies procedure for eviction of a member for default in payment of monthly rent (service charges). Regulation 24 specifies the procedure for calculation of monthly rent. Besides interest and installments of borrowed capital and contribution towards expenses including taxes, insurance premium, repairs and management expenses, contribution of sinking fund has also to be paid by each tenant member. The model byelaws of housing societies specify various items of expenditure to arrive at the service charges that should be charged to the member.The auditor should study the provisions.

32.6. *Non Occupancy charges on service charges* :- As per order No. samruyo/ 1094/ 15615/ pra-kra-317/ 14-C dated 1st August 2001 from the Cooperation and Textile Department, 10% non-occupancy charges are charged on service charges on the flat / tenement / shop owner of the society, if he has let them out from 9th March 1995 onwards. However, if he has let them to the close relatives such as member's father, mother, sister, brother, son, daughter, son-in-law, daughter-in-law, brother in law, sadu (husband of wife's sister), grandson, granddaughter and any other relation recognized by the society, it is not necessary to pay them such charges.

32.7. *Registration of the society* :- Along with the application for registration, promoters of Co-operative housing societies are required to furnish particulars of houses, tenements and buildings plots owned by them. Such declarations are also required to be obtained from persons applying for membership of the society. This is to ensure that only such persons as are genuinely in need of housing accommodation are enrolled as members of housing societies.

As regards flat owners' societies, it should be seen that the "Builder" who is the chief Promoter of the society, has complied with all the conditions laid down for registration of the society. Agreement entered into by the society with the Builder and the agreements entered into by the Builder with the individual flat owners who became members of the society should be examined.

32.8. *Purchase of land* :- The auditor is required to pay special attention to the following points :-

(i) Interest in the land of any of the promoters or their near relatives.
(ii) Whether any of the promoters or their relatives appears as confirming parties (*i.e.*, parties to an agreement that confirm a right to purchase the land at a specified price).
(iii) The orders in which the names of the confirming parties appear, their number and relationship with each other and the promoters.
(iv) Whether the promoters of the society appear as a confirming party in any other land deal.

(v) Deeds of assignment or agreements under which the different confirming parties have acquired their rights should be gone through carefully to ensure that the society would acquire a ***valid title to the land.***

(vi) ***Payment of advances or part of purchase price*** **:-** Where such payments have been made in cash, further enquiries as to why payment could not be made by crossed cheque should be made as per Rule 107 D of MCS Rules 1961.

(vii) ***Registration of conveyance and payment of purchase money*** **:-** It should be seen that the land has been properly surveyed and correctly described as regards survey number, boundaries, area, etc. Payment should have been made for the actual area taken possession of and it should be seen that all encroachments, unauthorized hutments, etc., are removed and the society obtains vacant possession.

(viii) To see whether any broker or agent was appointed for purchase of land

(ix) All payments should have been made by crossed and order cheques and regular acknowledgments should have been obtained. The dates on which payments have been made and the amounts paid should have been correctly mentioned in the conveyance.

(x) Legal advice obtained should also be seen.

32.9. ***Development of land*** **:-** If the land is not already under non-agricultural use, orders from the Collector concerned for permitting non-agricultural use of the land will have to be obtained. Relevant resolution of the general meeting for appointment of the architect and agreement entered into with him should be seen. Sometimes, instead of executing a regular agreement, there will be a letter specifying terms and conditions addressed to him by the society and his reply agreeing to work for the society on the terms and conditions communicated to him. The architect prepares layout plans and gets them approved from the Municipality / local competent authority. He also prepares the draft tender and estimates the cost of construction, which is approved by the general body. Tenders are invited and the lowest tender is generally accepted on the advice of the architect.

Before commencement of actual construction, permission of the Revenue authorities for use of the land for non-agricultural purposes should have been obtained.

Expenditure incurred over development of land, which includes leveling, removal of shrubs, division of land into building plots, roads, play ground and open spaces etc., should be checked from the vouchers and it should be seen that they are properly capitalised. It should be seen that proper measurements have been taken of all works executed and payments made as per the quantity of work.

32.10. ***Construction of building*** **:-** Agreement entered into with the contractors should be seen. Clerk of works or building supervision should be appointed by the society to take measurements. Running bills submitted by the contractor should be checked by the architect and payment of advances to the contractors against his running bills should be made only on the basis of certificate issued by the architect. It should be seen that retention money, Service tax and Income tax as per the conditions contained in the agreement are deducted from each running bill.

Where construction of buildings is carried out departmentally, contracts entered into for supply of different building materials such as bricks, sand, lime, stones, etc., should be seen. Contracts are also entered into for different items of work such as brickwork, fixing of tiles, water proofing etc. Agreements made for the receipt, storage and issue of building materials and stores should be seen. Physical verification of building materials such as iron and steel, bricks, lime, sand, etc., should be taken at frequent intervals and agreed with the purchases made and quantities issued from time to time.

Plumbing and electric fitting are generally got executed through sub-contractors. Since the jobs being small may not attract big contractors, necessary enquiries should have been made as regards rates for different items of work, quality and prices of different materials, etc., and work entrusted to suitable contractors by private negotiations in consultation with the architect.

After the buildings are constructed, completion certificate will have to be obtained from the municipality / competent authority, without which the buildings cannot be occupied. The final bills

submitted by the contractors should be thoroughly checked before his account is settled. Payment of retention money should be made only after expiry of the period specified in the contracts and defects in works executed wherever noticed should be got attended to by the contractor or deductions made at the time of settlement of his account. *A valuation certificate regarding reasonableness of the cost incurred should also be obtained from the architect.*

32.11. ***Allotment of tenements*** **:-** Under provisions of the byelaws, allotment of tenements or flats will have to be made by the general body in accordance with the policy framed by it. A general meeting will have to be held to frame rules for grant of tenements and submit them to Registrar for his approval, if they are incorporated in byelaws necessary amendment should be made and got approved. After approval of the Registrar is received, another general meeting will have to be held for the actual allotment of individual flats. A valuation of each flat on the basis of its carpet area, built-up, super built-up area, situation etc., will have to be made in consultation with the architect. Every member will have to pay the full cost of his flat as determined by the society before occupying his flat, unless he has been sanctioned loan from the Maharashtra State Co-operative Housing Finance Society or any other financial Institutions or source through the society. Generally, every member is required to contribute percentage decided by the society, of the cost of his tenement and the balance is obtained by way of loan from the Maharashtra State Co-operative Housing Finance ***Society or other financial Institution.***

32.12. ***Fixation and recovery of monthly rent or service / Maintenance charges*** **:-** Regulation 24 of the Regulations relating to tenants (Form "A" accompanying the byelaws) prescribes the manner in which monthly rent has to be calculated.

The monthly rent or service charges collected from the member should not only be sufficient to cover the quarterly installment of loan and interest payable to the Housing Finance Society, municipal taxes, water and electricity charges, establishment charges such as salaries of the watchman, liftman, accountant, etc., but should also include contribution to the sinking fund.

A "Demand, Collection and Balance" Register showing amounts under different heads payable by each member, date of payment and balance due has to be maintained. Receipts are passed for amounts paid by members. In addition, passbooks containing particulars of amounts due and paid by the members are issued to each member.

The society should follow the procedure as laid down in Section 101 of MCS Act for recovery of outstanding dues from its members.

32.13. ***Government Assistance*** **:-** Many of the housing Societies, of Government employees, and Zilla Parishad, Panchayat Samittee employees are granted loans from Group Insurance Scheme or from the State Government, for Construction of houses. The auditors should see that the terms and conditions for granting loans are fulfilled by the society. Utilisation certificates are required to be submitted by the auditors of the society for each installment that has been received by the society. The auditors should take utmost care while submitting these utilisation certificates to ensure that the society has utilised the loan for the purpose for which it is granted, and its full utilisation. In case the members have obtained individual government loan from the department where theyare working, he should verify that the terms and conditions laid down in the order sanctioning the loan have been fulfilled. The installments are deducted from the salary of the members, after completion of building or two years from the sanction of loan, whichever is earlier. Auditors should bear in mind that the installments have to be properly deducted from the salary by the concerned department, and certificate at the end of every financial year issued for every member to the society, stating the amount of installment, bills amount, voucher number and date of treasury, head of account to which payment is made. The society is required to reconcile these statements with the records kept by the concerned treasury officer and the Desk Officer, Housing Cell, Cooperation and Textile Department, Mumbai.

CHAPTER No. 33

FOREST LABOURERS' SOCIETIES

33.1. ***Origin and present position*** **:-** Forest Labourers' Co-operatives were first set up by a few enthusiastic social workers in Thana district to save the adivasis from being exploited by the unscrupulous forest contractors. The experiment having proved successful, other welfare agencies came forth as sponsoring agencies to start forest labourers' societies in almost all the districts of the State. As a result, in Maharashtra State, exploitation of forest coupes is mostly done by Co-operative societies formed by the workers themselves under the guidance of devoted social workers and supervised by officers of the Forest Department. During the course of time, the forests are synchronized due to increasing population, and use of excessive forest wealth by the humans, the concept of conservation and preservation of forest has been started. The Forest laborers' Societies also have oriented their objectives in this regard. Now forest preservation societies are registered in the state. These societies are registered with the objectiveof preserving the forest, development of forest, reforestation, conservation of soil, refilling of watersheds, preservation of forest from fire, etc.

33.2. ***Marking List*** **:-** All the trees in the coupe marked for felling are numbered; usually a tarred number is given at B. H. (4.5 from ground level) and a chisel serial number at the base of the tree. A list of such marked trees is prepared and against each serial number, the botanical or local name of the tree (such as sag, sin, palas, etc) its girth at the B. H. is entered. The list so prepared forms an accompaniment to the agreement, which is required to be executed by the society with the Forest Department.

33.3. ***Taking over charge of the coupe*** **:-** After allotment of the coupe, the society is required to enter into an agreement within six weeks from the date of allotment and take charge of the coupe within 15 days from the date of execution of the agreement. For this purpose, a joint inspection of the coupe is carried out by the representative of the society and of the Forest Department. The boundary of the coupe and the number and description of the trees marked for felling mentioned in the marking list are verified. After completion of the inspection, the coupe is formally handed over to the society. The charge has to be signed jointly by the representative of the society and representative of the Forest Department.

The coupe Agent appointed by the society maintains a Jungle Register in which serial numbers of all the trees marked for felling are entered together with their particulars and the estimated yield. As soon as the tree is felled and logged, the timber pieces cut down from this tree are serially numbered and measured. These measurements are entered in the Jungle Register against the serial number of the tree.

33.4. ***Payment of wages*** **:-** For every Forest, Circle, a Wage Board Committee is appointed, which fixes the rates of wages for the different operations such as feeling, dragging, fashioning, transport to coupe, etc. Separate transport charges are fixed in accordance with the distance from the coupe and length of the *Katcha* Road to the Sales Depot. Wages for charcoal making are also fixed by the Wages Board. These are fixed on the basis of bags of standard size. The society should see the transport charges are fixed by the Divisional Forest Officer separately for each coupe well before the feeling operations are commenced. Similarly, although the Wage Board prescribes the dragging rates for gentle, undulating and steep areas, certain areas might be steep and difficult as to merit sanction of special dragging rates. In such cases, the society should approach the Divisional Forest Officer, satisfy him about the necessity to sanction special rates and get the higher rates sanctioned by him. It should, however, be seen that the actual expenditure incurred over dragging operations does not exceed the amount calculated on the basis of the ordinary and special rates sanctioned.

33.5. ***Need for expeditious completion of operations*** **:-** It is necessary that the society make due efforts to ensure that the felling and transport operations are completed expeditiously. Each coupe is divided into four sections for purposes of felling. Material from sections 1 and 2 should be brought to the Sales Depot and should be put up for sale before the end of January. Material from remaining two sections should be brought for sale before the end of April so as to enable the buyers to remove the material before the onset of the rains. Although the period of contract for completion of felling and transport of materials

is up to end of June, delay in the transport of the material to the Sales Depot, delays sales and consequent delay in the receipt of the sale-proceeds.

If the society fails to complete the operations and transport the materials to the depots before the date fixed, it is required to pay penalty at the prescribed rate. The auditor should ascertain the reasons as to the inability of the society to complete the operations within the prescribed period and if the delay is due to negligence or lack of diligence on the part of the employees responsible for the delay.

33.6. ***Visit Book*** **:-** A visit book is maintained at the coupe in which visiting officers of the Forest Department record their observations. The auditor should peruse remarks contained in the Visitors' Book during the course of his audit and the society assisted to comply with the suggestions made by the visiting officers. The auditor must visit each coupe frequently during the course of his audit for inspecting coupe operations and verifying payment of wages to members. Coupes worked both according to revised formula and on the logging system should be visited.

33.7. ***Logging system*** **:-** Operations in both the system are the same. However, in the system of revised formulae, the society gets 20 percent of the net profits after all the expenses including allowances for social welfare activities are met and the remaining 80 per cent goes to the Forest Department. Under the logging system, the society gets only a small margin for meeting its expenses in addition to the expenses incurred by it for exploitation of the coupe.

33.8. ***Transport, dragging and carting*** **:-** These operations are carried out by cart men with a pair of bullocks or buffaloes or permitted vehicle. The trees felled are dragged with the help of the bullocks to roadside and then loaded into bullock carts or trucks and transported to the Sale Spots. Rates for dragging and cartage are fixed by the Wage Boards. It should be seen that wages for these operations are paid according to the rates fixed by the Wage Board. Wages to the labourers for cutting and falling trees, dragging and fashioning them should be paid in the presence of an officer of the society.

33.9. ***Sales*** **:-** At the sales Depot or other dispatching centre, the logs are carefully numbered, measured and stocked into convenient lots according to grades. Firewood is also stocked at the depot, without being generally weighed. It is, therefore, necessary that while making delivery at the Sales Depot, the Clerk in-charge should see that the stocks are properly weighed before taking delivery. Charcoal is dispatched to the sales depot packed in gunny bags, but is arranged into suitable heaps. Receipts of timber and other materials in the Depot should be checked and agreed with the *Ravangi* (dispatch) and forest passes issued by the Coupe Agent. The Forest Department issues printed permit books from which passes are to be issued by the Coupe Agent permitting movement of the forest material within the forest and its transport to the Sales Depot. The Measurements and quantities should also be tallied.

After the arrival of the material in the sales Depot, an officer of the Forest Department and the representative of the society, jointly fix up the upset price of the material on the basis of rates obtained during the past two or three years. Sale proclamations are then issued. Sometimes, announcements are also made in the press. Timber merchants attend the sales. Sales are made to the highest bidders of each lot separately. The buyers are required to deposit forty per cent of the price immediately and the remaining sixty per cent is to be paid at the time of talking delivery of the material. A Register of Sale Agreements (*Sauda Register*) is required to be maintained showing the name of the buyer, quantity sold, rate at which sold, deposit received etc. The society may suspect that the merchants have formed a ring or have come to an understanding not to bid or offer low prices and favourable rates are not likely to be offered. If his suggestion for postponement of the sale is not accepted by the Forest Officer, the representative of the society should record his protest in writing and bring this fact to the notice of the Federation and also of higher officers.

Firewood is weighed and arranged in suitable stocks, sales are mainly by auction and the successful bidder has to deposit 25 per cent of the amount immediately and pay the balance before obtaining delivery.

The Auditor should see that all sales are made for cash. If sales are made on credit, the society will have to pay the dues of the forest Department from out of its own funds and then take steps to recover

the sale-proceeds from the buyers, which would involve the society into unnecessary litigation. The society will also run the risk of losses as some of the dues might prove bad and irrecoverable. Besides, the society will unnecessarily have to lock up its funds and there would be considerable loss of interest. It is, therefore, necessary that all sales should be for cash and no credit sales should be entered into. Ain bark, gum, resin, etc. are also collected from the forest and sold to merchants.

33.10. ***Maintenance of Accounts*** **:-** Accounts of wages paid and other payments made at the coupes are maintained by the Coupe Agent. The depot clerk maintains the accounts of the depot. The secretary of the accountant, if separately appointed, maintains the accounts of the society and is responsible for the submission of the various returns and statements required to be submitted to the forest department and the co-operative department. It should be seen that accounts are properly maintained.

33.11. ***Production, selling and administrative expenses*** **:-** All production, selling and administrative expenses are required to be debited under specified heads according to their classification. Statements showing expenditure incurred under different heads are prepared and duly certified by the auditor and are submitted to the divisional forest officer. Expenditure incurred only under the 32 specified heads is admitted by the forest department. Rates of maximum expenditure admissible under each head are also laid down by the Forest Department and only the amount calculated according to prescribed rate or the actual amount, whichever is less, is admitted by the Forest Department for settlement of accounts.

33.12. ***Personal verification of members*** **:-** As already stated, rates of wages for different operations are fixed by the wage board. Payments to labourers made by the Secretary are recorded in the Wages Register maintained at the coupes. The auditor, during the course of his audit, should try to contact as many workers as possible and verify whether the actual payments made to the labourers are made according to the rates fixed for the different operations. Generally, dates for disbursement of wages and payment of advances to labourers are fixed for different centres. The auditor should pay surprise visits to such centres and observe the payment of wages.

33.13. ***Payment to Forest Department*** **:-** A specified percentage of sale proceeds received on the sale of timber, firewood and charcoal has to be credited into Government Treasury every time a sale is made. The amounts paid to Government are shown in the provisional and final statement of accounts.

33.14. ***Provisional and final settlement of accounts*** **:-** A statement showing *[a]* total sale-proceeds received, *[b]* total sanctioned expenditure and *[c]* net income *[a-b]* and the respective shares of Government and the society are prepared. After deducting the amount already paid into Government treasury by the society, balance of amount payable to Government is communicated to the society. At the time of both provisional and final settlement of account, final figures of total realisations from the coupes are not known since there would be some unsold stocks. The unsold stocks are generally valued at market prices. If the quantities of different material in stock are small [*i. e.* below the specified limit], the society is permitted to purchase the stock at specified rates and dispose of it subsequently for whatever the stock may fetch. In this way, final settlement of account is facilitated. However, if the stocks are more than the quantities specified, the procedure prescribed by the Forest Department has to be followed. The respective shares of the society and Government in the net surplus are, therefore, tentatively shown. On receipt of the audited statement of accounts, final settlement would be made. A cheque is sent to the society for the gross amount of expenditure sanctioned at the time of provisional settlement. This amount is deducted at the time of final settlement. The society is required to make due efforts to dispose of the stocks before settlement of final accounts. Any outstanding balance either payable to the society or due to Government at the time of provisional settlement is adjusted at the time of provisional settlement. The settlement of accounts made by the Divisional Forest Officer is subject to the approval of the Conservator of Forests whose decision will be binding on the society.

33.15. ***Bonus to labourers*** **:-** Sometimes, bonus is paid to members to motivate them to continue to work for the society. Generally, the labourers do not stay at one place for a long time and shift their residences quite often. It is quite unlikely that members will continue to work for the society

year after year, since the society will have to shift its venue of operations every year according to the availability of coupes for exploitation . The auditor should, therefore, verify whether the bonus has been paid to the proper persons only.

33.16. ***Payment of advances*** **:-** Advances are often required to be given to members against their wages to buy food grains or to tide over temporary difficulties. Is should be seen that advances are made only in genuine cases. The labourers work according to their whims and never stick to one place or job continuously. In a large number of cases, the advances paid are not being recovered promptly and become irrecoverable and have to be written off. The auditor should scrutinise all outstanding advances carefully and make due enquiries into cases which are likely to turn out bad.

33.17. ***Deductions on account of share capital*** **:-** At the rate prescribed in byelaws or by the resolution of committee have to be deducted from the amount of wages payable to each member and credited to Share Suspense Account. The amount collected from each member is credited to his share account as soon as the amount collected amounts to the full value of share. The auditor should see that these amounts deducted from wages are duly credited to share suspense account and subsequently credited to share account and not utilized for recovery of advance. It is irregular to adjust amount collected toward shares for recovery of advance.

33.18. ***Expenses on welfare activities*** **:-** Provision is contained in the byelaws of these societies for incurring expenses over welfare activities for the welfare of the labourers and other Adivasis residing in the area of operation of the society. The auditor should see that the amounts set apart for these activities are properly spent.

33.19. ***Enquiry into reasons for incurring expenditure in excess of approved limits*** **:-** The auditor should scrutinize the expenditure incurred under different heads minutely, enquire into reason for the excess expenditure and fix up responsibility for the same. It should be seen that the coupe operations are always completed within the time limit fixed by the Forest Department. If the operations are not completed within the prescribed time limit, responsibility will have to be fixed on the office-bearers.

CHAPTER No. 34

FARMING SOCIETIES

34.1. ***Audit Program*** **:-** The following additional items should be included in the standard audit program, prescribed by the Registrar.

I. Pooling Of Land

(2) Checking of entries in the "Lands pooled Register" from agreements executed by members. Checking valuation of lands from resolution of the general body.
(3) Checking of payment of lease rent from vouchers and "Lease Rent Paid Register".
(4) Checking of title deeds of lands purchased and Government orders in case of lands allotted by Government.

II. See Approval of The General Body To-

(2) Annual cropping program.
(3) Rate of wages payable for different types of farm work.
(4) Arrangement for supply of agricultural requisites such as bullocks, implements etc.
(5) Formation of teams and appointment of team leaders.

III. Payment of Wages

(1) Check payment of wages from Muster rolls, Acutance-rolls, and Daily labour sheets.
(2) Check job wise register of engines; tractors, etc. form Daily Cultivation-sheets.
(3) Check deductions made from weekly wages on account of recovery of advance, supplies made on credit, share installments, compulsory deposits etc.

IV. Purchase of Fertilizers, Seeds, Chemicals, Etc.

Check purchases from invoices issued from Issue Register and stock accounts. Verify closing stocks.

V. Harvesting Of Crops

(1) Check quantities of different crops harvested from Supervisor's report and

VI Panchanama Reports.

(2) Check sales from sale notes received from marketing society or Adatya.
(3) Verify closing stocks.

34.2. ***Pooling of Land*** **:-** In a joint farming society, occupants of agricultural lands (owners as well as tenants) agree to pool their land for purposes of common cultivation. In some societies, agricultural laborers are also enrolled as members. Agreements are executed by the members, agreeing to pool their lands in the form prescribed under the byelaws. For purposes of valuation, all pieces of lands are classified into different categories according to their fertility and irrigation facilities available. The general body decides the principles according to which value of lands belonging to different categories should be determined. The entries in the Lands Pooled Register should be checked with the agreements executed by the members. Value of land contributed by each member is entered in the Land Valuation Register and the amount credited to the members' share account.

34.3. ***Collective Farming Societies*** **:-** In a collective farming society, lands are either allotted by Government or obtained on lease. Where land is allotted by the Government the terms and conditions subject to which land is granted to the society, should be ascertained from the Government orders and it should be seen that they have been duly complied with. Where private lands have been purchased or taken on lease, the conveyance of the lease-deed should be seen. In case of leased lands, it should be seen that rent is paid regularly and is not allowed to fall in arrears. Lease rent paid Register should be seen. It should further be seen that the land is cultivated collectively and not divided into plots and allotted to members for individual cultivation.

34.4. ***Pooling of Resources*** **:-** Where members have pooled their resources in the form of cattle, implements and other equipment, the mode of valuation should be ascertained and the amount credited

to the share or deposit accounts of the concerned members should be seen. Where resources are not pooled and placed at the disposal of the society, the method adopted by the society for compensating the members for use of the equipment *viz.*, whether by payment of hire charges or increase rates of wages, should be ascertained.

34.5. ***Procedure and method of work*** **:-** In a co-operative farming society, all farm work is ordinarily to be got done from members and members of their family only and outside labourers are to be engaged only for such of the operations which are required to be completed according to a fixed schedule such as sowing, harvesting etc. A cropping program has to be prepared and adopted by general meeting. Organization of teams or groups according to plots, crops or operations, appointment of group leader, fixation of scales of wages for different operations and for different categories of workers and method to be owned by other and other allied matters are required to be decided by the general meeting. A production committee is also appointed to direct and supervise farm operations from day-to-day.

34.6. ***Payment of wages*** **:-** Wages are generally paid on daily basis although for certain operations, such as sowing, harvesting etc. piece wages may be paid. Muster rolls are maintained according to plots or crops and wages are paid weekly on the basis of attendance or quantum of output of work, which is mentioned and recorded irrespective of whether wages are paid on daily basis or on piece basis. Daily cultivation sheets showing plot numbers and crops sown, labor engaged, bullocks, engines or tractors and other equipment used are filled in daily and entries made in the consolidated cultivation register from which cost of cultivation is ascertained.

34.7. ***Development and Improvement of land*** **:-** Before undertaking any development work, plans and estimates are required to be prepared and approved by the Agricultural Officers of the State Agricultural Department. It has to be seen that only such development work, which would repay its entire cost during a reasonable period say five to ten years according to the nature of the developments, is undertaken.

Type of improvement Maximum period during 1	Maximum period during which cost should be recovered 2
1. Reclamation and bringing under plough, waste or Virgin land by cutting trees, clearing of bushery, or Leveling, bunding and weeding.	10 years
2. Tractor ploughing..	5 years
3. Construction of bunds. . . .	5 years
4. Digging of wells, construction of channels, purchase of engines, meters and pumping sets and providing Facilities for irrigation lands	10 years
5. Undertaking minor lift irrigation schemes.	10 years
6. Construction of farmhouses, godowns, cattle sheds, etc.	
(1) If temporary. . . .	5 years
(2) If permanent, *i. e.* pucca built. .	15 years

34.8. ***Land Improvement Register*** **:-** A register showing particulars of improvements made according to plots or survey numbers and expenditure incurred will have to be maintained. The cost of improvement will have to be checked from the particulars furnished in the "Wages and Materials Allocation Sheets" and reports of the supervising officers. Reasonableness of the expenditure incurred on the improvements will have to be certified by an Engineer and also the Agricultural Officer of the State Government or the Zilla Parishad.

Adequate depreciation should be charged every year, so that the entire expenditure incurred is recouped at the end of the period fixed.

34.9. ***Classification of members for allotment of work and payment of wages*** **:-** (A) All members should have been classified in the following categories for purposes of allotment of work and payment of wages :

(a) Members who do not do any farm work, but attend to,

(1) Administrative work of the society,
(2) Supervisory functions, *e.g.* team leaders,
(3) Accounting work.

Nature of work allotted to each member of the society belonging to the above category should be ascertained.

(b) Members who do both administrative and or supervisory work and also take part in farm work, *e.g.* members (women and children) who are fit to work on the farm.
(c) Members who do only physical work.
(d) Family members or members (women and children) who are fit to work on the farm.

Basis for fixation of wages and scales of wages payable to the above categories of members should have been fixed by the general body.

(B) Arrangements made for making available agricultural machinery and equipment, bullocks, etc., if these have not been pooled by the members and held by the society should be ascertained.

34.10. ***Agricultural operations*** **:-** (A) Attendance of workers (both members and others should be checked from the Muster Roll or Attendance Book. All entries relating to late attendance, absence, deputation for outside work, etc. should have been duly attested by the Supervisor or the Team leader.

(B) Daily Cultivation-sheets showing type of agricultural operation, attendance of workers, use of bullocks, engines, trailers and other equipment used, prepared according to cultivation blocks and crops grown should be maintained. Total attendance of all workers should be checked with the attendance recorded in the Muster Roll.

(C) A jobwise register of engines, tractors, etc., working on the farm showing hours worked, lubricants consumed, name of operator, etc., should be maintained.

34.11. ***Allocation of Expenditure*** **:-** From the Daily Cultivation sheets and the entries in the jobwise Register of Engines and Other Farm Equipments, abstracts showing allocation of wages paid and operational expenses of machinery should be prepared and the amounts debited in the Cultivation Register and the Crop Grown Register. From these registers, expenditure incurred over the different agricultural operations such as ploughing, harrowing, sowing, maturing, irrigation, harvesting etc. and also for the different crops grown, can be ascertained.

A purchase register showing seeds, manure, chemicals, pesticides, oils and lubricants and other materials purchased for farm work should be maintained. An Issue Register showing issues of different materials and operations, and to which their cost is to be debited should also be maintained.

34.12. ***Harvesting of crops*** **:-**

A. General **:-** When the crops are ready, harvesting should be done in the presence of committee members. The crop harvested should be measured or weighed in the presence of the committee members and also other members who remain present. Necessary Panchnamas may also be made. A note of measurement or weighment of crops harvested should be taken in the stock register and the same should be attested by other Chairman. A note regarding measurement or weighment of crops harvested may be taken in the proceedings of the managing committee. Notice regarding harvesting of crops and measuring or weighing of crops should be issued to all members. After weighment, and packing into gunny bags, the grains should be kept in a sealed godown.

B. Marketing of produce **:-** Such of the produce after setting aside a portion thereof to meet the personal requirements of the members which should be delivered to them towards payment of wages to them, and also their share in the profits made by the society should be sold through a co-operative agency.

***C. Valuation of standing crops* :-** The entire expenditure incurred over the new crops up to the date of the balance sheet should be shown as value of the standing crops.

***D. Valuation of agricultural produce* :-** Produce harvested should be valued at selling price (*i.e.* prevailing market price) after making necessary adjustment for expenses to be incurred for marketing, such as transport charges to Mandy or other market place, Market cess, municipal octroi, hamali, cleaning charges, commission of Adatya and other charges.

***E. -Valuation of livestock* :-** It should be made annually. Every animal should be valued according to its age and usefulness. Prevailing market rates should also be considered. It has also to be noted that calves and heifers increase in value as they grow old. Temporary structures should be valued every year and adequate depreciation should be charged.

***34.13. Capital expenditure* :-** All expenditure incurred over development and improvement of land, purchase of bullocks and other live-stock including milch cattle, engines, tractors and other equipment including agriculture tools, should be capitalized. As calves and heifers increase in value as they grow old, a portion of the expenditure incurred over their maintenance may also be capitalized. Expenditure over additions and major repairs to farmhouses, cattle sheds, stables, storage bins, etc., may also be capitalized. However, current repairs should be charged to revenue. Temporary structures should be valued every year and the balance of the expenditure incurred over their construction should be charged to revenue.

***34.14. Special Registers* :-** The following are the special Registers which are required to be maintained by co-operative farming societies.

1) Register of lands pooled by members.
2) Land Valuation Register.
3) Lease Rent Paid Register.
4) Property Register.
5) Register of bullocks and farm equipments pooled by members.
6) Cultivation Register showing block numbers, crops grown, expenditure incurred and yield or income.
7) Annual cropping plan.
8) Register showing crop wise expenditure and yield.
9) Daily cultivation sheets.
10) Daily crop and blockwise labour sheets showing labour engaged for different agriculture operations.
11) Muster Roll.
12) Job wise Register of engines, tractors, etc. working on the farm.
13) Machinery and Equipment Register
14) Tools and dead stock articles Register.
15) Livestock Register.
16) Motor vehicle Register.
17) Log books for trucks, tractors, etc.

***34.15. Seasonal Agricultural Operations* :-** The following are the main seasonal agricultural operations : -

1) Ploughing, tilling land preparing it for sowing.
2) Harrowing.
3) Breaking lumps and leveling.
4) Grabbing, hoeing.
5) Weeding.
6) Sowing.
7) Inter-cultivation.
8) Manu ring.
9) Irrigation (watering of crops).
10) Harvesting.
11) Cleaning and preparing harvested crop suitable for storage and marketing.
12) Maintenance of farm animals.

All Expenditure on agricultural operations should be properly classified and shown under the different heads mentioned above.

CHAPTER No. 35

DAIRY SOCIETIES

35.1. ***Introductory*** **:-** Co-operative dairy societies are of two types: (a) those, which are connected with government milk scheme, and (b) those not connected with government milk scheme and working independently of government milk scheme. Patterns of financial assistance in the two types of societies and their functions are also different. Government milk schemes are at present operating in almost all the major cites of the state and they mainly depend for their milk on this co-operatives. However, integrated milk scheme undertaking all activities right from production of milk to final distribution to the consumer have been formulated and have been working in certain towns. The scheme, which contemplates setting of milk unions or federations in major towns, envisages installation of pasteurization plants and chilling centers at suitable places, supply of quality buffaloes to farmers, upgrading of local milch cattle, extending veterinary services and popularisation of community milking. In the recent past the Milk Unions like Jalgaon District Co-operative Milk Federation and "Gokul" have established their huge plants on the pattern prepared by the National Dairy Development Board, where all the processing is done automatically.

35.2. ***Activities*** **:-** The activities of milk societies fall under the following categories: -

(a) Collection and transport of milk - Transport of milk is undertaken by milk unions or federation through which milk is supplied to the government milk scheme or milk federation.

(b) Testing of milk **:-** However, where community milking is done, no testing would be necessary as the animal is milked in the presence of the officers of the societies. In most cases, the milk is tested as it is supplied by the milk producers.

(c) Supply of cattle feeds.

(d) Byproducts **:-** Various by products are prepared and marketed by the Societies like Pedha, Mava, butter, cheese, and other products made from the milk.

(e) Granting loans to member for the purchase of milk cattle **:-** Milk unions or federations have been organized for collection, transport and delivery of milk to the government milk scheme or federations. Where dairy societies do not exist, the seva societies in the village are permitted to undertake dairy business.

As regards transport of milk, certain routes are operated by the government scheme or federation themselves and societies on the routes supply their milk collected from their members directly to the milk scheme.

Community milking has been found to be popular in parts of Dhulia, Kolhapur, Ahmadnagar and Jalgaon districts and other parts of the state. Milking sheds are erected by the societies for this purpose. Efforts are being made to encourage community milking in other areas also, which not only ensures cleanliness and purity of milk, but also saves milk-testing expenses.

35.3. ***Pattern of financial assistance*** **:-** The pattern of financial assistance available to Co-operative dairy societies and milk unions is different for different areas and has been sanctioned under the following resolutions of government, the content of which should be very carefully studied by the auditors :

1) Agriculture, food and co-operation Department no.CPS/1264/14054 –C-4, Dated 2-2-1965.
2) Agriculture and co-operation department no.MLK/1067/32087-C-4. dated 5-6-1969 and even no. Dated 21-8-1969.
3) Agriculture and co-operation department circular no.DDS/1167/12997(3)-J-1, dated 25-2-1969

It should be seen that the terms and conditions subject to which loans and subsides are sanctioned have been duly complied with and loans are repaid as and when installments fall due.

Share capital contribution is given to the milk union or federation, redeemable within a period of 15 years in ten equal installments. It has to be noted that Share capital redemption is required to be invested separately and not in the business of the federations without the prior sanction of the Divisional Joint Registrar .The federation is also required to deduct at least one paisa per litre of milk supplied to it from

out of the milk bills. Out of the amount so deducted, 50 percent will be society contribution towards share capital of the federation and 50 percent towards share capital of the member society.

Under Government Resolution, dated 2-2-1965, the Dairy Development Department sanctions loan for the following purposes :-

(i) Purchase of milch cattle;
(ii) Purchase of equipment;
(iii) Purchase of vehicles.

35.4. ***Loans to Dairy Societies through State Bank of India on Government guarantee*** **:-** Up till now, loans for purchase of milch cattle were being granted by the Dairy Development Department. However, due to very limited plan resources, Government decided to utilise the agency of Nationalized Commercial Banks and State Bank of India for granting loans to Dairy Societies. Government in consultation with the representatives of the State Bank of India sanctioned a scheme for grant of loans to Dairy Societies for purchase of milch animals on Government guarantee. The terms and conditions of this loan are given in G. R. A. and C. Department No. DDS-1070/133264-J-1, dated 14th January 1971.

In view of the introduction of the scheme, loans for purchase of milch cattle are now not given by the Dairy Development Department, but the same are now sanctioned by the State Bank of India on Government guarantee.

35.5. ***Loans to Dairy Societies for purchase of milch animals through District Central Co-operative Banks in Konkan Region*** **:-** Similarly, Government has sanctioned a special scheme for grant of finance to dairy societies in Konkan Region for purchase of milch cattle under G. R. Agriculture and Co-operation Department No. DDC-1071 /26446 -J-1, dated 10th December 1971. Besides giving guarantee to District Central Co-operative Banks for grant of milch cattle finance under this scheme, Government is also sanctioning subsidy to the extent of difference between the normal lending rate which shall be 9 percent and the concessional rate to ultimate borrower which shall be 5.25 percent after charging small margin as commission. The rate of interest to ultimate borrower is not to exceed 6.25 percent. Thus, this scheme has a special feature of subsidised rate of interest and this concession is extended for grant of loans to dairy societies in Konkan Region through the District Central Co-operative Banks only.

Loans are available only to the dairy societies and milk unions supplying milk to the Government Milk Scheme. There is no condition that the agriculturist to whom the loan is sanctioned should own land. The District Central Co-operative Banks Agricultural and Rural Multipurpose Development Banks also sanction medium term loans for purchase of milch cattle, but a condition is laid down that the borrower should own land which has to be mortgaged to the society where the amount of the loan exceeds a specified amount. The finance is available only through seva societies of which the borrower has to be a member.

The producer member to whom loan for purchase of milch cattle has been sanctioned has to give an undertaking agreeing to supply the entire milk produced from the milch cattle supplied to him, to the federation through the society.

Loan and subsidy is also available to the federation for purchase of plant and machinery, equipment, vehicles, etc., and to the member societies for purchase of tools and equipment at the rate of Rs. 500 (Rs. 375 loan and Rs. 125 subsidy).

35.6. ***Management subsidy*** is also available both to the federation and the primary societies including seva societies, which have undertaken dairy business. Management expenses include, salaries and allowances including travelling expenses and bonus of the secretary/ Manager and other staff expenditure on rent, taxes, electricity charges, telephone, postage, insurance, stationary and printing, travelling expenses and sitting fees payable to committee members, honorarium, audit fee, etc. The management subsidy shall be irrespective of the actual expenditure during any particular year for which it is sanctioned, but the total expenditure till the end of the last year of subsidy shall not be less than the total management subsidy received by the society during the whole period.

35.7. *Loans to members* :- As already stated under Government Resolution, NO. CPS- 1264-14034-C-4, dated 2-2-1965, the Dairy Development Department advances loans to Co-operative Dairy Societies for purchase of milch cattle. However, these loans are available only to members of dairy societies. As regards agriculturist members of agricultural credit, multi-purpose and seva societies, medium term loans are sanctioned to these societies by the District Central Co-operative Banks to enable them to advance loans to their members for purchasing milch cattle. The following are the conditions subject to which such medium term loans are sanctioned : -

(i) These loans are granted only to members who own lands and on which they have created charges in favour of the society.

(ii) Under this scheme, loans are advanced for purchase of maximum of three buffaloes, one at a time, the object being to enable members to take up dairying as a subsidiary occupation. The maximum amount advanced should not exceed as per unit price fixed by the NABARD in this respect for each animal.

(iii) Loans are sanctioned to societies, which lie within the area from which milk is collected by the Government Milk Scheme or federation, and arrangements have been made for collection and transport of the milk to the Government Milk to the Government Milk Scheme or federation.

(iv) Members who apply for loans under this scheme are required to give an undertaking to deliver their milk to the Government milk or federation and agree to the deduction of loan installment form out of the sale proceeds of milk receivable from the Milk Scheme or federation.

(v) The amount sanctioned for purchase of milch cattle will not be disbursed in cash, but will be paid direct to the party from whom the animals are purchased.

(vi) Purchases of buffaloes will be made only in approved cattle markets specified by the Bank. The Inspector of the Bank will be present at the time of purchase along with the chairman or other authorized member of committee of the society.

(vii) Borrowing members should agree to bring their animals to the community milk centre for being milked both in the morning and evening.

(viii) Where the amount of the loan exceeds certain limit fixed by the society, two sureties are required to be taken, besides security of lands.

35.8. *Collection and testing of milk* :- The members bring their cattle either to the common milking shed for being milked under the supervision of the Secretary or Manager of the society or milk their cattle at their houses and deliver milk to the society. The milk delivered is measured and stored in standard size cans pending dispatch. Quantities of milk delivered by members are entered separately for morning and evening. Immediately after milk is received, it is tested for its fat content and other properties and the results are recorded in the Milk Test Register and communicated to the member. This is necessary since whenever the fat content goes below the minimum standard fixed, payment for milk is made at reduced rates. Every dairy society is required to possess necessary testing equipment and other laboratory equipment for testing the quality of milk. Loan and subsidies on a liberal scale are granted for purchase of testing equipment and other apparatus. The Secretary or Manager of the dairy society is also required to undergo necessary training in milk testing and scientific handling of milk. Arrangements for training of secretaries and managers of dairy societies are made by the Government Dairy Department.

Printed receipts showing quantities of milk received and its fat content are issued to members who deliver milk to the society. The entries in the Milk Collection Register should be checked from the receipts issued to the members. Where membership is scattered more than one collection centers are opened for collection of milk. Milk is also collected from non-members whenever quantities collected from members fall short of the minimum quantities, which the society has undertaken to deliver to the Government Milk Scheme. Milk collected from members and non-members is deliver to the Milk Federation or Union which arranges for transport of the milk or delivered direct to the Government scheme either at the collecting centre fixed by Government Milk scheme or at the principal Government Dairy. Surplus milk is sold to consumers direct or converted into “mava” or butter. Where transport is arranged by the society itself, separate accounts for the same will have to be maintained. Transport charges are paid separately by the Government Milk Scheme at scales fixed by it.

Payments to members for milk delivered by them are generally made weekly. The rates are fixed either by the Government Milk Scheme or by the Federation and in certain cases by the committee of the society itself, where independent arrangements for disposal of milk are made by the society. Where milk is delivered to the Government Milk Scheme, the society is allowed a small commission to cover its expenses and margin of profit.

35.9. *Transport of Milk* :- Where transport of milk is done by the society, one or more trucks or milk vans will have to be purchased by it. Unless the quantity of milk collected is sufficient, it is not advisable for the society to invest its funds in the purchase of trucks and milk vans. Generally, the Milk Federation or Milk Union to which the dairy society is affiliated owns a fleet of trucks and milk vans and arranges for transport of milk to the Government Milk Scheme in the city. Under the scheme for development of co-operative dairy societies, loans and subsidies on a very liberal scale are granted to the dairy societies and their unions or federations for purchase of milk vans, truck and even tankers.

Where the society or the Federation owns its own fleet of trucks and milk vans, it is necessary to maintain logbooks for each transport vehicle. All trips will have to be noted along with particulars of milk or other goods transported. Suggestions regarding arrangements for control over the use of the vehicles, maintenance of accounts relating to purchase and consumption of petrol, diesel, oils, tires and tubes and other spare parts discussed elsewhere should be noted.

Transport charges according to scales fixed are paid by the Government Milk Scheme or Federation. This should not only cover all the expenses of the vehicles including wages of the driver and the cleaner, but should also leave a sufficient margin of profit to the society to cover depreciation and interest charges on the amount invested in the vehicles. Where Government does not pay transport charges, they will have to be recovered from the primary societies, which will deduct the same from the milk bills of the members.

Payments for milk delivered are made weekly to members. In addition to transport charges and deduction on account of less fat content, curdling, etc., cost of cattle feeds supplied by the society and also installment of Government or Bank loans sanctioned for purchase of milch cattle are also deducted.

As regards delivery of milk to Government Milk Scheme or Federation the following additional points will have to be noted : -

(i) Failure to collect and deliver agreed quantities of milk to the Federation or the Government Milk Scheme.
(ii) Shortages noticed at the time of delivery of milk to the Federation or Government milk scheme.
(iii) Curdling and other losses and liability for the same after delivery of milk is taken from the members, i.e. during storage and transport.
(iv) Arrangements for disposal of surplus milk. Where direct sales are made to consumers, whether distribution centers have been opened in suitable places. Where home delivery is made, arrangements made for delivery of milk at the residences of the customers, submission of bills and collection of dues from customers and other matters should be ascertained.
(v) The method adopted for fixation of price of milk should be ascertained. Generally, the rate at which milk producers are to be paid for the milk delivered by them or the Government Milk Scheme are fixed by the Dairy Development Department and the dairy society and the federation are allowed a small commission for the services rendered by them in collecting and delivering milk, in addition to transport charges which are fixed consideration of distance to be covered, condition of roads, quantity of milk available, etc.
(vi) All losses on account of shortages, curdling etc, should be sanctioned by the ***committee.***

35.10. *Live-stock* :- where milch animals are owned by the society or the Federation a livestock register should be maintained. Particulars of all animals including calves and heifers, stud bulls and old animals should be entered in the Live-Stock Register. Every animal should be identified by its name, colour, horns and other marks.

All livestock should have been adequately insured. The amounts, for which they are insured and payment of premiums, etc., should be noted. During the course of the audit the auditor should see whether

the animals have been kept under proper hygienic conditions. Arrangements should have been made for their periodical inspection by the Government or private veterinary doctors.

Physical verification of the livestock owned by the society should be made from the Live-Stock Register. It should be seen that adequate depreciation is written off every year. In case of claves and heifers, however, it should be noted that their value increases as they become old. (Please refer to AS 6 for Depreciation Accounting)

Account of Purchases and consumption of fodder and cattle feeds should be examined.

A register showing milk yield of each animal should be maintained. Milk Yield Register should also be maintained by the society for each animal by its members.

35.11. ***Supply of cattle feeds*** **:-** Most dairy societies undertake supply of fodder and cattle feed. Fodder is generally imported against indents received from the members, while cattle feeds like cottonseed, chuni etc., are purchased in bulk and sold to members. Generally, very small quantities are kept on hand since purchases are restricted to the estimated requirements of members. Purchase should ordinarily have been made from the Federation. Cattle feeds are also purchased from the State Agro Industries Corporation wherever available. Where purchases have been made from private merchants, enquiries should be made as to why supplies could not be obtained from the Federation. Arrangements made for proper storage, insurance of stock and internal control over purchases and sales, maintenance of quantity accounts, etc. should be ascertained.

Where grazing lands have been granted by Government or purchased or taken on lease from private landlords, sales-deeds, lease agreements, etc., should be seen. Recovery of grazing fees from members and punctuality in payment of lease rent and fees to landlords should be watched.

35.12. ***Pasteurisation Plants*** **:-** Where the Federation has installed pasteurization plant for pasteurization of milk collected by it, the cost of pasteurization per unit, *i.e.* per liter of milk should be calculated and it should be seen whether it is economical. As already stated, Government assists financially to enable Milk Federations, to install pasteurization plants. It should be seen whether the working of the plant is efficient. If not, the following enquiries should be made.

(i) What are the losses in processing; their nature and extent; how far they can be controlled?

(ii) Economy in the consumption of fuel.

(iii) Stoppages: reasons for stoppages, hours lost.

(iv) Whether stoppages are due to mechanical defects; if so action taken to remove them.

(v) Whether quantity of milk collected and available for pasteurization is sufficient?

C) MARKETING AND DISTRIBUTION SOCIETIES

CHAPTER No. 36

MAHARASHTRA STATE CO-OPERATIVE MARKETING FEDERATION LTD.

36.1. ***Objectives*** **:-** The Maharashtra State Co-operative Marketing Federation Ltd. was registered in 1958 as a state sponsored and state-partner Apex Society for Agriculture marketing and processing Co-operative societies in state. The federation came in to existence with number of socio-pious objectives as referred to in its byelaws. The MSCMF Ltd. was basically formed with a view to directing the farmer's multifarious interests and activities in a rapidly growing food-based economy.

In keeping with the state agriculture outlay, the main objectives of the Marketing Federation are :

1. To create an institutional agency for marketing of agriculture produce and supply of agriculture inputs to farmers.
2. To guide the working of member societies and assist them in enlarging their activities.
3. To promote inter-state and international trade in agriculture commodities and farm inputs.
4. To provide market intelligence to member societies.
5. Co-Ordinate the working of affiliated marketing societies.
6. Construction of godowns and cold storage plant.
7. Installation of processing units with the directive to fulfill objectives and serve rural and urban societies.

36.2. ***Activities undertaken : Trading*** **:-** The activities of the federation consist of trading in food grain, processing of pulses, paddy and oil seeds, manufacture of cattle feed and granulated fertilizers, distribution of fertilizers, pesticides, agricultural equipment & accessories, to work as an institutional agency for implementation of price support operations in Jawar, paddy, pulses, oil seeds, onion etc. The federation implements the state and centrally sponsored programs of supply "ready-to-eat" nutritious food. These activities are carried on through various departments.

36.3. ***Fertilizers*** **:-** The Federation has been appointed as one of the institutional agencies for distribution of fertilizers in the state. The maximum quantities of fertilizers are supplied directly to retail outlets, from the plant or railhead, to avoid multiple handling or transport. The fertilizers are also stocked in its own godowns. In addition to this, godowns spaces of Co-operative societies / State / Central Warehousing are also utilized for storage of fertilizers. The auditors should see that, the proper storage of fertilizers, records like bin cards, stock register, issue and receipt registers are maintained.

36.4. ***Manufacturing of fertilizers and edible oil*** **:-** The Federation has set up three plants for manufacture of granulated Fertilizers. The Federation manufactures and markets Neem-coated balanced NPK Granulated Fertilizers in the State. The federation has also established oil mills and dal mills at various places in the state. The auditors should see that the technical norms fixed by the federation or competent authority for production are complied with. These norms are regarding the capacity utilisation, consumption of raw material and losses during the production, conservation in electricity or power consumption, ratio of mixing various fertilizers as per formula laid down and approved by the competent authority for manufacturing of fertilizers. Necessary records regarding cost of production, fixing selling prices are maintained, and the selling price has been approvedby the board of directors. Records regarding production from the concern manufacturing departments should be verified.

The Federation also distributes, through sub-agent societies, different types of pesticides for plant protection campaigns of the State Government.

36.5. ***Research and development*** **:-** The Federation has established a soil-testing laboratory at Chikhalthana, Aurangabad, under the NCDC's financial assistance. Many farmers take advantage of this laboratory. After testing the soil in the said laboratory, proper dosages of fertilizers are recommended.

36.6. ***Storage*** **:-** The federation has godowns in various parts of the State under different schemes of the World Bank Co-operative Storage Project & National Grid of Rural Godowns Schemes. The Federation utilizes the storage capacity for storing of food grains and fertilizers.

36.7. ***Storage Facility*** **:-** If the godowns are provided for storage of agricultural goods of members or societies on rental basis by the federation, the auditors should see that the rules for storage are framed by the federation and are properly followed by the godown keepers regarding the space occupied and rents recovered; goods are mortgaged by the banks, lien are recorded as per their demand and revoked only at the request of the bank. Goods are stored according to variety, and proper care taken of perishable goods.

36.8. ***Distribution of petroleum and other agricultural equipments & product*** **:-** The Federation is working as an agent of the Indian Oil Corporation for distribution of superior kerosene oil and other petroleum products such as lubricants, engine oil etc.

The Marketing Federation, since its inception, has rendered services to agriculturists in supplying quality oil engines, electrical motors and pumps sets, so as to achieve its objective of supplying agricultural inputs to the farmers in the state. The Government of Maharashtra introduced a scheme in 1976 wherein the loans of the State Land development Bank were supplied Oil Engines, Electrical Motors and pump sets through the Maharashtra State Co-operative Marketing Federation Ltd., only.

36.9. ***Audit and Evaluation of performance*** **:-** The auditors should use the following parameters for evaluating the performance of federation. :

1) Sales turnover / production level.
2) Gross profit / net profit.
3) Percentage of sales targets achieved.
4) Volume of new business obtained or business lost.
5) Number of new customers developed.
6) Percentage of credit and cash sales to total sales.
7) Increase in sundry debtor's age wise.
8) Audit objections & Rectification Reports.
9) Staff strength.
10) Special achievements, if any.
11) Control over wastage / losses etc.

36.10. ***Points to be verified by the auditor of federation*** **:-**

1) The auditor should review the system to ensure that all assets are accounted for. It should be examined whether the responsibility for the maintenance and custody of each asset has been fixed. The records relating to assets and their physical custody should preferably be with different persons.
2) Accounting records should contain adequate details to permit identification of each item for its physical verification. The details of location and specifications of each item of tangible assets are necessary. In the case of intangible assets, the record should contain adequate details to identify and locate documents relating to title of such assets. Important records may be kept in duplicate.
3) The auditor should check whether the onward transfer of each asset, *e.g.* inventories for sale, is immediately and properly accounted for.
4) It should be verified whether all moneys received are fully accounted for.
5) The means used for safeguarding assets against losses *e.g.* fire, improper or negligent activity, theft and illegal acts, should be reviewed. Insurance has been taken to safeguard this asset should be verified.
6) The arrangements regarding the physical custody of assets should be reviewed to prevent theft or pilferage.
7) At the time of factory audit, an auditor should review whether the storekeepers, machine operators and others, having the charge of physical assets are trained to ensure proper storage, maintenance and usage of these assets and are aware of the value of the assets they control and of the loss which could arise through improper or negligent activities.

8) The auditor should review the adequacy of the insurance cover, for the various risks involved and allied matters.
9) The auditor should verify the existence of the assets by counting, measuring correspondence and personal contacts, as appropriate. The verification may be done on test-check basis.
10) Purchases, stores, sales and scrap records should also be carefully examined.
11) The auditor should examine whether the management has a system by which, the policies, plans, and procedures are communicated to all concerned.
12) The auditor should review the system by which accounting policies are laid down. He should examine whether the management formulates the major accounting policies after due regard to their effect on the financial statements both present and future as required by Maharashtra Cooperative societies Act 1960. He should also examine whether there is a system of a periodical review of the existing policies, particularly when there is a change in the method and nature of operations of the Federation.
13) The auditor should review the information system to evaluate the reliability and integrity of financial and operating information given to higher authorities / Board of Directors and to external agencies such as Government Bodies.
14) In case of accounting information, the Auditor should undertake an in-depth review of the accounting system and related internal controls.
15) The Auditor should conduct an appraisal of the organizational structure to ascertain whether it fits in with the objectives of the Federation and whether the assignment of responsibilities is in agreement with the objects of the Federation.
16) The Auditor should check whether proper operating standards and norms have been established for measuring economical and efficient use of resources. The standards and norms may be in monetary and / or qualitative terms for different activities. The system of reviewing standards and norms at periodic intervals should be examined.
17) A cost-benefit analysis of the organizational structure should be carried out.
18) The Auditor should examine whether the line of authority and responsibility are clearly defined and communicated to all organizational levels, and should examine whether there is a satisfactory balance between the authority and responsibility of important executives.
19) The Auditor should examine whether the analysis of variances is communicated to those concerned in time. He should also examine whether in communicating the variances, serious matters are highlighted and whether exceptional variances are communicated more expeditiously than is done in the normal course *i.e.* non-implementation, or part implementation of various policies laid down in the board.
20) The Auditor should, as a part of evaluating resources utilization, identify the facilities, which are under-utilized these can be in the form of under utilized machines, unoccupied storage space, huge cash or bank balance, idle manpower, etc. The Auditor may also identify under staffing and over staffing in various areas, as these prevent optimum use of resources.
21) The Auditor should identify cases of ineffective supervision by observation, discussions with staff, comparison of performance of different groups, repetition of the work performed and by reviewing records of work.
22) The Auditor should examine whether there is sufficient flexibility in the plans to permit such improvements in there implementation, as would benefit the federation as a whole.
23) The Auditor should review the sundry debtor's *i. e.* defaulted amounts on the part of selling of fertilizers, machinery's, Vaibhav cattle feed etc., from the member societies & private dealers. He should ask for timely confirmation of dues from the defaulters & he should to confirm that the defaulters are also showing in their account books the same amount that is due from the federation.
24) In case of non-members, who are defaulters to the federation, auditors should submit his special report to the Joint Registrar as well as to the Federation & should suggest measures to fix the responsibility on the responsible employees. He should also suggest taking immediately legal steps for the recovery of dues.
25) Regarding manufacturing process control, monopoly business of food grains, pooling and grading, and other marketing activities detail instructions are given in co-operative Marketing Societies part of this manual, auditors should study them, and apply appropriately.

CHAPTER No. 37

MARKETING SOCIETIES

37.1. ***Activities undertaken*** **:-** Co-operative marketing societies, though primarily set up for the marketing of agricultural produce, generally undertake a number of other activities also. Thus object clause of the byelaws of the society should be carefully gone through, in order to be satisfied that the byelaws permit undertaking of these activities. If any activities, which are not permitted by the byelaws have been undertaken, the consequences thereof, in particular the personal liability of the members of the committee for the irregular or unauthorised transactions, should be pointed out. It should also be seen that separate accounts are maintained for the various activities undertaken by the society, so that the profit or loss made in each activity can be separately calculated.

37.2. ***Business in Controlled articles*** **:-** It should be seen that the required licenses to deal in the various commodities such as food-grains, sugar, kerosene, etc., are obtained and got renewed before the date of their expiry. Necessary account books and registers prescribed by the Supply Department are required to be maintained and all statements and returns prescribed by the Department will have to be submitted on the dates laid down for their submission. Where this business is running at a loss, reasons therefore should be ascertained. Arrangements made for the control over sales and payment of sale proceeds into the head office, control over stock, etc., should be ascertained and any loopholes noticed therein should be brought to the notice of the management.

Where non-controlled commodities are also sold, accounts relating to purchases and sales of non-controlled commodities should be kept separately and not mixed up with the purchases and sales of controlled commodities. The stocks should also be kept separately. Similarly, where supplies of certain commodities are received from or through Government and sales are required to be made in accordance with the procedure laid down and at prices fixed by Government, separate accounts should be maintained.

37.3. ***Monopoly Procurement of Jawar, Paddy, and Cotton*** **:-** The Maharashtra State Co-operative Marketing Federation Ltd., Mumbai and Maharashtra State Cotton growers Marketing Federation Ltd. Mumbai, have been entrusted with the procurement and processing of jawar, paddy and cotton respectively. The cotton procurement scheme is being worked out through the agency of co-operative marketing and processing societies. The Maharashtra State Co-operative Cotton growers Marketing Federation Ltd., Mumbai, has been appointed as the sole agent for procurement and processing of cotton and The Maharashtra State Co-operative Marketing Federation Ltd. for other commodities, the various marketing societies, ginning and pressing societies have been appointed as sub-agents working on behalf of the State Marketing Society. In the Tribal areas, for other commodities, Maharashtra State Tribal Development Corporation works as sole agent on behalf of the Government. Similarly, for procurement of jawar in addition to the marketing societies, certain well managed agricultural credit and seva , Adivasi seva societies have also been appointed as sub-agents. These commodities are required to be brought by the producers to the various markets or procurement centers fixed by Government and deliveries are to be made to the local co-operative agency appointed by the Marketing Federations with the approval of Government. In case of jawar and paddy, payments to the producers are immediately made at procurement prices fixed by Government, but, in case of cotton, advances are made immediately on delivery of cotton and the final accounts are settled at the end of the season in accordance with formulae specified in Chapter V of the Maharashtra Raw Cotton (Procurement, processing and marketing) Act, 1971. For working out the monopoly procurement scheme, large funds have been provided by the Federation to its sub-agents which are co-operative institutions operating in the various parts of the state. The Federation in its turn has obtained funds against guarantee furnished by the Government of Maharashtra, from the Maharashtra State Co-operative bank and the State Bank of India, and District Central and other Co-operative Banks. These funds percolate right down to the primary marketing society or the processing society operating at the various collecting centers. Marketing Societies, rice mills and other primary agricultural credit societies, ginning and pressing factories, which actually procure the produce, are responsible for making payment to the producers. They are also responsible for proper storage of the produce, pending its disposal and

also for processing it and delivering it to Government or its nominees. Since these societies would be handling huge funds, opportunities for committing misappropriation of cash and mishandling and misappropriation of goods would be there at in many centres. The operations of these societies, therefore, call for strict vigilance, which can be ensured only by making adequate arrangements for maintenance of proper accounts and periodical internal audit of their accounts.

Agreements entered into with the Maharashtra State Co-operative Marketing/ cotton growers Federation should be seen and compliance of all the terms and conditions thereof should be noted. In particular, it should be seen that large funds are not retained and utilized for purpose other than that for which they have been provided. It should also be seen that all the statements and returns prescribed by the Federations are sent on due dates and the account of the federations with the society reconciled and settled at frequent intervals. Discrepancies noticed, if any, should be brought to the notice of the Federation and the matter should be settled immediately. Balances outstanding on different accounts should be got confirmed once at least every six months on 30th September and 31st March, every year It should also be seen that all expenses have been properly debited and commission received has been correctly calculated and brought into account.

37.4. ***Special points*** to be noted by auditor while auditing monopoly procurement scheme implemented by the Marketing Federation, Cotton Growers Federation and Tribal Development Corporation are as follows :

1) The auditor should review the system to ensure that all assets are accounted for. It should be examined whether the responsibility for the maintenance and custody of each asset has been fixed. The records relating to assets and their physical custody should, preferably, be with different persons.
2) Accounting records should contain adequate details to permit identification of each item for its physical verification. The details of location and specifications of each item of tangible assets are necessary. In the case of intangible assets, the record should contain adequate details to identify and locate documents of title of such assets. Important records may be kept in duplicate.
3) The auditor should check whether the onward transfer of each asset, e.g. inventories for sale, is immediately and properly accounted for.
4) It should be verified whether all moneys received are fully accounted for. If the funds are provided by the State Government for specific purposes they are utilised for the said purpose and unutilized portion is returned to the State Government, and not utilised in the business of federation or corporation.
5) The means used for safeguarding assets against losses e.g. fire, improper or negligent activity, theft and illegal acts, should be reviewed. That insurance has been taken to safeguard this assets should be verified.
6) The arrangements regarding the physical custody of assets should be reviewed to prevent theft or pilferage. In case of Tribal Development Corporation goods supplied by the Tribal Development department are required properly recorded and maintained in good conditions. The auditor should verify whether the conditions for supply of goods as suggested by the Government in its resolution are observed or not.
7) The auditor should review the adequacy of the insurance cover for the various risks involved & allied matters.
8) The auditor should verify the existence of the assets by counting, measuring correspondence and personal contacts, as appropriate. The verification may be done on test-check basis. For packing material, specially, accounts should be verified and proper use ascertained.
9) Purchases, stores, sales and scrap records should also be carefully examined.
10) The auditor should examine whether the management has a system by which, the policies, plans, and procedures are communicated to all concerned.
11) The auditor should review the system, by which accounting policies are laid down. He should examine whether the management formulates the major accounting policies after due regard to

their effect on the financial statements both present and future as required by Maharashtra Co-operative societies Act 1960. He should also examine whether there is a system of a periodical review of the existing policies particularly when there is a change in the method and nature of operations of the Federation / Corporation.

12) The auditor should review the information system to evaluate the reliability and integrity of financial and operating information given to higher authorities / Board of Directors and to external agencies such as Government or Government Bodies.
13) In case of accounting information, the Auditor should undertake an in-depth review of the accounting system and related internal controls.
14) The Auditor should conduct an appraisal of the organization structure to ascertain whether it is suitable with the objectives of the Federation / Corporation and whether the assignment of responsibilities is in agreement with the objects of the federation / Corporation.
15) The Auditor should check whether proper operating standards and norms have been established for measuring economical and efficient use of resources. The standards and norms may be in monetary and / or quantitative and qualitative terms for different activities. The system of reviewing standards and norms at periodical intervals should be examined.
16) A cost-benefit analysis of the organization structure should be carried out.
17) The Auditor should examine whether the line of authority and responsibility are clearly defined and communicated to all organizational levels, and should examine whether there is a satisfactory balance between the authority and responsibility of important executives.
18) The Auditor should examine whether the analysis of variances is communicated to those concerned, in time. He should also examine whether in communicating the variances, serious matters are highlighted and whether exceptional variances are communicated more expeditiously than is done in the normal course *i.e.* non-implementation, or part implementation of various policies laid down in the board.
19) The Auditor should, as a part of evaluating resources utilization, identify the facilities, which are under-utilized.These can be in the form of under-utilized machines, unoccupied storage space, huge cash or bank balance , idle manpower , etc. The Auditor may also identify under-staffing and over-staffing in various areas, as these prevent optimum use of resources.
20) The Auditor should identify cases of ineffective supervision by observation, discussions with staff, comparison of performance of different groups, repetition of the work performed and by reviewing records of work.
21) The Auditor should examine whether there is sufficient flexibility in the plans to permit such improvements in their implementation, as it would benefit the federation/ Corporation as a whole.
22) The Auditor should review the sundry debtors, defaulted amounts on the part for selling by the member societies and private dealers. He should ask for timely confirmation of dues from the defaulters and he should confirm that the defaulters are also showing in their account books the same amount that is due to the federation.
23) In case of non-members, who are defaulters to the federation, the auditor should submit his special report to the Registrar. He should ask for explanation from the Federation/ Corporation & should suggest measures to fix the responsibility on the responsible employees. He should also suggest taking immediate legal steps for the recovery of dues.
24) In case of Tribal Development Corporation, many schemes are implemented through the Tribal department. Such schemes are reviews by the auditors in respect of duties cast on the Tribal Development Corporation, and its compliance, any shortfalls may be reported in his audit report.

37.5. *Distribution of Fertilizers* :- Accounts relating to purchase, sales and stocks of fertilizers should be kept separately and accounts of the suppliers should be reconciled at regular intervals. The outstanding balances should be got confirmed every quarter. Stock accounts should be maintained properly and should be checked from the dispatch notes, invoices, and other documents. All receipts and issue from the godowns should be supported by intake notes and delivery orders. Sale proceeds should be promptly

credited into Bank in a special account opened for the purpose. The wholesale proceeds should be remitted to the suppliers at regular intervals, while proceeds of supplies received directly should be remitted to the suppliers at regular intervals. Where supplies are received directly from the Agricultural Department, Fertilizer Co-operation of India, or the State Marketing Federation and not through the District Wholesaler (District Marketing Society or the Zilla Parishad) sale proceeds should be credited into Government Treasury or remitted to the Corporation, or the Marketing Federation, as the case may be. Where sales are made on credit, it should be seen that necessary provision for credit sales is contained in the byelaws except where sale have been made in accordance with the policy directives issued by the department and are supported by permits or authority letters issued by the officers of the co-operative Central Bank, Zilla Parishad or of the State Agricultural Department. Where sales are made against indents of agricultural credit societies, bills should be promptly prepared and sent to the co-operative Central Bank. Enquiries should be made into outstanding bills, if any. Sales made to retail distributors should be checked from their indents or requisitions and their accounts got settled from time to time at regular intervals. It should be seen that sales are made only to such retailers who are appointed by the Federation or other wholesale supplier, from whom supplies are received. Appointments of retailers should also have been approved by Government or the Zilla Parishad, where necessary.

37.6. ***Supply of oil engine, electric motor, pumping-sets and other agricultural equipment*** **:-** The agency terms with the manufacturers should be studied carefully and any unfavourable terms contained in the agreement should be pointed out. It should be seen that where the society is required to maintain minimum stocks, the amount invested in stocks is not disproportionate to the sales expected. Credit sales should be made only against certificates issued by the Agricultural and Rural development multipurpose Bank or the District Central Co-operative Bank. Where the agency has not been secured directly from the manufacturers and the marketing society merely functions as a sub-agent of the Maharashtra State Co-operative Marketing Federation or other regional distributors, it should be seen that as far as possible, stocks are received on consignment basis and no funds of the society are invested in the business. The account of the wholesaler should be settled from time to time and outstanding balances got confirmed at regular intervals. The agency terms should be gone through, and it should be seen that all expenses have been properly debited and commission receivable has been correctly calculated and brought into account. In case of Tribal Development Corporation, such supplies are made on behalf of the Tribal Development Department, providing funds for purchase of such engines, etc.The auditor should verify the purchase procedure laid down by the Government is properly followed and the beneficiaries as per list supplied by the Tribal department.

37.7. ***Distribution of oil Cake and other manures*** **:-** Marketing societies also undertake purchase and distribution of oil cake, bone meal, fish meal, granulated manure mixtures, etc. These are supplied to members of agricultural credit societies against certificates (Hami-patras) or guarantee letters issued by the societies or the District Central Co-operative Bank or the Block Development Officer, according to the arrangements made in the district for supply of these manures to the agriculturists. Sales are made on credit in the first instance to the agriculturists producing the Hami-patras; and these Hami-patras sent to the Bank or the Block Development Officer concerned. When cheques are received for the amounts or advices regarding credit of the amounts to the account of the marketing society are received, necessary adjustments are made. A separate Sale Register is maintained for recording such sales.

37.8. ***Marketing of Agricultural Produce:Adat Business*** **:-** It should be seen that the society has secured proper license to trade as "General Commission Agent" or "Adatya" as it is popularly known in the market. Immediately after the producer brings his produce for sale in the market, a receipt is issued to him specifying its quality or grade, weight, trade name, if any, and other details. An arrival Register is also maintained and all receipts of agricultural produce are entered therein. Receipts of agricultural produce received for sale should be checked from the receipts issued and the entries made in the Arrival Register, and also with the weighment slips issued by the licensed weighmen appointed by the Market Committee. Sales should be checked from the entries in the Auction or Sauda Register and also the sale agreements and weighment slips. Entries in the Register of Sale agreements (Sauda Register) should be called over

into the Daily Sale Register or Challan Book as it is sometimes called. Calculation of weighment charges, market cess, commission and other charges should be checked on a percentage basis. It should be seen that these charges are made in accordance with the scales sanctioned by the Market Committee.

From the Daily Sales Registers, postings into the personal accounts of the customers (agriculturist who have sold the produce through the society) and the merchants who have bought the produce should be seen. Cash payments of sale proceeds to the customers should be checked from the "Account Sales", payment Slips, *'Chukavati Pavati"* or *'Chukara Pavati"* as it is variously known in the different parts of the state.

A list of licensed traders should be obtained from the Market Committee (Agricultural Produce Market Committee, established for the area). Necessary enquiries should have been made about their creditworthiness and credit limits should be fixed for each trader separately for different commodities (Merchants' Credit limits) by the managing committee of the society. These credit limits should be reviewed from time to time, and once at least before the commencement of the season. The salesmen working in the Adat section should be warned to sell goods to approved traders only and to the extent of credit sanctioned to them, by the committee. Sale proceeds should be collected promptly from the buyers. It should be seen that all sale proceeds are recovered within the period of credit allowed by the custom of the market. All cases in which credit limits have been exceeded or amounts are outstanding after expiry of the normal period of credit should be examined. Where amounts are outstanding for long periods, enquiries should be made, and action taken by the committee to recover the dues should be ascertained. Position of bad and doubtful dues may be ascertained.

37.9. *Credit sales restrictions* :- *Rule 46-B* of the Maharashtra Co-operative Societies Rules should be noted in this connection. *This rule lays down restrictions on credit sales to non-members*. The rule reads *"Where the bye-laws of the society permit credit sales, such sales may be made to traders and other non-members, provided that the person to whom such sales are made, gives an undertaking to the society that any dispute arising out of the transactions shall be referred to the Registrar for decision under Section 91."* Compliance of the provisions of this rule should be noted. Credit sales to members should be effected only if there is necessary provision in the byelaws.

A list of overdues should be obtained and each case should be carefully examined. Where some of the debts are required to be classified as doubtful or bad, the circumstances leading to the debt being classified as bad or doubtful should be examined with a view to fixing the liability of the managing committee members or other officers for the loss occasioned to the society.

37.10. *Sales* :- Entries in the register of sale agreements should be checked from sale agreements. Entries from the register of sale agreements should be called over into the Daily Sale Register. Postings from this register should be seen into personal accounts of customers and merchants. Cash payments may also be checked with the payment slips.

37.11. *Out-Right purchases* :- Where out-right purchases have been made, it should be seen that necessary provision is contained in the bye-laws of the society, enabling it to make out-right purchases and invest funds of the society in out-right purchase of goods and holding them for resale. It should also be seen that the amount invested in out-right purchases does not exceed the limit fixed in the byelaws and the resolution of the general body. All such transactions should be very carefully examined to ensure that all purchases and sales made on behalf of the society or in its name are genuine, and do not reflect the unwise or unprofitable dealings of unscrupulous office-bearers or employee who are in charge of the business or their nominee. Arrangements made for proper storage of the goods pending their resale should be ascertained. All goods belonging to the society should have been insured.

37.12. *Pooling and Grading* :- All produce received for being pooled should be entered in the "Pool Register". Entries in the register should be checked from the "Goods received Reports" and the weighment slips and the receipts issued to the producers. Arrangements made for the grading of the produce according to trade qualities and arranging the graded produce into suitable lots for sale should be ascertained. When sufficient quantities are collected, the date for holding the auction is fixed.

Announcements are made in the local papers and also in papers published from other centres about the holding of auction. Prominent traders and other bulk buyers are also addressed individually and requested to participate in the auction. Auctions are generally held in the presence of officers of the Agricultural Department. If sufficient numbers of bidders are not present, the auction is postponed to a later date.

The higher bid, if considered satisfactory, is accepted. The successful bidder has to deposit a specified percentage of the value of the goods immediately. The balance is required to be paid at the time of delivery. Delivery is not made until full payment is received. A time limit is also fixed for making payment and obtaining delivery.

From the sale proceeds realized, all expenses incurred and the commission of the society is deducted and the average price or pooled price is calculated. Members are paid at pooled rates. Advances against goods, if outstanding, are deducted at the time of final settlement of accounts.

Where produce received for sale is processed before it is sold, auctions are held after the produce is processed. Thus, cotton pooled by producer members is graded, ginned and pressed into bales and pressed bales are sold. This would enable the members to realize better prices for their produce. Groundnut pooled may be sent to an oil mill and the oil, and the cakes are sold separately instead of groundnut in raw form. There are also Dal Mills, which convert pulses into dal. Where these activities are undertaken by marketing societies, it should be seen that processing activities are treated as separate units and separate accounts are maintained. Advances are required to be paid to members who pool their produce for processing. These advances should be recovered at the time of final payment.

37.13. ***Payment of Advances pending sale*** **:-** Advances are also required to be paid to producer members pending sale of their produce. Provisions of the byelaws should be seen, and it should be seen that advances paid do not exceed the percentage of the market value of the produce specified in the byelaws. Payment of an advance pending sale enables the producer to hold his produce in expectation of realizing better price. It is common experience that prices of agricultural produce are lower at the commencement of the season and also when the arrivals are heavy, and they show considerable improvement at the fag end of the season when arrivals are low. Accordingly, byelaws of marketing societies contain provisions enabling them to make advances against pledge of produce. It should be seen that the restrictions on such advances specified in the byelaws are duly observed and the individual and total limits for such advances are not exceeded. Produce pledged with the marketing society can be re-pledged to the bank and reimbursement obtained.

It should be seen that these advances are recovered promptly. Necessary margins should always be maintained. In case the market value of the goods falls and results in the reduction of margin, the borrower should be asked both to pay cash and deposit additional goods so that the value of the goods pledged is adequate to cover the advance and the prescribed margin is maintained. Applications for advances and agreements executed by the borrowers should be seen. Many times, small advances are required to be paid to the customer or his agent who brings the produce to the market to enable them to meet their expenses in the city or make small purchases. Municipal octroi, market cess and other expenses are also required to be paid by the marketing society on behalf of the customer. All advances paid and expenses incurred on behalf of the customer should be recovered at the time of payment of sale proceeds. As far as possible, regular vouchers (acknowledgements of the payee) should be obtained for payment of advances and also for payment of expenses such as transport charges (where produce is transported by lorry), municipal octroi, market cess, hamali weighment charges, etc.

37.14. ***Linking up of Credit with marketing*** **:-** Considerable importance is now being given to this aspect of the functioning of marketing societies. The financing agencies have announced a number of concessions and incentives to borrowing members of agricultural credit, multi-purpose and seva societies to sell their produce through the marketing society. The marketing society at the time of payment of sale proceeds deducts the dues of the society and pays into bank for credit to the account of the borrowing society. The credit society sends to the marketing society a list of its borrowing members and the amounts due from them. If the borrower has given a written authority to the marketing society authorising it to deduct the amount and pay to the society the amount as communicated by the society, it is deducted from

the sale proceeds and paid directly into bank and only the balance is paid to him. If no such authority has been received, the secretary of the society or another officer of the society or the bank who are generally present at the time of payment persuades the member to allow the marketing society to deduct the amount due from him to the society. With the oral or written consent of the seller, his dues are deducted and paid into bank for credit to the account of the society and the society issues to the member a proper receipt acknowledging receipt of the amount.

Following are some of the concessions and incentives announced by the banks to encourage borrowing members of primary societies to sell their produce through the marketing society :-

1) Fresh Finance is made available immediately irrespective of the dues on the condition laid down by the bank that a specified portion of the outstanding dues of primary society are recovered before drawals are allowed from maximum credit limit, to members who sell their produce through the marketing society.
2) An additional ten percent loan is allowed to be added to the normal credit limit fixed for the member.
3) Some of the banks have announced small reduction in the rate of interest to be charged to borrowing members who repay their dues through the marketing society.
4) The Primary credit society and the marketing society are allowed a small commission to cover their charges and expenses.

37.15. *Hiring of tractors ploughs and other agricultural machinery* :- Some of the Marketing societies have purchased and kept for hire tractors, heavy iron ploughs, harrowing discs and other costly agricultural machinery. A Register containing details of such machinery giving full particulars such as date of purchases, make, cost, and depreciation charges year after year, etc., should be maintained. A machinery Hire-Charges Register showing name of person hiring, date on which hired, date of return, period, rate of hire charges, hire charges due, date of recovery of hire charges, etc., should also be maintained. It should be seen that bills for hire charges are prepared promptly and recoveries are made without undue delay. It will also be advisable for the society to insist on payment of some deposit before hiring of the machinery which would not only ensure prompt recovery of hire charges, but also proper use of the machinery or other equipment. A register of deposits received should be maintained.

The auditor, during the course of his audit should check the receipt of hire charges from the Machinery Hire Register and the receipts for hire charges issued to the hirers and enquire into the outstanding dues. The Machinery Register should be checked to ensure that hire charges have been duly received for all the days the particular machinery or equipment was hired out. Hire charges should be fixed by the general body. *All the machines and equipment should be physically inspected during the course of audit and their condition noted*. Arrangements made for the repairs and proper maintenance of the equipment should be ascertained.

37.16. *Verification of stocks* :- *All stocks in possession of the society belonging to it or pledged to it should be verified physically during the course of audit.* Shortage and damage should have been properly sanctioned by the committee. Where they are excessive, enquiries should be made. Shortages or deficits in stocks will need approval of the managing committee or Board of Directors. It should be ensured that all stocks in procession of the society are adequately insured. The auditor should obtain certificate regarding quantity, rate, value, shortages, excesses from the management, during the course of audit for the close of financial year.

37.17. *Unauthorised advances* :- In some of the marketing societies, certain influential members manage to secure large advances promising to sell their produce through the society, or on some other pretext. Such amounts are generally shown under the account head ***"Anamat"*** or some other vague head. It should be noted that payment of such advances is highly irregular and amounts to temporary misapplication of the funds of the society. Auditors should note cases in which such unauthorized advances have been made. Sometimes, advances far in excess of the value of the goods pledged are made in anticipation of receipt of more goods. It should be seen that advances are made strictly according to the provisions of the byelaws. Action will have to be taken for improper utilization of the funds of the society concerned.

37.18. ***Diversification of the business*** **:-** Due to decontrol of fertilizers and other goods, the business of the marketing societies, which are mostly dependent on supply of fertilizers on credit from the societies, has been affected a great deal. Many marketing societies have diversified in to other businesses like, medical shops, petrol pumps, manufacturing of some goods or utensils. The auditors should see this business is on the proper professional track and separate books of accounts are maintained, and the sales are related with market prices prevailing after considering the costs that the society has to bear.

37.19. ***Manufacturing of mixtures*** **:-** Some marketing societies are manufacturing fertilizer mixtures under their own brand name. They purchase fertilizers in bulk quantity, and prepare their own formula for mixing of fertilizers and keeping the specified percentage of N.P.K. The auditor should see that the society has obtained the necessary license from the Agricultural Department for production of the mixtures. The preparation of mixtures requires mixing of various fertilizers like Urea, Potash, Calcium Nitrate, Sulphate in specified proportionate. Auditors should see the blending proportion from the proposal sent by the society, to concerned permitting authority, and that the mixtures are prepared accordingly in sanctioned proportion. The cost of mixing includes cost of material, hamali, packing material, and other charges.Considering these, the society has to fix the selling price, with the prior approval of the Board of Director or Managing Committee.

37.20. ***Various analysis*** **:-** Societies having business of production and marketing require preparing production account and profit and loss account. It is necessary for the auditor to review the performance of the society from these statements, applying certain ratios with the standards fixed by the management or prevailing in the business. This will enable the auditor to judge the performance as well as profitability, required production, its cost, breakeven level etc., for reporting in his audit report and advise the management in decision making process. Some of the indicators are as below :

Ratio	Method	Interpretation	Indications
GP Ratio	Gross Profit / Sales * 100		
NP Ratio	Net Profit / Sales * 100		
Stock Turnover Ratio	Stock / Sales		
Current Ratio	Current Assets / Current Liabilities		
Acid Test Ratio	Current Assets – Stock / Current Liabilities		
Debt Equity Ratio	1) Debt / Debt + Equity 2) Debt / Equity		
Debtors Turnover Ratio	Debtors / Sales		
B.E.P.			
E.P.S.	Net Profit (after tax) / Total number of shares (excluding preference shares)		
Debt Service Coverage Ratio (D.S.C.R.)	Net cash accruals (= Net profit after tax + non cash expenses and provisions debited to profit and loss account) + interest on term loan / interest on term loan + installment of loan.		

These ratios are useful in the audit of Consumer societies, Marketing and processing societies, and other trading and manufacturing societies. The auditor should always consider minimum of 3 years' comparative analysis before drawing any conclusion.

CHAPTER No. 38

CONSUMERS SOCIETIES

38.1. ***Government Assistance*** **:-** Under the centrally sponsored scheme, Central Wholesale and Retail consumers' societies have been set up in all cities with a population of one lakh or more and a network of primary consumers' societies have been organized in all other major towns. All these societies have been assisted financially with funds made available by the Central Government. The Central Government has also guaranteed repayment of loans and cash credits sanctioned to these societies by the District Central Co-operative Banks or other financing agencies. A list of essential commodities has been notified by the Central Government. Manufactures of essential goods to consumers are required to supply such goods through these societies. Certain imported goods are also supplied to these societies for distribution.

The State Government has also extended a number of administrative concessions to these societies.

Auditors should study carefully the various schemes under which financial assistance by way of share capital, loans and subsidies is granted to these societies. It should be seen that the conditions laid down have been duly complied with. Repayments of loans both to Government and the Bank should be verified.

38.2. ***Departmental Stores*** **:-** In metropolitan cities and bigger cities, like Mumbai, Chennai, Kolkata, Delhi, and even in smaller towns like Kolhapur, Sangli, Nashik, Pune, Warananagar etc., super markets or Departmental stores have been set up, which stock all requirements of consumers under one roof so that a customer, who visits the store, will find all the articles required by him neatly displayed at one place and he need not visit different shops for buying his requirements. These societies have not only received substantial amounts by way of share capital contribution and loans, but also special financial assistance for procuring suitable premises, installations, interior decoration and also for buying furniture and fittings. The various orders of Government under which such assistance is made available should be studied carefully.

38.3. ***Primary consumers stores*** **:-**Primary consumers' societies deal directly with consumers. They are expected to buy their requirements from their Central Wholesale society to which they are affiliated or from the open market as per their requirements. However, except in cases of supplies of controlled articles and other commodities, supplies of which are received from Government, purchase are mostly made in the open market. Sales are mostly for cash although in some of the societies, sales on credit are made to such of the members such as salary earners and have to authorized as per rule 44 (2) of the Maharashtra Co-operative Societies Rules, the consumers societies may sell goods on credit to its members and other customers up-to the extent of deposits received from them. The system of obtaining trade deposits from regular customers is mostly not in vogue although necessary provision is contained in the byelaws. Most of the primary stores conduct fair price shops for distribution of food grains and other controlled commodities, the supplies of which are received through the wholesale society or direct from Government godowns against cash payments.

38.4. ***Central Wholesale and Retail Consumers stores and Departmental stores*** **:-**The central Wholesale and Retail Consumer societies, which have been set up in all district places and other important towns, are in reality multi-shop society mixed type of stores having branches and also affiliated primary consumers stores and practically none of them function as a wholesale store in the real sense of the term. They run a chain of fair price shops in which certain other articles of daily use in demand in the locality are also kept for sale. These shops are termed branches and are opened in different localities for the convenience of the residents or as directed by the Revenue or Civil Supply Authorities. However, in some cities like Kolhapur, Pune they are working as chain shops for various consumer goods. The Wholesale section supplies goods both to the affiliated societies and branches as well as to the different sections of the Departmental stores.

The departmental stores, super market or Shetkari Bazar, super bazars as they are sometimes referred to, are huge stores stocking all the requirements of consumers under one roof. They engage a large staff of salesmen and helpers, supervisors and other staff and their daily sales run into thousands and sometimes in lakhs of rupees.

38.5. ***Difficulties of management*** **:-** It will be seen that the accounting system for the three types of societies will have to be different. Primary societies employ very few salesmen and the accounts are required to be written by the manager himself. The members of the committee meet quite often at least in a week and exercise general supervision, including supervision over purchases, maintenance and checking of account, checking of stocks etc. Central consumer societies maintain an adequate staff and generally a separate account department is set up. Departmental stores have to be divided into a number of departments according to the number of goods sold and although a large number of salesmen and helpers are appointed , still , in view of the large turn over, the system of internal control and the accounting method adopted are inadequate and in many cases, unsatisfactory. In both types of societies, a separate wholesale section generally known as "Godown Section" has to be opened and competent godown-keeper has to be appointed. Accounts of the wholesale section and the retail section are required to be maintained separately.

38.6. ***Salient features of working of co-operative stores*** **:-** The following are the salient features of the working of all co-operative stores, both central and primary:

i) Sales are mostly for cash **:-** When credit sales are made, they are either against deposits kept or advances collected from members and the other customers or against assurances given by employers to deduct the dues of the stores from the wages payable to each of their employees to whom sales are to be made on credit.

ii) Cash memos specifying description and quantity of the article sold, rate and amount are issued for all cash sales. Bills or credit memos are issued for all credit sales.

iii) Sales are made to both members and non-members. Members are generally given pass books in which purchases made by them are recorded.

iv) Selling prices are fixed so as to cover all expenses and a fair margin of profits, but no advantage can be taken of fluctuations in the market and there would be no attempt at profiteering or even raising the prices in conformity with the price hike effected by other dealers. There will be no cornering and not even overstocking in anticipation of rising prices. When prices fall, selling rates have to be reduced by, and sometimes, certain goods are required to be sold even below cost. The society will have to keep itself in touch with the prevailing market rates for the different commodities dealt in by it and has to be careful to see that the prices charged by it are not higher than those charged by the other dealers. In order to ensure loyalty of its customers, the co-operative store has to follow an active price policy by carefully watching the trend of prices and price adjustments have to be made from time to time, without inviting unfair competition from other dealers, but at the same time passing on benefits to consumers, bulk buying, reservation of quotas with manufacturers and importers, and getting allotment of import permits to import commodities in short supply from other states. Since holding the price line and equitable distribution of commodities, in short, supply are the main objectives of the consumer movement in India, only a small and reasonable margin generated by them just enough to meet the overheads

v) As regards dealing in different types of consumers goods, the Registrar in his Circular No. FP Cons/EX/Cons- (C-8), dated 25-1-1972 has suggested that the business in footwear, crockery, jewellery and novelties being More or less risky it may be done on consignment basis as far as possible on the lines of readymade clothing.

vi) Regular customers are given a share in the profits of societies by way of bonus or rebate in proportion to the purchases made by them from the society.

vii) The management of the stores is in the hand of a committee elected by the members at their annual general meeting. Besides the Managing Committee, Central Committee, Purchase Committee, Price Fixation Committee and a few other committees are also appointed. The services of the members of the managing committee and other committees are gratuitous. However, if there are sufficient profits, they are given honorarium, as per resolution passed in AGBM, subject to Government Resolution in this regard.

viii) The membership of the primary consumers society is open to all residents of the area of operation of the society. In fact, a membership drive has to be undertaken periodically to attract more members and increase the share capital of the societies as well as the number of members.

ix) The bulk of the working capital required by the society is raised by way of share capital. The shortage of working capital is made good by way of trade credits obtained from suppliers and wholesalers. Credit is generally allowed according to the custom of the trade and the type of commodities, and also depends on the supply position. The Departmental Stores and the Central societies have been sanctioned cash credits by Central Co-operative Banks under the Central Government Guarantee Scheme. They generally allow a fortnight's credit to the primary societies purchasing from them. However, now the guarantee of Government is not required by the DCCBs, except in case of societies, which have their own adequate capital.

x) Particular care is taken to give correct weight to the customer. As such, there are practically no excesses. However, shortages are quite common.

xi) Since the transactions are voluminous and the commodities dealt in are numerous, it is not practicable to maintain quantity account of all the commodities dealt in. As such, special methods have to be evolved and an effective method of checks and balance has to be introduced so as to ensure proper control over the stocks and prevent pilferage. Physical count of all the stocks on hand has to be carried out frequently and at regular intervals in order to make up for the inability to maintain stock accounts. The auditor should obtain certificate regarding quantity, rate, value, shortages, excess from the management, during the course of audit for the close of financial year. (Please refer to AS 2)

38.7. ***Accounts and Records*** **:-** Since most of the primary consumers societies are engaged in the distribution of food grains and other controlled and non-controlled commodities, accounts and records as specified by the supply Department are required to be maintained so far as purchases and sales of controlled commodities like rice, wheat, sugar, etc. are concerned and for non-controlled commodities, separate records are to be maintained. Besides the Daily Sale Register, stock registers showing arrivals, sales and closing stocks of all controlled and non-controlled commodities, supplies of which are received from Government, are required to be maintained. In case of wholesale and bigger primary stores, since the items stocked are too many and it is not economical to maintain stock accounts. Accordingly, the society is divided into two broad sections, a godown section for recording purchases and issue of goods for retail sale and a retail section for recording sales. The Society is further divided into a number of departments according to the types of articles dealt in.

Certain sections, however, will be run on consignment basis. The Registrar in his circular No. F/Cons /Ev. Com. (C-8), dated 25-1-1972 has suggested that dealings in articles like ready-made clothing, footwear, crockery, jewellery, novelty articles, etc., should only be on consignment basis with a clear understanding with the suppliers to take back the stocks remaining unsold for a specified period. Purchase policy laid down by the Registrar in his above circular should also be followed strictly by the management. All stocks will be received by the godown and issues for retail sales would be made on the basis of requisitions or indents received from the departments. Quantity accounts of all articles received and issued will be maintained by the godown keeper, but detailed stock accounts are not maintained in the retail section and control over stocks in the shops will be ensured by maintaining detailed inventory records and a ***Salesman's Liability Account*** will be there for each salesman who will be in physical charge of the goods entrusted to him for sale. This system of maintaining separate account for wholesale and retail transactions is popularly known as the ***" Double Compartment System"*** about which more would be said in the following paragraphs.

38.8. ***Control over cash*** **:-** A permanent advance or an impress should be allotted to the Manager and sales manager of each branch or retail shop so that at no time an employee is required to spend from out of his pocket or invest his personal cash for the purpose of the store and mix up his personal money with that of the store. All payments should be made by the head office and no payment for purchases, expenses or other amounts are to be paid by the branches. The branches are not expected to receive any cash other than sale- proceeds which should be remitted intact daily to the head office so that the branch manager or salesman will have only such cash as has been allowed to him as "impress". The cashier and the accountant should be two different individuals and a system of reciprocal control should be set up between them. The cashier should maintain his cash Diary or Rough Cash Book and the

Cash Book or the Day Book should be written by the Accountant Every day after the day's transactions are over, the cashier's balance should be reconciled with the balance struck by the Accountant and actual cash on hand should be verified . The Cashbook should be signed by the Cashier, Accountant and the Manager.

38.9. *Sales* :- As already explained, the salesman should record all sales in their Daily Sale Registers. Cash memos are to be issued for all sales. These should be checked with the price register for rates. Entries in the Daily Sales Register should be checked with the cash memos and the total sales entered in the Cash Book after reconciling with the cash received as per Cashier's Diary or Rough Cash Book . The Salesmen should prepare three copies of the cash memo two of which should be handed over to the customer. The customer should hand over both the copies to the Cashier , who would retain one copy with him and return the other copy after stamping it with the ***" Cash Received"*** rubber stamp. The customer will then hand over this cash memo to the Packing Department who would deliver the package along with the cash memo duly stamped ***"Delivered".*** Every day at the close of business, the cash received by the cashier should be checked with the copies of the cash memos filed by him and the total agreed with the total sales for the day as per the Daily Sale Registers which should be maintained departmentwise and written up by the Salesmen from the cash memos retained in the cashbook. Shortage and excesses in sales should be enquired into. It should be seen that sales- tax is collected on sales of all goods subject to sales-tax Act.

Strict control should be exercised over the issue of blank cash memo books. An account of all cash memo books received from the printing press should be maintained.

A " Register of Cash memo Books issued" should be maintained and it should be seen that all cash memo books issued in the morning at the commencement of business are duly collected at the close of business . A note should also be made of the opening and closing numbers of cash memos issued from each book and the number of cash memos issued.

38.10. *Purchases* :- Approved purchase orders from the printed "Order Book" should be issued for all purchases made or supplies ordered. If oral orders are issued or orders are booked on phone, they should invariably be confirmed by issuing regular orders from the printed "Order Book". A copy of the order issued should be sent to the Godown Keeper with a note as to when and by what mode of transport the goods would be received.

38.11. *Receipt of Goods* :- The goods ordered, when received, should be entered in a "Goods Inward" or "Goods Received" Book by the godown keeper and inspected as soon as they are received as to quantity, quality, condition etc. In large stores, the inspection of goods received should be made by an independent officer who should not be under the control of the Purchase Department, or the Godown Keeper. He should inspect goods on arrival and compare them with the orders issued and invoices received from the suppliers. The "Invoice" or "Bill" for the goods when received from the supplier should be entered in a separate "Invoice Register" or Purchase Journal or Register. While checking the invoices, it should be seen that all ordinary and special discounts as agreed upon and also as per trade custom are deducted from the total amount of the invoices and that sales tax, municipal octroi and other levies have been correctly charged.

38.12. *Purchases Journal and Price Fixation Register* :- The Purchase Journal has a number of columns to show the quantity received, value, purchase expenses and total cost which divided by the total number of unit (numbers, kilos, litres or meters, etc.) will give the cost price of each unit. If desired, instead of maintaining a separate Price Register, a combined Purchase and Price Fixation register may be maintained. In many stores, the Purchase Register itself is being maintained in two parts, one part under the heading Purchase Price and the other Sale Price. Each invoice is entered in one line. On the left hand is recorded the cost price and on the right hand side sale price of the purchases. There would also be separate columns for showing the rate of margin or mark up and the prevailing market rate. Entries in the Purchase Register or Purchase Journal should be checked carefully with the invoices and it should be seen that

selling prices are correctly calculated. All purchases should be made by or under authority of the Purchase Committee which should meet quite frequently at least twice a week. Routine purchases, however, may be made by the "Manager" or the "Purchase officer" where separately appointed.

38.13. ***Return of Goods*** **:-** When goods received are required to be returned to the supplier for some irregularity, such as inferior quality, not according to sample or specification, goods received in spoilt or damaged condition etc., a debit note should be sent to the supplier and his account debited with the amount. A Register of Goods returned should be maintained from which the amount will be posted to the supplier's account. The Journal entry crediting "Purchase Account" and debiting supplier's accounts at the end of the month or shorter interval should be supported by a consolidated voucher, in which particulars of all goods returned should be summarized.

38.14. ***Goods Issued Register*** **:-** The Goods Issued Register, one for each branch or section should be maintained by the Godown Keeper. The Godown should function as the central warehouse and all issues including goods directly delivered at the branches (for saving transport charges) should also be shown as having been made by the godown. In other words, the godown is the only source of supply to the branches, for purpose of accounting. Goods issued to the branches should be supported by "Goods Issued Notes or "Delivery Chalan's" issued by the Godown Keeper. These Goods Issued Notes will show the sale price only and the total amount which will be entered in the "Retail Inventory Record" or Salesmen's Liability Register. It should be seen that both the Goods Issued Register and the Retail Inventory Record (Salesmen's Liability Register) are written up daily and are always up-to-date.

38.15. ***Issue of Stocks for Retail Sale*** **:-** All issues of stocks from the godowns to the retail shops will be properly prepared and will be made only against approved indents submitted by the Branch Manager or Salesman in charge. The Godown Keeper, on receipt of the indent will arrange to deliver the stocks to the salesman or his assistant and will obtain his signature on the "Goods Issued Note'' or "Delivery Chalan'', prepared by him, a copy of which will be forwarded to the Accounts Departments which maintains the Retail Inventory Control or Salesman's Liability Register. In some of the societies, instead of preparing separate 'Goods Issued' Notes or delivery Chalans, the Salesman submits three copies of the indents. On delivery of the goods, one of these will be retained by the Godown Keeper, the second will be sent to the Account Department and the third will be returned to the branch after recording the issues thereon.

38.16. ***Pre-packing of Goods: Conversion Register*** **:-** The modern practice is to deliver to the customer goods which are already weighed and neatly packed in attractive wrappers of some transparent material and kept ready for the customer to pick up. All commodities received in bulk are packed in convenient packets and displayed on the counter or kept on the rack or cupboard. Bags of food gains, pulses, sugar, flour, salt, groceries, etc., are opened and then re-packed in 2 kilo, 1 kilo, 500, 200, 100 grams packets. Similarly, butter, ghee, oils, etc., received in barrels, tins, etc., are also packed in 2 kilo, 1 kilo, 500 grams, or even smaller tins or plastic containers In order to ensure proper control over the stock received in bulk and converted into smaller package ready for delivery, a, "Conversion Registers'' which would show the number of bags or other bulk containers opened and converted into packages of convenient size and the number of different size of packets into which the contains have been packed, is required to be maintained. The register should be checked exhaustively and shortage, if any, noted.

38.17. ***Price Variation*** **:-** Sales price fixed immediately on receipt of the Goods are many times required to be changed according to market conditions, variations in the rates of excise duty, or sales tax or for other reasons. Stocks, which are deteriorating or are not moving fast are also required to be disposed of at reduced price. Since variations in sale price would affect the total value of the stock in the branches or retail shops and also in the godown "price Valuation Register'' is required to be maintained All adjustments of selling prices should be supported by resolution of the Price Committee, or orders of the General Manager in urgent cases. Vouchers should be prepared for every article where selling rate has been revised. These vouchers should be consolidated and summarized at the end of the month and a journal entry should be passed from the detailed vouchers or the Price Variation Register if all details are recorded therein, crediting Salesmen's Liability Account.

38.18. ***Return of Goods to Godown*** **:-** When goods supplied to the constituent societies or the retail shops are returned by them, they should be entered in the returns inward Register by the godown Keeper. The Returns Inward Register should be written up on the basis of the Goods Returned notes issued by the constituent societies or the retail shops, a copy of which should be sent to the Accounts Department for making necessary adjustments. A remark should also be made on the original Bill or Issue note and also in Goods Issued Register.

38.19. ***Sales to primaries*** **:-** Sales to primaries should be made by the godown only and deliveries should be made against receipted Chalans or cash memos issued by the head office, showing evidence of cash payment for the goods or against credit memos and delivery orders issued by the Accounts Department.

In order not to confuse matters and ensure that correct position is depicted in the financial statements, issues from the godowns to branches, or *vice versa*, return of empties and containers, supplies or transfer of stocks between branches (which should not be encouraged) will not be recorded into the financial accounting system at all. However, such transfer or issues of goods should be entered on special vouchers and recorded in the retail inventory control or the Salesmen's Liability Register.

38.20. ***Control over stocks*** : ***Double compartment system*** **:-** The principal of stock control by values only is that the same account (*viz.*, the stock at sale price account) is debited with the opening stock at sale prices, value of goods purchased at sale price and increase in price. It is credited with the value of goods sold, price reduction and closing stock at sale price. The closing stock as per physical verification (or periodical stock taking) sheets must balance the account. If it is a credit balance, the excess will be an income to the store. If it is a debit balance, it will represent shortages or leakage or may also be due to pilfering and will appear on the expenditure side of the Profit and Loss Account. If shortages are abnormal, further investigations should be carried out. Under the system of Double Compartment Method of Stock Control, which has been adopted by most of the societies, all goods received at the godown are shown at purchase price plus purchase expenses (such as cartage, hamali, octroi, etc.) and goods issued by the godown to the departments, branches or shops are charged at retail (*e.g.* sale prices).

38.21. ***Stock Control Account*** **:-** As already explained, in order to ensure proper control over stocks, a Stock Control Account is opened in the general ledger, by debiting the opening stock at sale-price and closing the Stock at sale-price. As explained above, both sides should agree. If there is any difference, the debit balance, which represents shortages, is transferred to the Loss Account (Trading Account) and the account is closed.

The accounting procedure explained in the foregoing paragraphs should be closely studied and it should be seen that the system is followed with such modifications as may be considered necessary in the light of special circumstances of each case. It should be noted that the *double compartment system* pre-supposes division of the store into a number of compartments, i.e., selling points, or departments small enough to be managed by a senior salesman assisted by one or two juniors or helpers as they are called. If more than one salesman is in charge, there would be joint responsibility. The system also necessitates proper arrangements for safe custody of goods by arranging for adequate locking arrangements both at the selling counters and the cupboards or lofts where goods are kept for sale. It should be seen that adequate security bonds and cash securities are taken from all salesmen and their helpers. The following points should be attended to if the salesmen are to be held responsible for shortages or losses :-

(i) There should be a strict procedure for handing over and taking over charge of the stocks at the time of transfers of salesmen and when they proceed on leave or resign.

(ii) Adequate arrangements for locking the stock and ensuring their safety should be made. The stocks on the counter and the lofts, cupboards or cases should be under the control of the salesman.

(iii) Goods for retail sale should be issued only against indents signed by the salesmen and approved by the Manager or other responsible officer. Issue notes should be issued for all stocks issued. Goods received for retail sale should be properly checked by the salesman before he receives them.

(iv) Goods returned by the customer should be properly accounted for.

(v) Every time the sale-price is revised, the stocks on hand with the salesmen should be physically verified. Price Variation sheets should be prepared and necessary adjustments made in the Salesmen's Liability Register.

(vi) There should be proper classification of goods and each item in stock should be identifiable.

Effective arrangements for inventory control are a s*ine-quo-non* to insure successful working of Co-operative consumers' society of which periodical stock-taking forms an integral part.

The auditor should examine the arrangements made for annual and periodical stocktaking and suggest improvements. During the course of his audit, the auditor should obtain certificate regarding quantity, rate, value, shortages / excess from the management as on year end date. The pricing policy of the society should be examined in close detail and it should be seen that as far as possible, sale-prices are fixed in conformity with prevailing market rates, and although, in principle, the advantages of cheap buying should be passed on to the customers, it is better to earn a substantial profit and distribute the surplus by way of patronage bonus amongst the regular customers, members as well as non-members, rather than sell the articles at prices lower than those prevailing in the market until the stocks are exhausted and then raise the prices which becomes necessary on account of the increased cost of procurement. Arrangements made for proper storage and attractive display of goods, steps taken to minimize incidence of wastages, pilferages of stocks and avoidable shortages should also be examined and deficiencies noticed should be pointed out.

It has to be remembered that although the consumers' society is looked upon by the administrators as a tool for bringing about social improvement and to make up in some measure for their inability to establish effective social control over retail trade, and for this purpose, a number of valuable concessions, both administrative and financial, have been provided, including participation by the State in the share capital of the societies, still, it is a commercial organization and has to measure up to the standard of efficiency expected of a commercial organization. No doubt, profits earned constitute the most important consideration for judging the efficiency of a commercial institution, there are also other norms, which have to be applied in order to gauge the success achieved by a Co-operative consumers society.

38.22. *Business norms* :- The Registrar in his circular letter No. F \cons \ex-com [c-7], dated 12-1-1972, has laid down various business norms to judge the efficient working of consumers' co-operatives. The expert committee appointed by the Government of Maharashtra after a careful study of the norms laid down by Government of India had made certain suggestions. These have been accepted by Government and the Registrar has issued the above circular specifying the various norms for judging the efficient working of consumer societies in metropolitan cities of Mumbai, Poona, Nagpur and Thana and other district towns in Maharashtra. Standard expenditure under various heads has also been laid down for large departmental stores and for the smaller primary stores, in the metropolitan cities and other district towns. The auditor should very carefully study these.

As stated elsewhere, compliance of the guidelines regarding framing of a sound purchase policy and avoiding investment of scarce funds in unprofitable ventures, laid down in Registrar's circular No. F\ Cons\ Ex-Com[C8], dated 25-1-1972 should be noted by the auditor during the course of his audit. In particular, it should be seen that the purchase levels to be maintained for each section department recommended by the Registrar are strictly followed and there is no unnecessary locking up of funds in any of the lines or commodities. The purchase policy should be reviewed from time to time and to avoid overstocking of goods for unduly long periods, & periodical clearance sales should be arranged.

38.23. *Business management* :- The following points will have to be considered by the auditors while auditing consumer stores :-

***[A] Employment of funds* :-** The investment of funds in circulating and non-circulating assets should be studied and where the society has invested disproportionately large funds in non - circulating assets such as lands buildings, interior decoration, furniture and fixtures, etc;, suitable comments should be made. It should also be seen whether the funds available are adequate and trade credit has been properly used.

[b] Management **:-** Adoption of scientific methods of control over purchase and sales, inventory control including adequacy of arrangements made for periodical stock taking, attractive display of goods, etc., should be seen.

[c] Budgetary control **:-** Annual, half-yearly or quarterly budgets of purchase and sales and of expenditure should be prepared. Targets should be fixed for department or section and for each salesman.

[d] supervision over branches **:-** Arrangements made for supervision of branches and sales depots, maintenance of proper account, periodical stock-taking and reconciliation of head office account should be seen and if noticed, to be deficient or defective, suitable suggestions should be made.

[e]Management account **:-** Fortnightly or monthly reports regarding purchase and sales and stocks on hand should be obtained from each department or section and also from the branches and should be considered by the Committee. All aspects of the working of the departments and the branches should be reviewed periodically so as to arrest in time unhealthy developments, if any.

[f] Government assistance **:-** Proper utilization of financial assistance received from the Central and the State Government and prompt repayment of Government loans and other borrowing should also be commented upon.

[g] Accounts **:-** It should be seen that the Price Variation Register and the salesmen's liability Register are always maintained up-to-date.

CHAPTER No. 39

AGRICULTURAL PRODUCE MARKET COMMITTEE

39.1. ***Audit of Market committees : Legal Provision :-*** The auditors of Co-operative department are authorised by the sub-rule (2) of the Rule 116 of Maharashtra Agricultural Produce Market (Development & Regulation) Rules, 1967 to audit the accounts of the market committee. The rule provides that "the accounts of the market committee shall be audited annually by auditors of Co-operative Department on payment of such audit fees as may be fixed from time to time by the Co-operative Department." It is clear from the provisions of this rule they should audit as per this act and not as per the provisions of the Maharashtra Co-operative Societies Act 1960. The Provisions of Section 81 and Rule 69 of the Co-operative Societies Act are also not applicable to the audit of Market committees regarding scope of audit, duties and responsibilities of audit, submission of audit report, and other related matters.

39.2. ***Scope of Audit :-*** Rule 116 of Maharashtra Agricultural Produce Market (Development & Regulation) Rules, 1967 does not provide the scope of audit. However, the auditors auditing APMC's have to follow the objects of the audit, and as they are auditing financial audit of APMC they have to certify the true and fair position of the APMC as per standard auditing practices. Thus, the scope will include:

1) Objects of audit :- To find out errors and frauds is the main object of the audit. The auditors should verify the financial statements, records, and books of accounts and see whether they are as per Standard Accounting policies that are fixed by the APMC/Maharashtra State Agricultural Marketing Board and Directorate of Marketing and are consistent and are on going-concern basis.

2) The Standard auditing practices :- The auditors should follow all the standard auditing practices & guidelines about which are issued by the Institute of Chartered Accountants of India, and such conventional guidelines issued to them by the Registrar, as described in this manual.

3) APMC Act :- While auditing the APMC's the auditor should consider the provisions contained in Maharashtra Agricultural Produce Market (Development & Regulation Act and Rules made thereunder. The important provisions of this Act and Rules are described elsewhere in the foregoing paragraphs. The auditor has to apply other related Acts also while auditing the market committees *viz.,* Payment of wages Act, Payment of Bonus Act. Payment of Gratuity Act, Income Tax Act, Sales Tax Act, Transfer of Property Act, and other allied acts, which are related to the business of the Market Committees.

4) Reporting :- The auditor has to report on the matters stated in sub-rule 6 (a) of the rule, which is explained in paragraph ***IV*** below.

39.3. ***Powers of the Auditor :-*** Under Sub Rule (3) of the Rule 116 of the APM Rules, provides that,the auditors can access all accounts, registers, document and other relevant papers for the purpose of audit, and he can call explanations also. The sub-rule provides that, " At the time of audit , the Chairman or any other member of the Market Committee authorised by him in this behalf shall cause to be produced and it shall be the duty of the Secretary to produce all accounts, registers, documents and other relevant papers which may be called for by the Audit Officer for the purposes of the audit. Any explanation called for by such officer for the settlement of any discrepancy shall also be immediately furnished to him".

39.4. ***Audit Memorandum : a) legal provision :-*** The auditor is required to report as per sub-rule 6(a) of the Rule 116 of the rules, which provides that, ***" The auditor shall report to the Committee and the Director or the Officer authorised by him in this behalf, any material defect or irregularity observed by him in the expenditure or in the recovery of moneys due to the committee or in the accounts of the Committee and any loss, waste or misappropriation of money or other property, owned by or vested in the Committee, if such loss is a direct consequence of neglect or misconduct of person or persons directly or indirectly responsible for such loss, waste or misappropriation. The auditor shall send a copy of such report to the Director."***

Sub-rule (4) provides that, the audit report is open for inspection to any person free of charge in the office of the concerned auditor of Co-operative Department.

Sub-rule (5) provides that the audit memorandum of the Market Committee may be given for reading to the members of the Market Committee in the office of the Market Committee. Certified copies of the same may be supplied to them on payment of 50 paise for 200 words.

b) Contents of Audit Report :- The Act does not provide the detailed contents of audit Report, except as stated in Sub-rule 6 (a) above. However, the auditors should consider the following points while reporting in audit report.

1) Any misappropriation of money or property of Market Committee that is observed during the course of audit.
2) Irregularity observed in the expenditure that was made by the Market committee.
3) Reason for losses incurred by the Market Committee.
4) Any waste of property, funds, observed during the course of audit in the period for which he is auditing the accounts.
5) The Market committee has not observed the directions given by the Director of Marketing regarding financial or management aspects.
6) Preparation of budget, observing the provisions that are sanctioned in budget and approved by the Director of Marketing.
7) Management of Market Fund, its utilisation.
8) Proper utilisation of assistance given by the Marketing Board or any financial Institution, and purpose for which it is sanctioned.
9) Licensing policy, collection of license fees, fixation of rates for licenses etc.
10) Levies , fees, charges, fines, and penalties that are imposed by the Market committee, policy regarding, and approvals of Competent authorities.
11) Maintenance of Records, books of accounts, registers, etc.
12) Management Committee and Sub-committees and their working, framing of policies and decisions,
13) Breaches of Maharashtra Agricultural Produce Market (Development & regulation act) 1963 and Rules thereunder, and byelaws of the Market Committee.
14) Supervision over the purchase of agricultural produce,
15) Other related matters or directions given in this regard by the Director of Marketing.

c) Compliance of audit Report :- Sub-rule 6(a) further provides that on receipt of audit report from the auditor, the secretary shall place it before the next ensuing meeting of the committee. The committee shall remedy the defects or irregularities within sixty days from the date of such meeting and submit a report of rectification to the Auditor and to the Director.

d) Re-audit:: Re-audit is ordered by the Director, if it appears to the Director on an application by any member of the Market Committee or otherwise that it is necessary or expedient to re-audit the Accounts of the Market Committee for any period. For such re-audit, the provisions of the Act and the rules shall apply as they are to the audit of accounts of the Market Committee.

39.5. *Working of Market Committee :-*

1. Market and subsidiary markets- (a) Government notification regulating specified agricultural commodities and animals, fixing the market area of the subsidiary markets, specifying the market yard and sub-yards, etc., should be seen and necessary notes may be taken down. Provisions of the Agricultural Produce Markets Act, the rules made thereunder and the byelaws of the committee should be carefully studied.

b) Constitution of Market Committee :- Section 11 to 28 of MAPM Act 1963 prescribes the formation, regulation and constitution of Market committee. While reading the Minutes book it should be seen that the working of committee is as per Act, rules and byelaws of the Market Committee. A list of members of the committee, both elected and nominated, and the constituencies and interest, which they represent, should be obtained. Minutes of meetings of the committee and the various sub-committees appointed by it, in particular, the Disputes Sub-Committee, should be perused. Where any business rules or regulations have been made, it should be seen that they have been duly approved and followed.

2. Licensing :- Registers of various licenses issued by the Committee should be examined and it should be seen that license fees at the prescribed scales have been received and proper licenses issued

to all persons operating in the market such as merchants, general commission agents, weighmen, hamals, etc. detailed information regarding number of different types of license holders and fees collected from them should be collected.

Applications for issue of licenses and agreements executed by the different licenses should be checked with the Licenses Issued Register. It should be seen that all applications, which should be in the prescribed from in byelaws, have been duly considered and sanctioned by the committee and agreements in the prescribed forms have been got executed from all licensees. Licenses, the periods of which have expired, should have been properly renewed before the licensees are permitted to operate.

Where licenses have been refused or suspended or cancelled, it should be seen that the procedure prescribed in the rules and byelaws of the committee concerned have been followed.

3. Collection of market fees :- Rates of market fees assessed on different types of Agricultural commodities sold in the Market should be ascertained and it should be seen that market fees are collected on all produce brought for sale in the market. Where the market yard has not been specified or where produce is directly delivered at the shops or godowns of the merchants or commission agents (Adatyas) or at the premises of the ginning factory, rice mill or oil mill for being processed, adequate arrangements should have been made for collecting necessary information regarding arrivals and market fees which should have been collected at the prescribed rates as per rule 32 and specified in the byelaws of the Market Committee. However it should be borne in mind that the rates prescribed by the Market Committee should be in between the maximum and minimum rates notified by the Government. (Section 3 & Rule(1)).

Reports of arrivals submitted by the merchants and the commission agents should be seen. It should further be seen that the officers of the Market Committees regularly visit the godowns, factories and other premises where goods are received and stored and satisfy themselves about the correctness of the information furnished by the merchants. The account books and records of the merchants should also be inspected for the purpose.

The Arrival Register should be seen and correctness of the market fees collected should be verified.

4. Badges :- Badges should have been issued to all Weigh men who are licensed to weigh the produce brought for sale in the market. It should be seen that deposits at the prescribed rates have been collected from all weighmen to whom such licenses have been issued. The total amount of deposits collected should be verified from the total number of licenses issued.

5. Scales, weights and measures :- Scales, weights and measures used in the market should have been got checked as required under provisions of Rule 24 and 25 of the Market Rules. It should be seen that all weighments are made by licensed weigh men who should be paid charges at rates fixed by the committee. Where weigh-bridges have been installed, it should be seen that they are inspected periodically. Records of weighments made by weighbridges should be inspected and weights specified in the sale memos or agreements should be test-checked with the records of the weighbridges.The Auditor should check the use of scales and weights are in accordance to the provisions of the Act, Rules, byelaws and directions issued from the Director of Marketing from time to time.

Grading :- Where graders are appointed for grading of agricultural produce, arrangements made to ensure proper grading of produce and disposal of complaints regarding wrong grading should be examined.

6. Settlement of disputes :- Provisions in the byelaws regarding constitution of the Disputes Committee or the Board for settlement of disputes and the procedure prescribed for the resolution of disputes and passing of orders or awards should be seen, and it should be seen that all disputes referred to the committee have been disposed of promptly. It has to be noted that the smaller agriculturists who bring their produce for sale are generally illiterate and ignorant of the procedures followed by the committee. It is, therefore, necessary that steps are taken to educate the agriculturists and make them aware of their rights and responsibilities. Register of Disputes referred for settlement should be examined and the progress of settlement of disputes noted. It should be seen that fees at the prescribed rates have been collected for all disputes referred for settlement. The total number of disputes referred for settlement and the amount of fees collected should be mentioned in the audit report.

7. Market Intelligence :- It should be seen that proper records of daily prices for the different commodities dealt in, in the market are maintained and necessary reports are submitted to the Marketing

Research Officer promptly. Daily arrivals and prices should he prominently displayed in the office of the Committee. Statistics relating to total arrivals, variations in prices during the season and existence of any special circumstances having impact on the arrivals and prices of the various committees should be contained in the annual report of the Committee.

8. Adulteration of Agricultural Produce :- Adulteration in agricultural produce is strictly prohibited under rule 21 of the Rules, steps taken by the committee for detection and prevention of adulteration of agricultural produce should be examined and it should be seen that agriculturists are properly educated in this regard and made aware of their responsibilities regarding purity and cleanliness of produce brought for sale.

9. Regulation of sales :- Section 6 of the Act provides that no persons shall be allowed to enter into transactions of sale of notified agricultural produce and used any place in the market area or operate in the market area unless he is a license holder and he complies with the terms and conditions of license.

The auditor should attend for short while and observe actual sales as they take place during the busy season particularly. It should be seen that all weighment slips, agreements for sale, sale memos and other documents are in the prescribed forms and that only the stationery and forms supplied by the committee bearing its name are used for the purpose. It should be seen that the market committee concerned has regulated the trade practices properly and all the malpractices have been stopped.

Stocks of weighmen's badges, forms and other stationery kept for sale should be verified. It should be seen that proper records are maintained regarding of receipts and issues and the book balance should be agreed with the actual stock on hand.

10. Annual Budget :- The annual budget prepared by the market committee should be seen. It should be seen that the expenditure incurred over different items does not exceed the provisions made for them. Approval of the State Marketing Board under sub section (2) of the section 38 to the budget should be seen. The Board may sanction the budgets submitted by the Market committee with modifications or without modifications within one month form the receipt of the budget. The Market committees are not allowed to incur any expenditure, which is not provided in the sanctioned budget. However , after sanctioning the re-appropriation to the budget or supplementary budget, and sanction from Maharashtra State Agricultural Marketing Board, they can incur such expenditure.

It should be seen that all capital expenditure incurred is properly authorized and debited to the correct head of account. Repayment of loan obtained from Government for capital expenditure should be watched. It should be seen that all Government loans are utilized for the purpose for which they are granted and various conditions laid down while granting such loans are fulfilled.

11. Property & Property Register :- (a) It should be seen that Property Register in form No. 27 prescribed under sub rule (1) of rule 116 has been maintained. Title deeds to immovable property purchased or acquired should be seen. Lease deeds executed by merchants and other lessees to whom building plots sites have been leased out for construction of shops or godowns should be seen and it should be seen that rent is recovered promptly. A list of leasees from whom rents are outstanding should be prepared and reasons for arrears and action taken for recovery should ascertained. It should be seen that for the accounting of leasehold properties proper accounting policies are adopted or not. Standard accounting policy regarding leasees explained elsewhere in the Manual should be studied.

b) Approvals for acquiring properties :- Sub-section (1) Section 12 provides that no immovable or movable property, the value of which exceeds the prescribed limits shall be acquired or disposed of by the Market Committee without the prior permission of the Director. The Director of Marketing has issued an information brochure for obtaining permission under this sub section with guidelines; auditors should study them. Various notifications and directives from Government and Director of Marketing are issued on the subject; the auditors should study the below mentioned circulars, notifications while auditing the purchase or sale of properties.

Circular/ notification number	Issued by	Subject
Notification No. 1089/ 43055/ 379/11-C/ dated 17th May 1991	Government of Maharashtra Co-operation and Textile Department	Procedure to obtain permission for acquiring assets or building permissions.
Circular No. Panan-5/ kruubas/ba-ka/ parvangi/ dated 18th September 1990.	Director of Marketing Pune	Delegation of powers to give permission for constructions to DJR and DDR, procedure thereof.
Circular No. Panan-5/ kruubas/ bandhkam/ parvangi/ dated 17th March 1991	Director of Marketing Pune	Permission to constructions and permission to movable and immovable property under section 12(1)
Circular No. Panan-5/ 12(1) nikash/ dated 20th September 1991	Director of Marketing Pune	The Director had permitted permanently to acquire some assets, this circular is cancelled by the Government in GR dated 31.1.2004
No. krubas 2004/ pfr.ka. 14/ 11-C dated 31st January 2004	Government of Maharashtra Co-operation and Textile Department	Constructions by APMC's
Circular	3.11.2001	The Director has permitted permanently to acquire some assets,

As per Government resolution dated 31.1.2004 referred to above, the Government has authorised to giving permission to the APMC's to the limit of 5 lakh by District Deputy Registrar, 10 lakh by Divisional Joint Registrar, 25 lakh by Director of Marketing and above 25 lakhs by Director of Marketing with prior approval of Government. The Circular further states that the instructions issued by the Director regarding scrutiny of technical items will continue in operation. The Government has directed works, that are non-productive and not related with development of APMC, should not be undertaken by the Market Committees.

12. Investment of funds **:-** It should be seen that all surplus funds not immediately required have been judiciously invested so as to earn maximum income and that idle funds are not kept on hand or in current account for a long time. All investments made during audit period should be vouched and the securities including fixed deposit receipts, saving certificates, etc. should be inspected during the course of audit. All securities should be kept in Bank for safe custody.

13. Market Fund **:-** All the sources of income of Market committee are credited to Market fund, as per the provisions of the section 36 of the Act. Sub-section (1) of the section 36 provides that all monies received by a Market Committee under this Act (Except the fees credited to Election fund), all sums realised by way of penalty , all loans raised by the committee and all grants, loans or contributions made by the State Government to the Committee and all grants, loans or contributions made by the State Government to the Committee shall form part of a fund to be called the Market fund. Section 37 further provides the way of expenditure that should be made from the Market fund. The section states that the Market fund may be spent for all or any of the purposes, mentioned in proviso (a) to (v) . The auditor should study the provisions and verify that the Market Committee has utilised the fund as prescribed in the Section.

14. Staff **:-** A list of staff together with their designations, grades, present pay, etc. should be obtained. Where the Market Superintendent or the Secretary is not an employee of the State Government, approval of the Director of Marketing for his appointment should have been obtained. It should be seen that the strength of the staff does not exceed the sanctioned strength. Security bonds from staff should have been taken by the market committees wherever necessary.

Various directions from the State Government and the Director of Marketing has been issued from time to time in this regard, auditor should see the observance of these directions and comment upon.

It should be seen that accounts of the staff Provident Fund are kept separately and the surplus amount of the kind is invested outside the business of the market committee.

15. Funds not to be utilised in personal Capacity **:-** Section 38 A prohibits spending the funds of a Market Committee defraying the cost of any proceeding filed or taken by or against any member, Chairman or Vice Chairman of the Market Committee in his personal capacity. The decision regarding expenditure so incurred is personal or not, will be decided by the Director.

16. Writing off loss, shortage or fee, etc. which is irrecoverable **:-** Section 32 B provides that, a market committee may write off any fee or other amount whatsoever due to it whenever any loss of the committee in money or store or other property occurs through any fraud or negligence of any person or for any other cause and, in the opinion of the Market Committee, the fee, amount, property or money is found to be irrecoverable or should be remitted.The Market committee may order to write off or remit such fee, amount, property or money as lost, or irrecoverable, as the case may be; it further provides that where the amount due or the value of store or other property exceeds five hundred rupees, the Market committee shall, before making any order to write off or remit as aforesaid, obtain the sanction of the Director. Rule 94 B provides what precautions should be taken before writing off the sums. Sub-rule (a) of Rule 94 B provides that the amount of fees, dues or losses of value of movable or immovable property, which are irrecoverable, is certified to be irrecoverable by the Auditor of the Co-operation Department in his Audit Memo. He also certifies that the Market committee has taken steps to recover the sum or amount of fraud or negligence from the person concerned, but has failed to recover the same and report to that effect has been received by it from the Revenue Officer or Officer of the Court (Sub-rule (b)(c)).

17. Books and Accounts **:-** Sub-rule (1) of rule 116 provides that, the Market Committee should maintain the following accounts books and registers – (a) Cash book ; (b) General Ledger; (c) Individual Ledger; (d) Market Fee Register; (e) License Fee Register; (f) Register of license holders for operating as Commission Agent , trader or broker ; (g) Form and Account Books Register , (h) Stationery Register (i) Dead Stock Register; (k) Pay Register (l) Government Loan Register; and (m) Property Register.

18. Automised accounting system :- The Maharashtra State Agricultural Marketing Board has formulated a Standardized Accounting System for all the Market Committees. The Director of Marketing has directed all the Market Committees to prepare their accounts in such Heads and sub-heads only as mentioned in this system.

Further, the Director of Marketing has also given directions to the Market Committees to prepare their accounts in TALLY on the Standardized Accounting System , the Auditor should check the financial statements prepared by the Market Committee on TALLY.

Steps for preparation of Financial Statements of APMC

Financial statements of APMC would include the following statements :- (i) Trial balance. (ii) Trading Account. (iii) Income and Expenditure Account. (iv) Balance sheet. (v) Sub – reports – as Schedules – Which relates to Income tax return purpose which is not compulsory to APMC's to made the above statements manually with the help of TALLY ACCOUNTING SOFTWARE. 1) Board Meeting Expenses 2) Administration Expenses 3) Market Yard Expenses 4) Income from Investment 5) Income from Property 6) Other Income 7) Fund – Market Fund, Election Fund, Employee Welfare Fund. 8) Deposits & Advances Payable 9) Receivables & Payables Amounts 10)Employees Receipts & Payable 11) Provisions & Current Liability 12) Cash & Bank Balance 13) Investments 14) Land Acquisition & Projects 15) Fixed & Movable Assets 16) Deposits & Advances 17) Employee Receivables 18) Market Fee, Supervision fee, Tolai & Levy Receivables 19) Lease Premium, Service Charges, Lease Rent Receivables 20) Building Rent, Water Bill, Telephone bill & Penal interest Receivables.

2. The following steps may be initiated to close the books of accounts and prepare financial statements : (i) Close the cash/day book and verify and tally the cash balance physically. (ii) Reconcile balances with DCCB/SCB and other Banks in deposit accounts as per bank book / General Ledger with the balance confirmed by them (through Balance Confirmation Certificates) by preparing Bank Reconciliation statements. (iii) Pass accounting entries for "Interest accrued" on Loans and advances (both overdue as well as

non overdue amount) as also "Income accrued" on investments up to the close of the year (31st March) (iv) Pass accounting entries for "Interest accrued but not due" (interest payable) on deposits and borrowings. (v) Make provisions for all administrative expenses, audit fees, etc. which are due but not paid up to 31st March. (vi) Ensure that all the investment receipts and share certificates are in agreement with the investments shown in the books of account. (vii) In case there is depreciation in the value of investment, necessary provision for the same should be made. (viii) In case APMC is engaged in Trading activity closing stock should be physically verified by the Auditor of APMC. On verification, actual stock should be compared with the stock as per stock register. The deficit, if any, should be brought to the notice of management for taking corrective action. Closing stock should be valued on the basis of cost or market price whichever is less. Damaged or degraded stock should be valued at realizable price. (ix) In the books, entries for accounting closing stock of all the items should be passed with reference to actual stock and not stock as per stock register after physically verifying the stock. (x) Make provision for Non-Performing Assets by assessing performance of each loan account. Accounts which have become NPAs as per prudential norms, should be considered for making provision. Provision for standard assets should be made as per norms. (xi) Make provision for overdue interest on Loans and Investments for the year. (xii) Verify the entire fixed asset physically and ensure that there is no shortage of assets vis-à-vis assets as per dead stock register. Further, also ensure that no damage to the asset is caused to the extent that the asset became unusable. In such a case, the asset should be written off. (xiii) Prepare depreciation chart indicating all fixed asset and make entries for depreciation on fixed assets. The depreciation in value of fixed assets for the year should match with the amount debited to income & expenditure account. The written down value (WDV)/straight line method at the year end should match and reflect in the Balance sheet. (There would be no DEPRICIATION FUND to shown at Balance sheet) (xvi) In respect of Borrowings, Balance Confirmation Certificate should be obtained from the respective institutions / lenders and balances under borrowing accounts as per General Ledger should be reconciled / tallied with the balance confirmed. (xvii) All deposit accounts should be balanced and summary of depositor wise balance outstanding under each type of deposits should be prepared. The total of outstanding balances of all depositors under respective type of deposits should be tallied with the balance in each deposit account as per General Ledger. (xviii) If there are more than one branch, inter-branch entries should be reconciled by each branch and the net of such balance should be taken to the balance sheet.

(xiv) Last year of expenses provision of has been nullify to against provision of expenses account. Then provision of current year provision to said expenses as on 31st.

3. Preparation of trial balance After passing all the accounting entries, each of the expenses and income accounts head in General Ledger, should be closed and balances under Assets & Liabilities account carried forward to the new year. Trial balance incorporating all the account heads as per the Group & Sub Groups & Ledgers prescribed above.

4. Preparation of Trading Account, Income & Expenditure Account & Balance Sheet (i) Once trial balance is tallied, all items related to trading A/c (purchases, sales, Sales Return, Expenses related to trading and stock) in respect of all non-credit trading activities should be posted to Trading Account. All Non Trading expenses, depreciations and provisions for bad and doubtful debts, depreciation in the value of assets and overdue interest etc. should be posted to Profit and Loss Account on "expenditure" side. All the income (interest on loans and advances, income from investments and other revenue receipts) should be posted to "Income" side of Profit and Loss account. All the assets and liabilities should be carried / posted to Balance Sheet. All the financial statements should be prepared automatically by the Accounting software of TALLY. (ii) Trading account should be closed and Gross surplus or Gross Deficit should be ascertained. For this purpose, a summary of trading accounts may be prepared as per suggestions of internal auditor of APMC. If there is a gross surplus, the same should be brought forward to the "credit" side of income & expenditure account. If there is a gross Deficit, the same should be taken to the "Debit" side of Income & Expenditure Account. (iii) Thereafter Profit and Loss Account should be closed and net profit or loss for the year should be ascertained. If there is a surplus or deficit it will treated as per income tax act of sec. 11 as per guidance by internal auditor of APMC final the accumulated fund, income or deficit. Accumulated fund should be transferred to APMC DEVELOPMENT FUND. After accumulated fund

remains surplus transferred to APMC FUND. If any Surplus should be shown at asset side of balance sheet. Next year it will be transferred to APMC FUND. (iv) Balance Sheet should be prepared as per the format suggested in above. Total of "Assets" and "Liabilities" should be tallied. It will be maintained in computerized software Tally Automatically. As Per mentioned in above details of accounting heads so No new heads of accounts both under "Assets" and "Liabilities" should be added.

CHAPTER No. 40

LIQUIDATION SOCIETIES

40.1. ***Audit :-*** Section 108 of the Act provides for the audit of liquidation societies as, The Registrar shall cause the accounts to be audited in such manner as he thinks fit; and for the purpose of audit, the liquidator shall furnish the Registrar with such vouchers and information as he, or the person appointed by him , may require.

The Liquidator has to submit summary of account in the form of receipt and payment twice in the year. This section does not explain about the manner of audit to be conducted by the auditor , however section 81 of the Act provides for conducting audit, scope of audit, and preparation of audit memorandum is applicable to this audit also.

40.2. ***Audit period :-*** Normally the audit is conducted from the last date of audit to the end of financial year. In case of liquidation society the auditor has to audit for the period prior to the date of liquidation and from the date of liquidation to the date of ending financial year. There might be transaction which are not audited due to stangnacy of the society or have not audited the accounts for various reasons. After taking charge of society the liquidator has to start the procedure for liquidating assets and admitting claims of the creditors. There are certain differences in transactions and business of the society, while the society is working and after taken in to liquiation. Hence the auditor has to check both periods, applying accounting standards and auditing practices. While auditing societies after taken in to liquidation various instructions has been given by the Registrar regarding working of the liquidator that are to be seen by the auditor and proper procedure has been followed or not, should be seen.

40.3. ***Balance sheet :-*** The liquidator has to prepare balance sheet as on the date of order of liquidation, so that, he will realise abount the liabilities that are to be claimed by the creditors, and assets that he has to realise for settlement of liabilities. This balance sheet is base for his working. Section 106 provides that, "When a winding up order becomes effective , the Liquidator shall proceed to realise the assets of the society by sale or otherwise, and no dispute shall be commenced or if pending at the date of the winding up order, shall be proceeded with, against the society, except by leave of the Registrar and subject to such terms as the Registrar may impose.The Registrar may of his own motion, however, entertain or dispose of any dispute by or against the society." From this it is clear that the on the date of winding order, the liquidatior has to prepare the assets to be realised and liabilities to be setteled. The auditor has to verify the Balance sheet as on the date of winding up order and whether the claims and assets are settlled by the liquidator accordingly.

40.4. ***Powers of the liquidator :-*** Certain powers have been given to liquidator, subject to the rules and general supervision , control and direction of the Registrar under section105 of the Act. Some of the provisions are as under :-

a) Sub-section 1(c) provides for, 'to sell immovable and movable property and actionable claims of the society by public auction or private contract, with power to transfer the whole or part thereof to any person or body corporate, or sell the same in parcels.
b) Sub-section 1 c-a) provides that, ' to transfer by sale assets valued at market price to a society registred with similar object or to Government undertaking which carries on the same business as of the society under liquidation.
c) Sub-section (1-e) provides that, to investigate all claims against the society and , subject to the provisions of the act, to decide questions of priority arising out of such claims, and to apy any class or classes of creditors in full or rateable according to the amount of such debts, the surplus being applied in payment of interest from the date of liquidation at a rate to be approved by the Registrar, but not exceeding the contract rates;
d) Sub-section (1 –g) provides that, ' to compromise all calls or liabilities to calls and debts and liabilities capable of resulting in debts, and all claims present or future, certain or contigent, subsitsting or supposed to subsist between the society and a acontributoryor alleged contributory or other debtor or person apprehending liabiklity to the society, and all questions in any way

relating to or affecting the assest or the winding up of the society, on such terms as may be agreed, and take any security for the discharge of any such call, liability , debt or claim and give a complete discharege in respect therof

The auditor is required to study all the provisions regarding powers and duties of the liquidator for discharging the duty of winding of the society. To access the duties performed by the liquidatior in relisation of assets and settling claims for liabilities with due care.

40.5. ***Responsibility of liquidator for damages :-*** In this regards the liquidator has two responsibilities. First if he found any losses caused to the society from the persons who have taken part in the management of the society, submit report to the Registrar for further action under section 88 of the Act.

Secondly if due to his grosss negligence or want or omission , in carrying out the duties and function any loss is caused to the society, he will be liable to compensate the losses. Sub-section (4) of the section 108 provides that, " The Liqudator shall be held liable for any irregularities which might be discover in the course or as a result, of audit in respect of transactions subsequent to his taking over the affairs of the society, and may be proceeded against as if it were an act against which action could be taken under section 88;

Provided that, no such action shall be taken unless the irregularities have caused or are likely to cause loss to the society, and have occurred due to gross neglignece or want or omission, in carrying out the duties and functions.

The auditor auditing liquidations society if found such losses he has to report to the Registrar by special report under section 81(5B) of the Act.

As well as the auditor found any misappropriation during the course of his audit he has to submit specific report and logde the complaint against the persons responsible for such, with prior permission from the Registrar.

40.6. ***Priority of Claims :-*** The liquidator has to finalise the claims on priority basis as per realisation of Assets. The Registrar has issued circular instructions in his circular No. ADM/2A/liquidation/ 2005 dated 2/1/2005 regarding priority of claims to be settled in the following manner.

Sr. No.	Category	Account as per priority
1	First	a) Salary and allowance of Liquidator b) Expenses for widing up of society
2	Second	a) Payables of Central and State Government – including Share capital, loans and interest b) Revenue charges, taxes and other payable of the Central and State Government.
3	Third	Salary wages of the Employees
4	Forth	Secured creditors (Principle amount only)

Upon payment of above 4 categories any sum is remained from the assets realised should be paid to the following category creditors.

Sr. No.	Category	Account as per priority
5	Fifth	Unsecured creditors (Only Principle Amount)
6	Sixth	Secured Creditors (only Interest portion, subject to approval from the Registrar)
7	Seventh	Unsecured Creditors (only Interest portion, subject to approval from the Registrar)
8	Eighth	Payables of the Share Holders

The auditor should verify the claims sanctioned by the Liquidtor according to the priority fixed by the Registrar with amount of realisation of assets, any variation should be get confirmed from the record and necessary approval is obtained from the Registrar.

40.7. ***Care to be taken for prioprity claims :-*** The auditor should verify that, the proper care has been taken by the Liquidator while settling the claims. Expenses on liquidation process are justifyable and reasonable. These expenses includes any amount spent for continuation of the business till the assets are fully realised, expenses for running business, expenses for reconstruction of the society if any, Valuation charges for valuation of assets, legal expenses for settlement of claims and acquiring assets, accounting expenses, advertisements, audit fees, etc. Governement payables includes interest free or with interest loans, auditor should verify the terms and conditions of loans and accordingly the claims are settled or not. Interest portion should be treated as per provisions in the Act and rules. Provisions for interest is made by the liquidator or not. Terms and conditions for Governement share capital should be verified and accordingly provision for redemption is made or not. The Government loans and other payable are also required to categorised into secured and unsecured for priority purpose.

Other revenue taxes such as non agricultural tax, municipal taxes, VAT. Sales Tax, Income tax , audit fees are also settled with priority of security and any litigation is pending or any decision has been taken by the court should be considered for this.

Employees wages and salaries are provided or not. Claims made by the employees or there union should be checked. Any decision has been made against the society, by the court in this regard is considered by the liquidator and accordingly the priority is fixed or not. Claims for Provident fund, gratuity and other deductions made from the salary is treated as payment of wages and salary, accordingly the priority has been considered by the liquidator, any litigation is pending or decised should be considered by the auditor while checking the claims.

Secured Creditors : Only principle amount is considered or interest is also considered by the liquidator is verified by the auditor. The basis of such claims should be verified. security provided by the society should be verified. Any suit is filled by the creditor or society in this regards should be considered and decision of such suit should be taken into consideration or not. For interest portion of claim provision of Sub-section 105(e) and rule 91 should be taken into account by the Liquidator and necessary permissions have been obtained from the Registrar should be seen by the auditor.

Unsecured creditors : Firstly only principle amount, if after settling secured creditors remains, is considered by the Liquidator or not should be seen. Interest should be settled only after provisions of Act and rules are followed. If no amount remains to payment of unsecured creditors then such report has been sent to the Registrar by the Liquidator should be seen,

40.8. ***Interest Claims :-*** Sub-section (1-e) of the section 105 provides that, The surplus being applied in payment of interest from the date of liquidation at a rate to be approved by the Registrar, but not exceeding the contract rates.

There is further provision in Rule 91 which reads as: " Rule 91- Interest on amounts due from a society under liquidation- The creditor of a society, which is being wound up, may apply to the Liquidator for payment of interest on any debt due from the society upto the date of the Registrar's order for winding up. The rate at which interest shall be paid shall be in the case of the Maharashtra State Co-operative Bank or a Co-operative Bank permitted to finance societies, the contract rate and in any other case the rate which may be fixed by the Regisrar which shall not exceed the contract rate.

Provided that, if any surplus assets remain after all the liabilities , including liabilities on shares, have been paid off. Further interest on such debts at a rate to be fixed by the Registrar but not exceeding the contract rate may be allowed to the creditor from the date mentioned above up to the date of the repayment of the principle.

From the above provisions it is clear that, the interest upto the date of order of winding up and then after are treated separately, and are subject to availability of surplus and approval from the Registrar for rate of interest. The auditor should verify this claims carefully, so that there should not be any loss to the society, and the creditors should not suffer any loss due to wrong decision taken or settled by the Liquidator.

40.9. ***Payment to the Share Holders :-*** The share holders claims are lastly categorized. After settlement of all dues and debts , secured or unsecured if the amount remains from the realisation of assets

should by repaid according to the share holding pattern and considering the value of share with amount of realisation remained. For valuation of share auditor should follow the procedure given in the Rule 23 of the act.

40.10. ***Disposal of surplus assets :-*** Section 110 and rule 90 provides for the disposal of surplus assets. ***Section 110 provides that,*** The surplus assets , as shown in the final report of the Liquidator of a society which has been wound up, may either divided by the Registrar , with the previous sanction of the State Government , amongst its members in such manner as may be prescribed or be devoted to any object or objects provided in the bye-laws of the society, if they specify that such a surplus shall be utilised for the particular purpose or may be utilised for both the purpose. Where the surplus is not so divided amongst the members and the society has no such bye-laws , the surplus shall vest in the Registrar, who shall hold it in trust and shall transfer it to the reserve fund of a new society registered with a similar object, and serving more or less an area which the society, in which the surplus belonged was serving.

Provided that, where no such society exists or is registered within three years of the cancellation of the society whose surplus is vested in the Registrar, Registrar may distribute the surplus, in the manner he thinks best, amogst any or all of the following –

a) an object of public utility and of local interest as may be recommended by the members in general meeting held under the preceding section;

b) a federal society with similar objects to which the cancelled society was eligible for affiliation or, where no federal society exists, the State federal society which may be notified in this behalf by the State Government and

c) any charitable purpose as defined in section 2 of the Charitable Endowments Act 1890.

Rule 90 Provides that, Where the Registrar has to divide the surplus assets amongst members of the society which has been wound up, he shall divide them in proportion to te share capital held by each of such members or in any other suitable manner sanctioned by the State Government in special case.

40.11. ***Permission from Reserve Bank :-*** As per Section 110 A of the Act, for winding up order of insured cooperative Bank written previous permission from the Reserve Bank is necessary. and The liquidator of such bank, shall be under an obligation to repay the Deposit Insurance Corporation established unde r the deposit Insurance Corporation Act, 191, in the circukstance , to the extend and in the manner referred to in section of that Act.

40.12. ***Certification of the Bad amounts :- Government loans and share capital :-*** Where during the process of liquidation it is realised that, the assest realised of the society, are not sufficient to meet the all creditors including Government Share capital , loans provided to the society by the Government, the auditor should follow the procedure laid down in rule 49 for certification of such amount. On the basis of the same the liquidator should submit proposal for writing of the government dues through the Registrar to the finance department. The Finance department will permit to write of such amount after observing rule provided for writing of government dues.

D) ANEXURES

ANEXURE–I

Consolidated Audit Program for all types of Co-operatives Societies :

(i) Name & Address of the Society : —
(ii) Audit class awarded : —
(iii) Period covered by audit. : —
(iv) Audit commenced on _____ and completed on _____.
(v) Audit Memo discussed with Committee member or Board on _____.
(vi) Officers and staff taking part in audit.

Sr. No.	Names of officers & staff	Designations	Signature

Sr. No.	Particulars of work to be done	Period covered	Percentage checking carried out	Signature of the officers or staff for doing the work

I. VOUCHING : — (Receipts)

1. Checking of printed receipts, challan, pay in slips, cash memos, & comparing with entries in the cash book, subsidiary cash books and / or registers. Checking of sales. 2. Checking of cash memos, credit memos, or bills and comparing with entries in the Sales Registers. 3. Checking of Special receipts, such as sale proceeds of moveable and immoveable properties and investments and other capital receipts with agreements, brokers / memoranda and notes & other evidence. Receipt of Government Share capital contribution, loans and subsidies. 4. Checking of income received : — Checking of interest or dividend received on investments with counterfoils of interest or dividend warrant, entries in Bank book, advices etc., rent from property, hire charges of machinery, etc., with receipts issued and entries in the . . .	

II. VOUCHING : — (Payments)

1. Checking of vouchers for general expenses, cash memos, for sundry purchases, bills & vouchers for services Rendered materials supplied etc. 2. Checking of salaries & wages paid from salary book, wages sheets, pay sheets, acquaintance rolls etc. 3. Checking of purchases with invoices, bills & entries in purchase journal. 4. Checking of loan applications, loan bonds Promissory notes agreements, declarations, disbursement receipts, and other documents with entries in the Loan Register. 5. Special Payments : — Purchases of immoveable property, machinery & dead stocks and equipments, Government securities, shares and other investments etc. with agreements, invoices, notes, memoranda etc. Other capital payments. 6. Payment of dividend and interest with counterfoils of dividend warrants issued. 7. Postage account franking machine, telephone bills etc. 8. Check allocation of expenditure between capital & revenue allocation among different departments, sections etc.	

III. BANK ACCOUNT : —

1. Check withdrawals forms and deposits into bank with counterfoils of cheques issued counterfoils of payments slips. 2. Check other debits and credits with advices received from bank & entries in passbook.	

3. Compare entries in the cashbook with the entries in the Bank Pass Book or statement of accounts and reconcile closing balance. Follow up unpaid cheques and credits in the period immediately following closing of account. 4. Check monthly reconciliation statements. 5. Obtain balance certificates or confirmation letters direct from bank, in respect of all accounts.	

IV. JOURNAL READING : —

1. Check Journal entries with journal vouchers. 2. Check contras in cashbook with debit & credit slips and other documentary evidence. 3. Check closing of nominal account depreciation and reserve /s appropriation of net profits etc.	

V. CALLING OVER : —

1. Calling over totals of subsidiary cashbooks & registers into main cashbook or daybook. 2. Calling over totals of purchase journal, daily sales registers & other subsidiaries & registers into main cash book. 3. Calling over into cash book, or abstract total of (I) pay sheets. (II) Wages sheets (III) Bonus payment sheets. (IV) Salary book (V) Acquaintance rolls (VI) Over time payment, register (VII) Recovery Sheets. (VIII) Postage registers (IX) Telephone registers. 4. Calling over daily issues of stores into fortnightly or monthly abstract & into the stock ledgers. 5. Calling over from other register & statements.	

VI. POSTINGS : —

1. From cashbook into general ledger, personal ledger & other registers *i.e.* loan register, dead stock registers, investment registers, etc. 2. From subsidiary cash book purchase journal, credit sales registers, loan registers, & other registers. into personal ledger. 3. From purchase journal & or cash book into stock ledger 4. From sales registers into daily abstracts, from daily abstract into fortnightly summaries & from fortnightly summary sheets into stock ledgers or sale register to stock registers. 5. From form issue register into fortnightly or monthly abstracts or summaries & from abstract into stock ledgers. 6. Calling over closing balances from old ledger into new ledgers. 7. Calling over items of assets & liabilities from last year's balance sheet into new year's General ledger.	

VII. TOTALS & CARRY FORWARDS : —

1. Totaling of (i) cash book (ii) subsidiary cash books (iii) purchase journal, (iv) Sales registers (v)Issue registers (vi) Production registers (vii) other subsidiary books & registers. 2. Totaling of (i) pay rolls or pay sheets (ii) Wages sheets (iii) Bonus payment sheets, (iv) Salary book (v) Acquittance rolls, (vi) overtime payment, registers, (vii) Recovery sheets (viii) Postage register (ix) Telephone register. 3. Totalling & checking of closing balances of (i) General ledger, (ii) Personal ledgers & (iii) stock ledgers. 4. Totaling of (i) Trial balance: - Receipts & Payments statements,(ii) Balance sheet, profit & loss account and other statements & schedules accompanying the balance sheet. 5. Totaling of schedules of ledger Balances, stock sheets, inventories and Other supporting lists & statements. 6. Other registers and statements.	

VIII. CALCULATIONS : —

(1) Checking of interest calculations i) Interest paid on loans and deposits ii) Interest received on loans iii) Interest received on investments. (2) Checking calculations of commission, exchange, discount, rebate and other allowances. (3) Checking of price register for fixation of selling prices and issue prices for materials issued from Stores and determination of standard costs. (4) Check abstracts or analysis showing classification under different heads or according to departments, groups, etc.	

IX BRANCH ACCOUNTS : —

1) Checking of Branch returns and Branch Reconciliation statements. 2) Agreement of Branch balances. 3) Allocation of expenses between Head Office and branches. 4) Incorporation of Branch accounts into Head Office accounts.	

X. LOAN OPERATIONS : —

1) Checking of loan applications, sanctions, pronotes, and loan bonds. & Declarations and noting compliance of terms and conditions for sanction of loans, security for loans etc. 2) Checking of lists of overdues, noting periods of default, action taken for recovery etc. 3) Classification of overdues into good, doubtful and bad. 4) Checking of collateral securities and watching maintenance of prescribed margins, submission of periodical stock statements, trial balances and other returns and statements, insurance of mortgaged, pledged or hypothecated property or goods,	

XI. CHECKING OF FINAL ACCOUNTS : —

1) Checking of receipts and payments statements Trial balance, Balance sheet and profit and loss account and preparation of schedules and statements accompanying balance sheet. 2) Appropriation of profits. Transfer to reserves and other funds. 3) Tallying of figures appearing in the balance sheet with totals of lists or schedules of ledger balances, stock sheet, inventories and other supporting lists and statements. 4) Checking of Bank Reconciliation statement, Branch accounts and suspense accounts. 5) Adequacy of insurance and inspection of insurance policies including cash in safe, cash in transit, fidelity insurance etc. 6) Depreciation, reserves and provisions including capital Redemption fund, Development Rebate, provision for payment of Income -Tax, employees' gratuity fund, etc. 7) Compliance of conditions and refund or repayment of Government share capital, compliance of conditions for borrowing from central or state financing corporations, central Bank and other agencies. 8) Investigation into shortages of stocks, missing articles of dead -stock, tools and other assets and property. 9) Scrutiny of working according to standard lay down in case of manufacturing processing and other Industrial societies.	

XII.VERIFICATION OF ASSETS : —

1. Inspection of title deeds of immovable property. 2. Inspection of securities, bonds, and shares, deposit receipts & other investments. 3. Confirming of ledger balances, checking of confirmation letters, statement of accounts etc. 4. Personal verification of members of agricultural credit societies and other societies. 5. Physical verification of stocks on hands. 6. Registration books of motor vehicles, insurance policies, drivers licenses etc. 7. Verification of licenses and or permits taken, certificates obtained from Government or other local authority, including Sales Tax Registration, Registration under Factory Act, Shops & Establishments Act and other statutes. 8. Counting of cash on hand, verification of balance certificates in respect of bank account, safe custody receipts etc. 9. Physical verification of fixed assets, including machinery vehicles, live stock etc, dead stocks articles and other property belonging to the society. 10. Insurance Policies : — i) Insurance of buildings including godowns, factory and other premises, etc. ii) Machinery, tools, & equipment. iii) Stock in trade, raw materials, Finished & unfinished goods including stock in godowns, stores, spare part, etc. iv) Cash and other valuable, lying in safe and in transit. v) Fidelity of employees (blanket policy where taken.) vi) Insurance of motor vehicles, Tractors, etc. 11. Inspection of collateral securities including fixed deposits receipts, life policies, Govt., securities, bonds & shares, gold and silver ornaments etc. 12. Inspection of godowns, depots, shops, etc., of constituents who have been sanctioned pledge or hypothecation credit and of stocks belonging to customers to whom advances have been given pending sale of agricultural produce.	

XIII. MEMBERSHIP : —

1. Scrutiny of Members' Register. 2. Checking of applications for membership, receipt of entrance fees, and resolutions of the margins committee, nomination, and entries in members' register. 3. Nomination from membership deaths, resignation, resolutions of the committee accepting resolutions, transfer of shares to nominee, refund of share capital etc.	

XIV. SHARES : —

1. Applications for shares, allotment of shares, restrictions on holding of shares, transfer of shares, acceptance of resignations and refund of shares. 2. Issue of share certificates cancellation of share certificates, transfers of shares, recovery of shares transfer fees, resolutions of the managing committee approving transfer of shares. 3. Observance of provisions of the bylaws regarding holding of shares in proportion of acreage held, loans borrowed, holding of qualifying shares by directors or members	

XV. MINUTES : —

1. Reading of minutes of proceedings of meetings of i) General body (Annual and Special General Meetings) ii) Managing committee or Board of Directors. iii) Executive Committee or standing committee. iv) Sub-committees, branch and area advisory committee and other committee. 2. Making notes of important policy decisions taken, amendment of bylaws, framing of rules & regulations for conduct of business, delegation of authority etc.	

XVI. BREACHES OF THE PROVISIONS OF ACT, RULES & BYLAWS : —

i) Breaches of provisions of Act, Rules and Bylaws of the society and direction issued by Government, Registrar, Reserve Bank, Apex and District Central Bank and other federal bodies. ii) Non- observance of business rules and other regulations framed by the society. iii) Non - compliance of the provisions of other Acts, Rules and Regulations issued by Government Departments governing operations of the society such as Factory Act, Shops and Establishments Act, etc.	

XVII. AUDIT RECTIFICATION : —

i) Scrutiny of action taken by society for rectification of errors & irregularities pointed out in Audit Memos. ii) Scrutiny of compliances of suggestions made by the auditor. iii) Submission of Audit Rectification Reports.	

XVIII. VEHICLES AND TELEPHONES : —

A. Vehicles : — i) Checking of logbooks of vehicles with duty slips issued. ii) Control over expenses for maintenance of vehicles. iii) Checking of monthly statements of expenses placed for consideration of the committee, comparison with budget provision made etc. iv) Checking of Hire Register of trucks and tractors. v) Watching charges recovered for private use of vehicles. vi) Checking due observance of rules and regulations framed by the society regarding use of vehicles. **B. Telephones** : — i) Checking of telephone bills, for local and trunk calls, with local and trunk calls register. ii) Watching recovery of charges by private local and trunk calls, delivery of messages etc.	

XIX. MISCELLANEOUS : —

1. Inspection of the Registration Certificate, copy of Act, rules and bylaws, and Registered amendments, certificates and licenses, obtained under different statutes. Registrar's approval for business rules framed, for appointment of Secretary, Manager and other senior Staff, security bonds obtained from officers and staff. **2. Budgets : —** Comparing actual expenditure incurred with budget provisions and re-appropriations.	

Name, Designation & Signature
of the Auditing Officer.

ANNXURE–2

RULES FOR THIS ESTABLISHMENT AND USE OF AGRICULTURAL CREDIT (STABILISATION) FUND AT THE NATIONAL APEX AND DISTRICT CENTRAL CO-OPERATIVE BANK LEVELS

1. ***AIMS AND OBJECTS : -*** The object of constitution of agricultural credit stabilization fund at the Apex and District Central Co-operative Banks levels is to facilitate the conversion of short-terms loans for agricultural purposes into medium-terms loans and to provide conversion facilities to the installments of medium-term loans for agricultural purposes in circumstances in which total or partial failure of crops resulting from natural calamity renders the repayment of such short-term loans or installments of medium-term loans impossible without dislocation of the credit structure and without hardship to individual agriculturists. The principles and procedures set out below shall govern the establishment and utilization of the stabilization fund at various levels.

2. ***ESTABLISHMENT OF FUNDS : -*** Agricultural Credit (Stablisation) Funds are to be established and maintained as follows :

(i) By a District Central Co-operative Bank for its area of operation known as "District Central Co-operative Bank Agricultural Credit (Stabilisation) Fund."

(ii) By the State Co-operative Bank for the state as a whole know as "Maharashtra Co-operative Bank Agricultural Credit (Stablisation) Fund."

(iii) By the Reserve Bank of India at the national level called the "National Agricultural Credit (Stablisation) Fund."

3. ***RESOURCES FOR ESTABLISHMENT AND MAINTENANCE OF FUNDS :-*** The fund at the various levels shall be established and maintained by crediting contributions from different sources as indicated below : -

(i) The District Central Co-operative Bank Agricultural Credit (Stablisation) Fund shall be constituted as follows : -

a. Annual appropriation of 40 per cent of annual profits of the District Central Co-operative Bank to be divided between the Reserve Fund and the Agricultural Credit (Stabilization) Fund in such a way that the contribution to the stabilization fund alone in no case is reduced below 15 per cent of the net profit;

b. Transfer of amount of dividend payable on the share holding of the Government in District Central Co-operative Banks over and above 3 per cent;

c. Credit of interest at 3 per cent per annum on the balance to the credit of the Funds as at the commencement of the year; and

d. Transfer of any other sums, which the District Central Co-operative Banks may contribute or receive for the purpose.

(ii) The Maharashtra State Co-operative Bank Agricultural Credit (Stabilisation) Fund shall be constituted as follows :

a. Permanent Advance received for the purpose from the State Government;

b. Loans and grants received for the purpose from the State Government;

c. Annual appropriation of 40 per cent of annual profits of the bank to be divided between the Reserve Fund and the Agricultural Credit (Stabilisation) Fund in such a way that contribution to the stabilization fund alone is in no case reduced below 15 per cent of the net profit;

d. Transfer of dividend over and above 3 per cent payable to state Government on its share holding in the Apex Bank;

e. Credit of interest at 3 per cent per annum on the balance to the credit of the fund at the commencement of year; and

f. Transfer of any other sums, which the State Co-operative Bank may contribute or receive for the purpose.

(iii) The National Agricultural Credit (Stabilisation) Fund shall be constituted by contributions from the profits of the Reserve Bank of India as provided in the Reserve Bank of India Act.

4. *INVESTMENT OF FUNDS :-*

a. The stabilization funds at the level of the District Central Co-operative Banks to the extent that they have not been used for converting short-term loans into medium-term loans or for providing conversion facilities to the installments of medium-term loans shall be either wholly or partly invested in Government or trustee securities. That portion of the fund, which is not invested in Government or Trustee securities, shall be placed in fixed deposit with the State Co-operative Bank.

b. The entire stabilization fund of the State Co-operative Bank shall be invested in government or Trustee securities.

c. The income from the investment of the fund in loans, in Government or Trustee securities or in fixed deposits shall be appropriated by the District Central Co-operative Banks and the Apex Bank to their respective profit and loss account.

d. The distinct Central Co-operatives Banks and the Apex Bank shall pay to the Fund interest at 3 per cent per annum on the amounts to the credits of the funds at the commencement of the year and the Apex Bank shall pay interest on the loan part of the assistance provided by the Government from out of general income by debit to the profit and loss Account.

e. Any depreciation in investment of the Funds shall be made good by the Bank concerned out of its general income.

f. The agricultural credit (stabilization) fund shall be utilized strictly for the following items only in order of priority : -

(i) For conversion of short-term loans into medium-term loans and for providing conversion facilities to the installments of medium-term loans in the case of borrowers coming from those areas where crop yield has been declared below 6 annuals. Where the Annewari is below 6 annas, the conversion of short-term loans into medium-term loans or provision of conversion facilities to the installments of medium-term loans would, in principle, be justified. Such conversion need have no relation to the quantum of suspension of land revenue. Either the whole or part of the short-term loan or of the installments of medium-term loan, as the case may be, can be converted, depending upon the merit of each particular case. This would necessitate individual examination of each member's position, which is already provided for in these rules.

(ii) The conversion facilities in respect of short-term loans to be granted under this rule shall be in respect of loans taken for the crops, which are declared to have failed. So far as conversion facilities in respect of installments of medium-term loans are concerned, such relief shall be provided only to the installment due under medium-term loan in the year of natural calamity. The other installments of medium-term loan will continue to be recovered as and when they fall due in the subsequent years according to repayment schedule originally fixed at the time of issue of medium-term loan. In the event of a natural calamity of the order justifying resort to stabilization arrangement falling due in that year under any of these three years loans should again be treated as eligible for conversion facility, which might be accorded as admissible under these rules. So far as short-term loans are concerned, it shall also be permissible, in the event of an occurrence of a natural calamity during the currency, such a converted loan to re-phase the existing converted loan from 3 year to 5 years besides according conversation facilities for 5 years from the beginning itself.

4. A. *REPAYMENT OF GOVERNMENT LOAN : -* The Apex Bank shall pay the installment of principal in respect of the loans due to the Government by debit to the Fund.

5. *PROCEDURE FOR DETERMINING THE CIRCUMSTANCES JUSTIFYING THE USE OF FUNDS AND TERMS AND CONDITIONS OF OPERATIONS.*

A. -PRIMARY SOCIETY LEVEL

a. On the occurrence of a natural calamity such as drought, floods, cyclones, attack of pets or locust, fire, hailstorms etc. resulting in failure of crops and before the harvesting of such crops

standing in the fields, every individual member of a primary agricultural credit society who is not in a position to repay the short-term loan or the installment due under the medium-term loan taken by him from the society for agricultural purposes and who desires that the short-term loan due from him be converted into a medium-term loan or the installment of medium-term loan, shall apply in writing to that effect, to that society providing such particulars regarding estimated value of his crops, the amount which he may be able to repay, etc., as may be prescribed. The society in turn should inform the District Central Co-operative Bank in this respect giving all details regarding the number of applications received, amounts involved, etc., as prescribed by the District Central Co-operative Bank. Such details shall be furnished separately in respect of short-term loans and installments of medium-term loans.

(ii) When, in any tract, suspension of land revenue is declared by the Collector, the Managing Committee of the society in the Village concerned will appoint a special committee to make enquiries with reference to the application received by the society from its members under rule 5 (A) (i) above, into the conditions of every borrower applicant, with a view to find out what portion of the short-term loan or the installment of medium-term loan needs to be converted into medium-term loan and, if so, for what period specially ranging from 1 to 5 years. This special committee shall take into consideration the economic condition of every borrower applicant, possibility of the income from other crops and other sources and then arrive at a suitable decision. The Managing Committee of the society shall, for making the enquiry, co-opt a representative of the Co-operative department, *viz.,* an Assistant Co-operative officer or a Supervisor and a representative of District Central Co-operative Bank on the said special committee. After considering the report of the special committee, the resolution passed by the Managing Committee shall thereafter be taken as an authority for processing of the conversion proposal. No conversion facilities shall ordinarily be considered by the Managing Committee in respect of medium-term loans issued for purpose of pump-sets, or oil engines, sinking of new wells and repairs to old wells. However, relief may be provided, if it is proved to the satisfaction of the Managing Committee that in respect of application seeking conversion facilities for installments of medium-term loans granted for these purposes, the well of the borrower remained dry for a major part of the year, or that the crops were washed away by floods. The medium-term loans issued for purchase of milch cattle or purchase of agricultural machinery like tractors shall not be eligible for any relief.

(iii) Every primary agricultural credit society which seeks conversion of short-term loans for agricultural purposes into medium-term loans or conversion facilities to the installment of medium-term loans, shall make an application to the effect to the District Central Co-operative Bank, supported by a resolution of its Managing Committee.

(iv) Only on receipt of advice in writing from the District Central Co-operative Bank that the conversion has been granted, the primary agricultural credit society shall proceed to take necessary action as follows: -

a. Short-term loans and installments of medium-term loans up to Rs. 1,000.00 may be converted into medium-term loans against personal surety, short-term loans and medium-term loan installments between Rs. 1,001.00 to Rs. 1,500.00 against charge on land and all loans above Rs. 1,500.00 shall be secured by mortgage of the land.

b. The ultimate borrower shall be required to furnish fresh time promissory notes in favour of the society which shall correspond to the plan of repayment of medium-term loans or converted medium-term loans, as the case may be, and such undertaking in regard to the sale of his procedure through a marketing co-operative society as may be prescribed by that society.

c. Where the borrower is unable to offer a charge on land or a mortgage of his property, as the case may be, owing to encumbrances on land or property for other prior borrowings from co-operative agencies, the conditions in (A) above may be dispensed with, and conversion allowed as a special case only against two personal sureties.

d. The short-term loan account or account of installment of medium-term loan of the borrower, as the case may be, shall be credited with the amount of principal due by a corresponding debit to a medium-term loan account or medium-term conversion loan account to be newly opened.
e. All recoveries in respect of medium-term loans thus advanced for conversion and medium-term conversion loans shall be credited straightway to the respective loan accounts.
f. All sums received in repayment of converted medium-term loans and medium-term conversion loans granted by the District Central Co-operative Bank shall be remitted to the Bank without any delay.
g. Separate accounts shall be maintained in respect of such converted medium-term loans received or advanced by the society so as distinguish them from other loans received or granted by it.

B. *CENTRAL BANK LEVEL.*

a. The Central Co-operative Bank shall be competent to decide whether crop failure in the area of operations of any applicant society is such as to justify conversion of short-term loans or of the installments due under medium-term loans into medium-term loans. No conversion facility shall ordinarily be considered in respect of medium-term loans issued for the purchase of electric motors and pump-sets or oil engines and for sinking of new wells or for repairs to old wells. Relief, however, may be provided if the central bank is satisfied that the well of the borrower remained dry for the major part of the year or that the crops of the borrower were washed away by floods. The loan issued for purchase of milch cattle of agricultural machinery like tractors shall not be eligible for any relief.

(ii) On receipt of applications from the affiliated societies, the District Central Cooperative Bank shall take steps to move the revenue authorities to conduct annewari proceedings and to declare 'Annewari' Classification of crops expeditiously.

(iii) The District Central Co-operative Bank shall proceed to sanction conversion facility only if the "Annewari" declared by the revenue authorities in respect of the crops in the villages conversed by the societies, whose loans are to be converted falls within the classification of total or partial failure of crops as mentioned in Rule 4 (f) above.

(iv) The District Central Co-operative Bank shall be deemed to be in a position to meet 15 per cent of the amount of short-term dues intended to be converted into medium-term loans from out of drawable resources of the Agricultural Credit (Stablisation) Fund maintained by it and/ or out of its other resources. However, where the surplus in the liquid assets and/or the balance in the short-term credit limit enjoyed with the Apex Bank/Reserve Bank is less than the share of the Central Bank at 15 per cent of the amount of loans eligible for conversation, the bank shall be permitted to claim conversion facilities up to 100 per cent of the short-term loans out of loans from the Agricultural Credit (Stabilisation) Fund maintained by the State Co-operative Bank and/or the National Agricultural Credit (Stablisation) Fund of the Reserve Bank, as the case may be. As regards demand on account of reversion of installments of medium-term loans, the District Central Co-operative Bank shall meet the same from out of the drawable resources of the Stablisation Fund maintained by it.

(v) For the balance of amount required, the Board shall pass a resolution and apply for assistance from the apex bank in the form prescribed by the Reserve Bank of India.

(vi) On receipt of advice from the Apex Bank that the conversion of short-term loan or of installment of medium-term loan into a medium-term loan has been granted, the District Central Co-operative Bank shall proceed to grant similar conversion facilities to the affiliated primaries against their promissory notes which shall be furnished by them to correspond to installments for repayment fixed by it, in respect of such medium-term loans.

(vii) The District Central Co-operative Bank shall give effect to the conversion by creating the short-term loan account or medium-term loan installment account, as the case may be, of the concerned society with the amount of principal due by a corresponding debit to the fresh medium-term loan account or medium-term conversion loan account, as the case may be, of the borrowing society.

(viii) All recoveries in respect of medium-term loans or medium-term conversion loans, as the case may be, thus advanced, shall be remitted to the apex bank without any delay and corresponding credit provided to the account of borrowers.

(ix) The District Central Co-operative Bank shall separate accounts in respect of converted medium-term loans received or advanced by it so as to distinguish them from all loans received or granted by it.

(x) The District Co-operative Bank shall be free to pledge securities or fixed deposits representing the investments of its stabilization fund, to the extent necessary for raising the funds required for granting conversions.

C. *APEX BANK LEVEL*

(i) The State Co-operative Bank shall determine by scrutiny of the applications of the District Central Co-operative Bank and by such investigation, as it may consider necessary to undertake, the amount of short-term loans or installments of medium-term loans, which in its opinion may justifiably be converted into medium-term loans.

(ii) The Apex Bank shall sanction such conversion facilities to the extent possible from out the resources available in its stabilization fund. No loans shall, however, be available to the State Co-operative Bank From the National Agricultural Credit (Stabilisation) Fund of the Reserve Bank for the relief provided by them in respect of medium-term loans.

(iii) If the Apex Bank cannot sanction such conversion in respect of short-term loans in full from the resources available in its stabilization fund, it shall forward the application of the concerned District Central Co-operative Bank to the Reserve Bank of India and at the same time shall itself apply in the prescribed form to the Reserve Bank of India along with a resolution of its Board of Directors seeking from the Reserve Bank of India conversion facilities for the amount of short-term loans due to the Reserve Bank of India which it cannot convert from its stabilization fund. The application to the Reserve secure and forward to the Reserve Bank of India the willingness of the State Government to guarantee the Reserve Bank of India in respect of repayment of the principal and payment of interest, the loan recommended by him to the Reserve Bank of India for sanction out of its National Agricultural Credit (stabilization) Fund. He (Registrar, Co-operative Societies) shall also arrange to furnish to the Reserve Bank of India the State Government Guarantee-Deed in the prescribed form.

(iv) On the Reserve Bank of India sanctioning the conversion of loans, the Apex Bank may approach the Manager, Reserve Bank of India, at the office of the Reserve Bank of India where the principal account is maintained and furnish the necessary time promissory notes to the District Central Co-operative Bank duly countersigned.

(v) On the Manager, Reserve Bank of India, carrying out the adjustments for conversion of short-term loans into medium-term loans, corresponding action will be taken by the Apex Bank to covert the short-term loans of the District Central Co-operative Bank into medium-term loans by crediting their respective accounts by the amounts so converted by debit to a fresh medium-term loan account.

(vi) Separate Accounts shall be maintained by the Apex Bank in respect of the loan received or given by it for purpose of conversion so as to distinguish them from all other loans received or given by it.

(vii) All repayments in respect of converted loans shall be remitted without delay to the Reserve Bank of India, and corresponding credit furnished in the converted medium-term loan accounts.

(viii) The Apex Bank shall be free to pledge the securities representing the investment of its stabilization fund to the extent necessary for the purpose of raising resources required for granting conversion facilities.

(ix) The Sate Co-operative Bank (Stablisation) Fund shall be deemed as fully utilized as soon as the overdraft facility enjoyed by the State Co-operative Bank against the Government and Trustee securities of the Fund is fully utilized.

D. ***NATIONAL LEVEL***

1) The application of the Apex Bank for conversion of short term loan into medium term loan shall be made to the Agricultural Credit Department of the Reserve Bank of India in the form prescribed for the purpose and shall be forwarded through the Registrar, Co-operative Societies, with required accompaniment.
2) The Reserve Bank of India will consider the application subject to such investigation as it may undertake in regard to the need for conversion, amount of conversion required, the financial position of the institution and such other matters.
3) All loans granted from the National Agricultural Credit (Stablisation) Fund shall be fully guaranteed as to the repayment of principal and payment of interest by the State Government.
4) The loans shall carry interest at 1.5 per cent below the Bank rate.
5) The loans will ordinarily be granted for periods not less than 15 months and not exceeding 3 years though in exceptional cases, the Bank might sanction such loans up to 5 years.
6) Short term loans will be converted into medium-term loans on the due dates of repayment of such loans.
7) The Reserve Bank of India shall have the right to refuse a loan and to prescribe returns or to undertake inspections as it may consider necessary and to vary the terms and conditions.

ANNEXURE-3

Audit Forms 1 to 15

FORM No. 1

(Applicable to all types of societies)

PART A

I 1	 2	SOCIETY INFORMATION 3	Particulars to be filled by the auditor 4
	1	Name of the Society :	
	2	a) Registration No. and date of the Society and Registrating authorities designation	
		b) Classification and sub classification of society as per byelaws	
	3	Area of operation	
	4	Classification of the society as per Rule 69	
	5	Number of branches	
	6	Full address of the society with pincode	
	7	Period Covered under audit	From Date / /20 to Date / /20
	8	Last 3 consecutive years audit classifications	Year Classification 1) 2) 3)
	9	**Current years audit classification** Note :- Enclose audit classification marksheet wherever applicable with this form.	
II		**AUDITORS INFORMATION**	
	1	Name of the Auditor / Auditing firm	
	2	Registered address	
	3	Firm registration number	
	4	Membership number of individual auditor	
	5	PAN	
	6	In case of partnership firm, Name, Address and membership number of the partner signing the report.	
	7	Empanellment number in the panel maintained by the Registrar	
	8	Auditor classification in the panel	
	9	AGBM Date & Resolution No. of the society appointing auditor.	Date : / / 20
	10	Date of appointment letter by the society of the auditor	Date : / / 20
	11	Date of Consent letter of the auditor to the society for being appointed as auditor	Date : / / 20
	12	Date of acceptance letter of the auditor to the society for accepting the appointment	Date : / / 20
	13	Date of Commencement of audit	Date : / / 20
	14	Date of Completion of audit	Date : / / 20
	15	Whether the draft audit report has been discussed with board of directors in meeting and state the date of discussion.	Date : / / 20
	16	Date of submission of audit report	Date : / / 20
	17	Date of submission of special report (if any)	Date : / / 20
	18	Date of submission of specific report (if any)	Date : / / 20

1	2	3	4
	19	Audit fees and other charges charged by the auditor as per notification.	
	A	Audit fees	
	B	Any other charges as per notification	
	C	Any other charges not as per notification	
	D	In case of Bank, LFAR fees	
		Total amount	
		PART B	
III		**WORKING OF THE SOCIETY**	
1		**MEMBERSHIP**	
	1	For admission of member entrance fees, application, required minimum share amount and resolution for membership of BoD as the case may be complied with.	
	2	State the No of members	
		Share holder members	
		Nominal members	
		Total Members	
		Joint or associate members	
	3	Classification of members as per M.C.S.Act -	
		a) Active members	
		b) Non Active members	
	4	Whether procedure for acceptance of resignation of members as per byelaws of the society is duly complied with. If not, give the remarks in audit report.	
	5	If any members is expelled during the period of audit, whether due procedure as per Section 35 and Rule 28 & 29 is followed or not. If not, comment in audit report	See remarks in audit report paraghraph No --. Page No. --.
2		**SHARE CAPITAL**	
	1	Whether the limit of authorised share capital is adhered to or not? If not suggest the society to amend the byelaws accordingly. Comment in audit report	See remarks in audit report paraghraph No --. Page No. --.
	2	If society has called the money for partially paid shares and the members have paid the said amount, if not, whether any action has been taken by the society as per byelaws	See remarks in audit report paraghraph No --. Page No. --.
	3	If society has refunded the share capital, whether amount is refunded as per Rule 23 by valuing the shares as per last audited balance sheet. Whether any excess payment than the valuation has been recovered by the society, if not, comment in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
3		**MANAGEMENT**	
	3.1	**MEETINGS**	
	1	Date of Annual General Body meeting	
	2	Dates of Special General meetings	
	3	No of meetings	
		Board of Directors	
		Executive committee	

1	2	3	4
		Purchase Committee	
		Loan committee	
		Investment committee	
		Audit committee	
		any other committee (please specify)	
	4	Whether meetings are held after complying with quorum required for the meeting, if not, specify the details in the audit report	See remarks in audit report paraghraph No --. Page No. --.
	3.2	**BOARD OF DIRECTORS**	
	1	State the date of election of the Board of Directors	Date: / /20
	2	Period of Board of Directors from taking of charge after election	From Date / / 20 to date / / 20
		Whether the management has informed to the Co-operative Election Authority about expiry of term of management committee, prior to 6 months.	
	3	If the period of the committee is over and still it is working, whether the committee has informed the same to the State Co-operative Election Authority for further process or not ?	See remarks in audit report paraghraph No --. Page No. --.
	4	State the names of the members of Board of Directors during the period covered under audit	See enclosed list with the audit report with name, desiga-nation and other details
	5	Whether the members of the Board have complied with the terms and conditions to be continued as member of board	See remarks in audit report paraghraph No --. Page No. --.
	3.3	**DECISIONS OF THE Board of Directors**	
	1	Read the minutes of committees and offer comments regarding the decisions taken by the Board of Directors affecting financial irregularities and impact of it on the financial status of the society.	See remarks in audit report paraghraph No --. Page No. --.
	2	Any losses / damages have been occurred from such decisions, whether special report is made or not. If yes, state the date of special report.	Date: / /20
	3	whether any decisions of BoD are in contravention of provisions of Act, Rules and Byelaws. If yes, comment in audit report	See remarks in audit report paraghraph No --. Page No. --.
	3.4	**SUB COMMITTEES**	
	1	Whether the Sub Committees are delegated powers under bylaws or by resolution of the Board of Directors	
	2	Powers delegated are according to the Act, Rules, Byelaws and directives issued by CRCS, RBI, NABARD or any competent authority under any Law	
	3	Read the minutes of sub committees and state whether the sub committees are working within the powers, duties assigned to them, if not comment in General Remarks	See remarks in audit report paraghraph No --. Page No. --.
	3.5	**CHIEF EXECUTIVE OFFICER** (Whatever the designation may be)	
	1	Name of the Chief Executive officer	
	2	Designation assigned to him	

1	2	3	4
	3	Education qualification (see whether it is as per directives, law or not) (Section 74)	
	4	Whether he fulfills the criteria laid down by the competent authority for the post he has held.	
	5	Salary, perks, remunaration, details thereof	
	6	whether any loans or advances are granted to him, give details of loans sanctioned, security offered, outstanding, overdue, action taken for recovery	
	7	Whether he is doing his duties as per powers given to him by byelaws and power delageted by the board of directors, if not, comment in General remarks.	See remarks in audit report paraghraph No --. Page No. --.
	8	Whether he is *ex-officio* member of Board of Director as per byelaws	Yes/ No.
	3.6	**STAFFING PATTERN AND STAFF (If applicable)**	
	1	What is strength sanctioned by the Board and approved by the competent authority.	
	2	Whether the employees working are within the limit of staffing pattern? If not state the excess strength and its financial impact.	
	3	Whether recruitment and promotion rules are framed and approved (if necessary) and the recruitment and promotions are according to the approved policy? If not, comment in the audit report	See remarks in audit report paraghraph No --. Page No. --.
	4	Necessary reservations for recruitment and promotions are filled by the board according to directives given by the Government	See remarks in audit report paraghraph No --. Page No. --.
	5	If powers are delegated to the subordinate authorities, implimentation is adhered to or not? if not, comment in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
4		**FINANCIAL PARAMETERS**	
	4.1	Calculate the Net worth of the society as prescribed in explanation to Rule 23 and comment upon it if it is not correct.	See remarks in audit report paraghraph No --. Page No. --.
	4.2	Calculate the value of the share as prescribed in Rule 23 of the M.C.S.Rules 1961 and comment upon it.	See remarks in audit report paraghraph No --. Page No. --.
	4.3	Calculate various financial ratios regarding operational and financial effieciency, borrowing capacity as per Act, Rules, Byelaws, Circulars, Notifications and compare with financial indicators and comment on deviation with regards to adverse effects.	See remarks in audit report paraghraph No --. Page No. --.
	4.4	Gross Profit and Net profit is calculated according to the Section 65 and Rule 49A. Comment on true and fairness of the profit or loss.	See remarks in audit report paraghraph No --. Page No. --.
	4.5	All contigent liabilities are shown under the balance sheet as foot note or not ? If not comment.	See remarks in audit report paraghraph No --. Page No. --.
	4.6	Whether the financial statements are prepared in Form N as prescribed in Section 75 and Rule 62 (1) of M.C.S.Rules.	

1	2	3	4
5		**BUSINESS**	
	5.1	Whether the society is doing its business on sound business principles? Comment in General remarks about the working of the society.	See remarks in audit report paraghraph No --. Page No. --.
	5.2	Whether the society is carrying on the business as provided in the Byelaws. If not, comment in the audit report and if any loss has been incurred from such business, the same should be reported.	See remarks in audit report paraghraph No --. Page No. --.
	5.3	Whether necessary permissions / licenses have been obtained by the society for its business whereever necessary. If not, mention in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	5.4	If business is carried on at various places, whether required licenses / permissions have been obtained in respect of those places.	
	5.5	Whether the society has carried on the business beyond the area of operation as specified in byelaws?	
6		**STATUTORY RETURNS**	
	6.1	Whether the society has submitted statutory returns of the previous year as required by the Section 79 (1 A and 1B) and 75(2 A) of the M. C. S. Act 1960. in respect of	
	A	annual report of activities	Yes/ No. date of submission
	B	its audited statements of accounts	Yes/ No. date of submission
	C	plan for disposal of surplus funds	Yes/ No. date of submission
	D	list of amendment of byelaws	Yes/ No. date of submission
	E	declaration regarding date of holding AGBM and conduct of election when due.	Yes/ No. date of submission
	F	name of auditor and his written consent	Yes/ No. date of submission
7		**VIOLATION OF M.C.S. ACT, RULES AND BYELAWS**	
	7.1	State the provisions of Act, Rules and Byelaws which are violated by the society and comment them into audit report	See remarks in audit report paraghraph No --. Page No. --.
	7.2	Details of violation	Specify Sections, Rules and Byelaws
	A	Act Section	
	B	Rules	
	C	byelaws	
	D	Banking Regulation Act, 1949	
	8	**Books of accounts and registers**	
	1	whether the books of accounts as prescribed by Rule 65 are maintained by the society as under. If not, comment in audit report.	
	i	a register of members including persons nominated under Section 38 in Form I	
	ii	a list of active members in Form J 1	

1	2	3	4
	iii	a list of non-active members in Form J 2	
	iv	a register of shares	
	v	A register of debentures and bonds (where capital is raised by debentures and bonds)	
	vi	minute book regarding proceedings of general body meetings	
	vii	record of attendance of general body meetings	
	viii	minute book recording proceedings of committee meeting and sub-committee meetings if any	
	ix	cash book	
	x	day book	
	xi	bank book	
	xii	general ldeger and personal ledger	
	xiii	stock register	
	xiv	property register (in Form X 1)	
	xv	register of auditors appointed and their written consent	
	xvi	register of audit objections and their rectifications	
	xvii	returns of the society, in Form Y	
	xviii	such other accounts and books as from time to time be specified by the State Government by special or general order for any society or class of societies.	
9		**Audit rectification report**	
	1	whether it is sent by society within 3 months to the Registrar and to the Auditor	
	2	whether the Registrar has communicated any uncomplied points to the society and the society has resubmitted it rectification within 6 months	
	3	whehter the previous audit rectification report is presented in AGBM during the period covered under audit.	

Signature of the auditor with stamp and seal

Name of the auditor

Date

NOTES

1 **If any question or information above in form 1 is not applicable in case of any society please mention in answer column as "not applicable and hence no comments are necessary in audit report"**

2 **The auditor should prepare this form No. 1 along with specific form No. 3 to 10 (as applicable) to the specific type of society and same should be submitted to the society and to the concern Registrar.**

FORM No. 2

For Test/ Re-audit of the society

(Applicable to all types of societies)

PART A

I 1	 2	SOCIETY INFORMATION 3	Particulars to be filled by the auditor 4
	1	Name of the Society:	
	2	Registration No. and date of the Society	
	3	Period Covered under original audit	From Date / /20 to Date / /20
	4	Last 3 years audit classifications	1) 2) 3)
	5	Address of the society	
		Area, road and place	
		city with pin code No.	
		Maharashtra State India.	
	6	Period of Re-audit/ Test audit	
	7	Order No. of Re-audit / Test audit and authority issuing it	
II		**AUDITORS INFORMATION**	
	A	original auditor's information	
	1	Name of the original Auditor / Auditors	
		If CA firm : Name of the signing partner- and Registration No. and firm's name	
	2	Registrarion No. with ICAI	
	3	Registration No. in panel maintained by the Co-operation Department	
	4	Period of Registration with Co-operation Department	
	B	**Re auditor's information**	
	1	Name of the re-auditor	
		If CA firm : Name of the signing partner- and Registration No. and firm's name	
	2	Registrarion No. with ICAI	
	3	Registration No. in panel maintained by the Co-operation Department	
	4	Period of Registration with Co-operation Department	
	5	Date of Commencement of Re- audit / Test	Date: / / 20
	6	Date of Completion of Re- audit / Test	Date: / / 20
	7	Date of submission of Re-audit/ Test report	Date: / / 20
	8	Date of submission of special report (if any)	Date: / / 20
	9	Date of submission of specific report (if any)	Date: / / 20
	10	Audit fees and charges charged by the original auditor as per notification	
	A	Audit fees	

1	2	3	4
	B	Any other charges as per notification	
	C	Any other charges not as per notification	
		Audit fees and charges charged by the Re-auditor / Test auditor	
	A	Audit fees	
	B	Any other charges as per notification	
	C	Any other charges not as per notification	
	11	Dicuss the draft re-audit report with board of directors in meeting and state the date of discussion.	Date: / / 20

Signature of the auditor with stamp and seal

Name of the auditor

NOTES (The re-auditor shall enclose with these audit reports form No. 1 and form No. (3 to 10 as applicable).

FORM No. 3

For manufacturing and processing Societies

(Applicable to Sugar Factories, Spining mills and wineries, oil mills, rice mills and societies having manufacturing and processing of any agricultural and non agricultural material)

Note : The query not applicable to any type of society shall be mentioned with remarks "not applicable"

I 1	2	SOCIETY INFORMATION 3	Particulars to be filled by the auditor 4
	1	Name of the Society	
	2	Nature of Production and Units and by-products	
	A	**products**	
	A		
	B		
	C		
	D		
	B	**by-products and co products**	
	A		
	B		
	C		
	D		
	E		
	F		
	G		
II		Financial Parameters	
	i	Installed capacity	
	ii	Actual production	
	iii	Total cost of production per unit	

1	2	3	4
	iv	Average selling price per unit	
	v	Break Even Point	
	vi	Fixed cost per unit and total fixed cost	
	vii	Accumulated loss	
	viii	Net profit / loss for current year	
	ix	Borrowing capacity	
	x	Actual borrowing	
	xi	Government share capital / loan	
	xii	Government share capital due during audit period	
	xiii	Repayment of Government capital / loan	
	xiv	Arrears of payment to members	
	xv	Net worth of current year and last two years	
III		**WORKING OF THE SOCIETY**	
	A	**Manufacturing and Business**	
1		**Manufacturing Cost**	
	1.1	State the manufacturing cost productwise	See remarks in audit report paraghraph No --. Page No. --.
		state the impact of captive consumptions of byproducts on the cost of main product.	
	1.2	Where the cost of raw material is fixed as per directives issued by the Government or comptetant authority? Whether the same is paid by the society *i.e.* cane price/ cotton price etc..	See remarks in audit report paraghraph No --. Page No. --.
	1.3	State the percentage of raw material cost, overhead cost, (fixed and variable both seperately)	See remarks in audit report paraghraph No --. Page No. --.
	1.4	State the Break Even Point (BEP) regarding quantity and amount from the cost audit report of the cost auditor. If no cost audit has conducted by the society, suggest in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	1.5	What action plan is implemented by the society to control the cost of production commensuarte to selling price of the product.	See remarks in audit report paraghraph No --. Page No. --.
	1.6	State the expenses which cost unnecessarily on the cost of production and action taken to reduce the same by the managament of the society.	See remarks in audit report paraghraph No --. Page No. --.
2		**Purchase procedure and Stores**	
	1.2	a) Whether the purchase procudure is followed by the society as provided in the byelaws or as directed by the competent authority.	See remarks in audit report paraghraph No --. Page No. --.
		b) Whether the purchase procedure is in line with the sound principle of "Reasonable price and Required Quality", if not explain with examples in the audit report	
		c) Whether the society has maintained list of approved suppliers, producers, and traders? Whether the limit of purchase from them is fixed and adhered to ?	

1	2	3	4
		d) Goods received are properly verified for the quality and quantity ordered , and necessary records have been maintained.	
		e) Goods rejected, returned are properly accounted for or not? If such sub quality or goods with different specification is accepted, then whether the rates are suitably amended or not?	
	1.2	Wherever the purchase procedure as directed by the Co-operation Department is followed for the financial limit fixed by the department. If not, explain with examples in audit report. (Such as Machinery purchase, Lift irreigation schemes etc.)	See remarks in audit report paraghraph No --. Page No. --.
	1.3	The comparative statement prepared after receipt of quotations are based on the proper technical and financial parameter or not. If not, comment in the audit report .	See remarks in audit report paraghraph No --. Page No. --.
	1.4	what is the procedure adopted for requirement of material, whether the average consumption method is followed or not ? Give your observations and comment there upon.	See remarks in audit report paraghraph No --. Page No. --.
	1.5	whether over purchases or under purchases has effected the production ? Give your comments in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	1.6	Store accounts are maintained properly with scientifc method or not?	See remarks in audit report paraghraph No --. Page No. --.
	1.7	Required levels for purchase such as minimum, non moving, moving, reorder level etc. are maintained or not? Comment on it in audit report.	See remarks in audit report paraghraph No --. Page No. --.
	1.8	whether the valuation of the Stores is made on the basis of proper accounting standard - AS 2 (*i.e.* valuation of inventories) or not? What is the financial impact on the Profit or loss account due to improper valuation. comment in the audit report	See remarks in audit report paraghraph No --. Page No. --.
	1.9	What is the cost of idle / non moving stores with the society, what action has been taken by the society for its disposal.	See remarks in audit report paraghraph No --. Page No. --.
	1.10	Obtain the valuation certificate from the management with details of method of valuation and attach it with the audit report.	Obtained / Not obtained.
	1.11	Whether the society has procedure to take stock taking at periodical intervals or not, when the stock was last counted by the Society? What are the deficiencies noticed and action taken to rectify them, comment in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	1.12	Whether allocations of raw material are based on commonly accepted accounting policies followed by the society and comment on financial impact on the cost of production in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	3	**Captive consumptions**	
	3.1	State the quantity used for captive cosumption of products by the society productwise and amount wise, necessary tax set off has been taken by the society or not? How the material used for captive	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
		consumtion is valued ? Whether the method of valuation is proper and according to the concerned accounting policy or not? Comment in audit report the effect of defficiencies in the mehods on profit and loss account.	
4		**Manufacturing Indicators**	
	4.1	What is the production capacity of the society and actual production ? State the reasons for not attaining the capacity utilization.	See remarks in audit report paraghraph No --. Page No. --.
	4.2	Process losses in manufacturing are within the limit prescribed by the competent authority or not. Give reasons for deviation and its effect on profit and loss account ? whether the process lossses are beyond the control of management or due to negligence Comment in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
5		**Engineering Section**	
	5.1	Comment in audit report regarding -	See remarks in audit report paraghraph No --. Page No. --.
		a) Losses on various reasons like mechanical defects.	
		b) Mill Extraction	
		c) daily crushing / production capacity	
		d) efficiency in use of fuel	
		e) other technical aspect as per techincal report prepared by the section.	
	5.2	programme of periodic repairs and maintenance is properly scheduled and observed	
6		**Production Section**	
	6.1	State the annual production capacity, its utilisation, stoppeges, reasons for stoppeges, properness of stoppeges with standard norms,and finacial effects of the stoppeges.	See remarks in audit report paraghraph No --. Page No. --.
	6.2	State total production of finished goodsSee remarks in audit	See remarks in audit report paraghraph No --. Page No. --.
	6.3	State the by-products generated and percentage to the raw material	See remarks in audit report paraghraph No --. Page No. --.
	6.4	Cost of by products and main products per unit of production	See remarks in audit report paraghraph No --. Page No. --.
	6.5	period of production	See remarks in audit report paraghraph No --. Page No. --.
7		**By products**	
	7.1	State the various by products and there cost of production, sales and profit or loss.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	7.2	Whether the method of valuation of by products is proper and according to the accounting standards?	See remarks in audit report paraghraph No --. Page No. --.
	7.3	State the method of valuation of finished products, raw material and work in progress.	See remarks in audit report paraghraph No --. Page No. --.
	7.4	State the contribution of by products to the raw material value that is to be paid to the growers of the raw material.	See remarks in audit report paraghraph No --. Page No. --.
8		**OTHER PRODUCTIONS**	
	8.1	State the no. productions units like Chemicals, carban, energi, liquors, paper, Alcohol and other products. With details of prodction capacity, capacity utilisation, losses in running the units, financial impact of losses, reasons for stopeges, reasonability of losses, losses due to negligence and other business losses in the units due to natural calamity or reasons beyond the control of the management.	See remarks in audit report paraghraph No --. Page No. --.
	8.2	Whether separte records have been maintained for such units and updated ?	See remarks in audit report paraghraph No --. Page No. --.
	8.3	State the unitwise production, production cost, raw material consumed, stocks, captive consumptions, valuation method, and profit or loss of the unit and comment on its proper and trueness.	See remarks in audit report paraghraph No --. Page No. --.
9		**Cane Section**	
	9.1	Whether the cane weightment is properly observed by the field staff of the society, and they are taking sample weighment for correctness of the weight.	See remarks in audit report paraghraph No --. Page No. --.
	9.2	The weightment scales are properly checked by the competent authority of the Government time to time and corrected as per standards.	See remarks in audit report paraghraph No --. Page No. --.
	9.3	Whether the cane transportation cost of members and non members are beared by the society. If so see contracts with the members and terms and conditions are properly observed or not.	See remarks in audit report paraghraph No --. Page No. --.
	9.4	Purchase tax is properly calculated and paid into Government treasury. The society own land cultivated cane is deducted for purchase tax or not. State the amount of purchase tax on cane for land owned by society.	See remarks in audit report paraghraph No --. Page No. --.
	9.5	See the transportion schedule and whether it is observed to reduce the recovery loss. Transportation agreement with the contractor should be checked and proper payments accordingly transprotation of cane is made. Provision for payment of transportation cost is properly calculted and provided for. If any difeciencies found remarks should be given in audit report to the extent of effect on profit and loss account.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	9.6	Cane price has been paid as per directions given by the Governement on time to time. If delyed state the reasons in the audit report thereof.	
	9.7	Cane price has been fixed as per norms laid down in the Sugar Cane order or not. Whether the society has paid atleast minimum price fixed by the Government or not. Give the reasons for non payment of minimum price	See remarks in audit report paraghraph No --. Page No. --.
10		**Agricultural Section**	
	10.1	Whether the section has submitted information regarding non supplier members of cane to the Board of directors? Action has been taken as per byelaws on such members?	See remarks in audit report paraghraph No --. Page No. --.
	10.2	Whether contracts for supply of cane has been made with members and non members and action have been taken for breach of contract on such members/ non members for non supply of cane?	See remarks in audit report paraghraph No --. Page No. --.
	10.3	Society has provided to the member suppliers necessary seeds, fertilisers and pestisides for development of cane.	See remarks in audit report paraghraph No --. Page No. --.
	10.4	Society has made expenses from Cane development fund for development of quality cane? Observe the expenditure and retune on it and comment in audit report.	See remarks in audit report paraghraph No --. Page No. --.
	10.5	Whether action has been initiated on contractors transporting cane for breach of contract?	See remarks in audit report paraghraph No --. Page No. --.
	10.6	See the outstanding advances from the cane transport contractors, reasons therefor and action taken for recovery of such advances? Legal action has been taken or not? State the status of legal action.	See remarks in audit report paraghraph No --. Page No. --.
11		**Constructions and erections**	
	11.1	See the constructions of various buildings, machinery plants, sheds, houses and other are duly processed regarding calling of tenders from the approved contractors, preparing proper estimates, sanctioning from competent authority, revision of estimates, sanctioning the contracts, utilisation of funds for such purposes as sanctioned by the competent authority, reasons for variation in estimates and actual expediture etc.	See remarks in audit report paraghraph No --. Page No. --.
	11.2	Proper proceedure laid down in the byelaws and directed by the competent authority has been followed while awarding contracts of construction and erections.	See remarks in audit report paraghraph No --. Page No. --.
	11.3	State the advances outstanding from the contractors and action initiated against them for non recovery of advances.	See remarks in audit report paraghraph No --. Page No. --.
	11.4	Whether penel action has been taken against the contractors not completing the works within time shedule prescribed in the contract deed as per terms and conditons.	See remarks in audit report paraghraph No --. Page No. --.
	11.5	Whether the accounting standard for constructions has been followed while accouting such constructions on various stages ?	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	11.6	Whether the quality of construction has been verified by the architect, engineers appointed for the same? Any deficiencies and effect on financial estimates should be commented upon in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	11.7	Any material supplied such as cement, steel, etc., by the society as per contract deed is proper in quantity, and amount. Any variation should be commented upon in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	11.8	Proper aportionment of exependiture in Revenu and Capital expenditure has been made as per Accouting standard.	See remarks in audit report paraghraph No --. Page No. --.
12		**Revaluation of Assets**	
	12.1	Whether the society has revalued its assets? If so, State the amount of original value of assets, value after revaluation, capital reserve, and rate of depreciation ? Proper accounting has been made as per accounting standard or not ? If not comment in audit report regarding financial effects on financial Statements.	See remarks in audit report paraghraph No --. Page No. --.
13		**Anxilary Activities**	
	13.1	**Irrigation schemes**	
	1	Whether the society has under taken varios types of irrigation schemes for development of cane such as lift irrigation, drip irrigation, K. T. wares and other small size water storeges. State the details of such schemes in regards No of schemes, irrigated area, proposed irrigated area, increse in cane supply as estimated and actual.	See remarks in audit report paraghraph No --. Page No. --.
	2	Proper sanctions of competent authoriy for such schemes in regards technical, finacial and implementation has been taken or not if not comment in audit report.	See remarks in audit report paraghraph No --. Page No. --.
	3	How the society has generated funds for such schemes, by way of subsidies, loans , loans from cane developments fund etc. Proper sactions, contracts and terms and conditions are followed or not. Proper utilisation of funds as per sactions has been made or not comment in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	4	whether the society has repaid the loans and advances taken for such purposes. Any overdues are there?	See remarks in audit report paraghraph No --. Page No. --.
14		**Other activities**	
	14.1	State the other activities as per byelaws undertaken by the society for fulfilment of its object?	See remarks in audit report paraghraph No --. Page No. --.
15		**Industiral Housing scheme:**	
	15.1	Whether the society has under taken subsidiesed industiral housing scheme ? Any financial assistant has been availed by the society for this purpose and utilised as per terms and conditions of the financial Institute.	See remarks in audit report paraghraph No --. Page No. --.
B		**Selling procedure**	
	2.1	**Main and by products**	
	A	State the selling procedure adopted by the society for main products and comment on its effectivenes to earning capacity, and properness as per guidelines issued by the competent authority.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	B	Whether the selling procedure as per decided by the policy framed by the Board of Director.	See remarks in audit report paraghraph No --. Page No. --.
	C	State the selling procedure adopted by the society for by products and comment on its effectivenes to earning capacity, and properness as per guidelines issued by the competent authority.	See remarks in audit report paraghraph No --. Page No. --.
	D	Whether the sales are effected on cash / DD basis or on credit basis? If Credit sales are allowed proper contracts have been signed by the obligators and they are scruplosely followed. Whether the byelaws or any order from the Registrar permit credit sales if not comment on it and loss of interest, terms and conditions etc.	See remarks in audit report paraghraph No --. Page No. --.
	E	State the outstanding amounts of credit sales and period thereof; necessary provision has been made for overdue amounts.	See remarks in audit report paraghraph No --. Page No. --.
	C	**FINANCE MANAGEMENT**	
	3.1	**Borrowings**	
	1	What are the amount of loan and credit limits sanctioned by the financing Bank under various schemes for short term and medium and long term purposes.	See remarks in audit report paraghraph No --. Page No. --.
	2	Operations of the various credit limits are satisfactory and repayments are made in due course ? State the amounts of overdue if any and period thereof.	See remarks in audit report paraghraph No --. Page No. --.
	3	Discuss in brief regarding terms and conditions of various credits, which are not fulfilled.	See remarks in audit report paraghraph No --. Page No. --.
	4	Whether the credit sanctioned for specific purpose is utilised for the same purpose? If not discuss in brief in audit report.	See remarks in audit report paraghraph No --. Page No. --.
	3.2	**Own Funds**	
	1	Are funds are created out of profit as per provisions of the Act, Rules and byelaws ?	See remarks in audit report paraghraph No --. Page No. --.
	2	Whether Reserve fund is invested outside its business seperately as per Rule 54 ? If not state reasons.	See remarks in audit report paraghraph No --. Page No. --.
	3	Whether the charity fund is created out of profit and utilisated as per Rule 69 of the Act?	See remarks in audit report paraghraph No --. Page No. --.
	4	Whether the Building fund and other funds created out of profit are properly used as per rules framed for them ? If not discuss in brief in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	5	Whether the byelaws provides any other fund from the appropriation of profits and accordingly the provision of the fund is created in appropriation of profit.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	3.3	**Funds created by charging P/L account and Provisions?**	
	1	Whether the society has created investment flactuation fund.	See remarks in audit report paraghraph No --. Page No. --.
	2	Whether the society has provided for the Bad and doubtful debts and amounts as per guidelines issued by Registrar and necessary provision is made for the overdue interest reserve ? State the short fall in provisioning with reasons? Necessary disclouse has been given in the annual report regarding provision for this purpose.	See remarks in audit report paraghraph No --. Page No. --.
	3	Whether the necessary provisions have been made as per Section 65 and Rule 49 A of the Co-operative societies Act 1960 and Accounting Standards accepted by the society.	See remarks in audit report paraghraph No --. Page No. --.
	4	Provisions for the Staff Gratuity and Provident fund have been made and investments thereof is made according to rules framed by the society. State Short fall in the provisions with effect on profit and loss account.	See remarks in audit report paraghraph No --. Page No. --.
	3	**Deposits**	
	1	Whether the society has accepted non refundable deposits from the producers members and non members. Necessary permissions have been taken by the society for accepting deposits as per byelaws.	See remarks in audit report paraghraph No --. Page No. --.
	2	whether the society has accepted refundable deposits from the members and non members. Necessary permissions have been taken by the society for accepting deposits as per byelaws. Such deposits are repaid on due date or not, state the amount due but not paid by the society, and provision made by the society for such repayment with interets.	See remarks in audit report paraghraph No --. Page No. --.
	3.5	**Budgetery Control**	
	1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	See remarks in audit report paraghraph No --. Page No. --.
	2	Is the expenditure on various items within budget limits?	See remarks in audit report paraghraph No --. Page No. --.
	3	Are reappropriations approved by the AGBM. Comment on variation with reasons thereof.	See remarks in audit report paraghraph No --. Page No. --.
	4	**INSURANCE**	
	1	Whether the society has adequately insured all assets, machinery, stocks, and other assets from the company as directed by the Government? Whether the insurance claimes have been preferred as per terms and conditions of policy.	See remarks in audit report paraghraph No --. Page No. --.
	2	Whether the insurance for cash and cash in transit have been taken and insurance for personal accidents have been taken.	See remarks in audit report paraghraph No --. Page No. --.
	3	Whether the society has maintained insurance claim register?	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	4	**Expenditure**	
	1	Whether the expenditures are got sanctioned by the board time to time and also sanctioned by the AGBM.	See remarks in audit report paraghraph No --. Page No. --.
	2	Expain in audit report regarding expenditure not related with business of the society.	See remarks in audit report paraghraph No --. Page No. --.
	4	**Outstanding dues and amounts**	
	1	State the overdue amounts under heading sundry debtors, credit sales and other outstanding, advances, (quote amounts outstanding for more than 6 months).	See remarks in audit report paraghraph No --. Page No. --.
	2	State the action taken for the recoveries of the above amounts with details in regards amounts involved, No. of debtors, details of action, notices, awards, decrees etc.	See remarks in audit report paraghraph No --. Page No. --.
	3	State the decrees executed and amount recoverd during audit period? And exenditure is being recoved from the concerned.	See remarks in audit report paraghraph No --. Page No. --.
	4	**Net worth and other financial parameters**	
	1	State the Net worth of the society as on 31/3 of the financial year, as provided in the section of the M.C.S. Act and rules? And guidelines issued by the Co-operation department.	See remarks in audit report paraghraph No --. Page No. --.
	2	State the book value of the societies share capital as on 31/3 and reasons for declining the book value than face value.	See remarks in audit report paraghraph No --. Page No. --.
D		**MANAGAEMENT**	
	4	**Meetings and proceedings**	
		i) State the meeting of board of directors are held within stipulated time in byelaws (say 1 month, two month) and the proceedings are written upto date or not?	See remarks in audit report paraghraph No --. Page No. --.
		ii) Read the minutes of Board of Directors, sub committees, and AGBM and state the decisions which are contrarary to the Act, Rules and byelaws and against the interest of the society and its members.	See remarks in audit report paraghraph No --. Page No. --.
		iii) comment on the working of the sub committees with the delegation of power, execution, and submission and acceptance of the sub committee proceedings by the Board of Directors.	See remarks in audit report paraghraph No --. Page No. --.
	4	**Inspections and enquiries**	
	1	Whether any enquiry under section 83/84 or 88 is completed or in prograss by the Registrar.	See remarks in audit report paraghraph No --. Page No. --.
	2	Any penelty has been imposed by the Registrar for the breach of the provisions of the M.C.S. Act 1960?	See remarks in audit report paraghraph No --. Page No. --.
	3	Complience of Inspections taken by the Financing institute is submitted within stipulated time limit and to the satisfaction of the insepcting authority.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	4	**Internal control and audit**	
	1	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	See remarks in audit report paraghraph No --. Page No. --.
	2	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	See remarks in audit report paraghraph No --. Page No. --.
	3	Whether internal control is based on the sound priciples and any deficiencies should be commented upon in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	4	Internal audit system of society is satisfactory and consistant and the society has complied the internal audit report withing time limit. State the descripancies noted by the internal auditor but not complied with.	See remarks in audit report paraghraph No --. Page No. --.

FORM No. 4

For Banking Societies

(Applicable to State Cooperative Bank, District Central Co-operative Bank and Urban Banks, Agricultral and Rural Development banks)

PART C

I 1	2	SOCIETY INFORMATION 3	Particulars to be filled by the auditor 4
	1	Name of the Society	
	2	Licence No. from the Reserve Bank of India and period of licence	
	3	No. of Branches	
	4	Area of operation	
		Note : The query marked by " # " this sign relates to DCCBs and SCBs only and UCB having agricultural loan disbursement	
II		**Financial Parameters**	
	a	CD Ratio	
	b	Gross NPA %	
	c	Net NPA %	
	d	CRAR	
	e	Net interest margin	
	f	CASA Deposit	
	g	Individual dposits	
	h	Societies / Institutional deposits	
	i	Individual exposure violation. If yes, number of borrowers where individual exposure is violated	Yes / No
	j	Sectoral exposure violation. Number of cases where it is exceeded	Yes / No
	k	CRR / SLR violation. If yeas, number of occasions CRR / SLR violated	Yes / No
	l	Whether unsecured loans are within limits specified by RBI. If No, specify total assets and total of unsecured loans	Yes / No

1	2	3	4
	m	Accumulated loss if any	
	n	Net profit / loss for the current year	
	o	% of dividend declared for current year and last two years	
	p	Networth of current year & last tow years	
	q	Loans outstanding of directors, their relatives firms and companies in which they are interested and overdue if any	
	r	state the accounts falling under doubtful category where legal action for recovery not taken.	
III		**WORKING OF THE SOCIETY**	
	1	**Deposits**	
	1.1	State the deposits amount as on 31/3 with time wise bifurcation	
		Short Term Rs.	
		Medium Term	
		Long Term	
		Total	
	1.2	Whether the bank has framed deposit rules as per directives of Reserve Bank of India/ Nabard/department ?	
	1.3	Whether the bank has insured deposits upto Rs. 1 lakh, with the Deposit Corporation of India and has paid premium on the dates.	Date / / 20 premium Rs. Date / / 20 premium Rs.
	1.4	The rates on deposits are with consistant with directives of the RBI or not ? Whether the bank has attracted the deposits with higher rate of Interest ?	
	1.5	What the ratio of overdue loan with deposits? Whether this will comply the provision of BR act for repaying the deposit on due date with interest.	See remarks in audit report paraghraph No --. Page No. --.
	1.6	Is the own funds with reserves **(net worth)** does affects the deposits security in respect of losses to be sustained by the bank. Or whether there is deposit errosion ? Comment in audit report.	See remarks in audit report paraghraph No --. Page No. --.
	1.7	The bank has asset liability management committee and the committee has taken proper care to match the assets and liabilities ? Comment on mismatch with reasons thereof in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	1.8	Do the balances of personal ledger agree wit the balances of such accounts with general ledger?	
	1.9	Whether the bank has obtained confimation letters from the depositholders? Check on percentage basis.	
	1.10	Whether the bank has accepted deposits from local authorities, trusts with due approval from the competent authority and they are within limit prescribed by the authority?	
	1.11	Advances granted against the security of deposits proper care regarding own branch deposit, custody of deposist receipt, adjustment of advance on due of reciept is taken ?	
	1.12	In case of death of deposit holder refund of deposit is made as per guidelines issued by the RBI.	

1	2	3	4
	2	**Loans and advances**	
	2A	**Agricultural Advances**	
	1	Is the register of loan application maintained and written up-to-date? Are loans made promptly.	
	2	Are normal credit statements of societies sanctioned by the Board or Loan sub commttee within a reasonable time? And renewed according to the needs of farmers after every 3 years consistant with cropping pattern in the area of operation ?	
	3	Are normal credit statements properly scheduled for receipt and sanctaion. They are scrutinised before sanctioned.	
	4	When exetensions for loans are granted are they given for valid reasons after proper enquiry and with due regared to crop conditions and anewari declared by the Revenue department?	
	5	Whether the bank has prepared loan policy inregards to agricultural loans and any exception to the higher limit is granted after due scrutiny and considering the need of the borrower/ Comment of such exceptional cases of sanction with regards to reason, amount, and its fairness.	
	6	Are loan agreements , promissory notes and other documents executed by societies in order and registered where necessary? Not deficiency if any?	See remarks in audit report paraghraph No --. Page No. --.
	7	Whether the interest rebets are granted by the bank as per guidelines from the Government ? If not deficincy if any?	See remarks in audit report paraghraph No --. Page No. --.
	8	State the interest rates charged by the bank on the agricultural loans and they are according to the guidelines issued by the Government, RBI, NABARD and banks policy regarding base rate ?	
	9	Imbalances – Whether there are any imbalances ? If so, what action is taken by society and bank to reduce imbalances ?	
	2B	**Non Agricultural advances**	
	2BA	**Cash Credits and advances**	
	1	Whether proper margin are decided by the Board for cash credit advances regarding pledge, clean, and hypothication and are they consistant with the RBI Policy.	
	2	Verify large cash credit advances (considering banks total business) with documentation and disbursement as per agreed term and conditions by the borrower and satitsfactory turnover in its.	
	3	Verify pleged goods are in accrodance with margin, saleble condition and covering the loan amount? If deficiencies comment in audit report.	
	4	Goods pledged and hypothicated are properly mortgated and necessary lien has been made with competent authority, with registering them..	
	5	Whether adequate insurance has been taken regarding mortgated goods ? And renewed it time to time to cover. shortfall if, comment in audit report.	

1	2	3	4
	6	Verify the clean cash credits are sanctioned with other cash credits to cover the security ? If not comment on them in the audit report regarding unsecured advances and relation ship of the borrower with the directors and their relataives of the bank	
	7	FIXED AND OTHER TYPES OF LOANS AND ADVANCES	
	A	Term Loans	
	B	Personal loans	
	C	Consumer loans	
	D	Real Estates loans	
	2BB	**Non Performing Assets**	
	1	Whether the bank has provided for all bad and doubtful debts amounts as per predential norms laid down by the RBI/NABARD. Comment in audit report	
	2	Necessary provision for the sundry debtors and other assets have been made as per guidelines from the RBI/NABARD	
	3	Provision for overdue interes reserve is adequate and covers all overdue interest. Short fall shall be commented in to audit report. Necessary matching provision as per MCS Act has been providied, comment.	
	4	Disclouser regarding movement in NPA and Proft and loss has been made by the Bank as per guidelines issued by the RBI/NABARD. Comment on variation of the guidelines.	
	5	Comment on NPA Assets in the audit report regarding its quantum, effect on profit and loss account, net worth and general financial conditions and liquidity of the bank.	
	2BC	**Individual and All Other Advances**	
	1	Verify loan cases as per guidelines issued by the RBI/NABARD in regards to proper sanction, limits, security, mortgage, proper registrations, stamp duty, eligibility of the borrower, repaying capacity, etc.	
	2	State secured and unsecured loans and advances in all types of loans and whether they are within limit prescribed by the RBI/ NABARD.	
	3	Where ever lien is necessary such as KVP/ NSC/ LIC, FD etc., are registered ? If not comment.	
	2BD	**Recovery Actions**	
	1	State the number of borrowers, amount of default, action taken for the recovery, corresive action, etc. and comment in audit report.	
	2	Action as per Securitisation and Reconstruction of Financial Assets & Enforsement of Security Interest Act, 2002 (SARFAESI), Board for Industrial and Financial Reconstruction (BIFR), etc., are taken and registered with the Registrar of Companies.	
	3	Give total amount covered by cases under arbitration (Give details regarding No of cases pending with registrar or nominee, no. of awards pending and under execution etc.	

1	2	3	4
	4	If One Time Settlement (OTS) scheme has been implemented by the bank as per guidelines from the Government, RBI/ NABARD and is the scheme is consistant with guidelines issued by them. State the amount of relief given by the banks and eligibility of the borrowers.	
	3	**Bank Guarantees and letters of credits**	
	3.1	Proper care has been taken while issuing guantees and lettes of credits? Necessary deposits are made by the borrower for guarantees and letters of credit as per rules framed by the bank and guidelines issued by the RBI/ NABARD.	
	3.2	Whether the guarantees and letters of credit amounts are shown as footnotes to the Balances sheet or not ?	
	3.3	Comment in the report regarding security for guantees, guaranteeds executed, proper stamps to it, release and envokement of the guantees.	
	4	**Banking Services**	
	4.1	Whether the bank has undertaken other banking services as provided in the byelaws and Banking regulation Act 1949 ?	
	4.2	Compare the cost of such business and earning from it, with profitability and comment in the audit report.	
	5	**Other services**	
	5.1	State the nature of such business undertaken by the bank such as bills collection for electricity companies, insurance premiums etc.	
	5.2	Compare the cost of such business and earning from it, with profitability and comment upon in the audit report.	
	6	**Compliance of Statutory Provisions**	
	6.1	**Coopertive Societies Act 1960**	
	6.1.1	Whether the bank has submitted necessary returns to the department as prescribed in Section 75(2) and 79 of the Act.	See remarks in audit report paraghraph No --. Page No. --.
	6.2	**Bank Regulation Act 1949**	
	6.2.1	**Fluid Resources / Liquidity**	
	A	Whether the bank has maintained proper CRR and SLR as directed by the RBI time to time ?	
	B	Any penelty has been charged by the RBI for violation of CRR and SLR. If yes comment in audit report with reasons thereof.	See remarks in audit report paraghraph No --. Page No. --.
	C	Whethr the bank has submitted the returns regarding liquidity to the RBI within the time frame prescribed by it?	
	7	**Borrowings**	
	7.1	What are the amount of loan and credit limits sanctioned by the Apex Bank under various schemes for short term and medium and long term purposes.	See remarks in audit report paraghraph No --. Page No. --.
	7.2	Operations of the various credit limits are satisfactory and repayments are made in due course ? State the amounts of overdue if any and period thereof.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	7.3	Discuss in brief regarding terms and conditions of various credits, which are not fulfilled.	See remarks in audit report paraghraph No --. Page No. --.
	7.4	Whether the credit sanctioned for specific purpose is utilised for the same purpose? If not discuss in brief in audit report.	See remarks in audit report paraghraph No --. Page No. --.
	5	**Refinance from NABARD**	
	A	Discuss in brief regarding terms and conditions of various credits, which are not fulfilled.	
	B	Whether the credit sanctioned for specific purpose is utilised for the same purpose? If not discuss in brief in audit report.	
	8	**Finance**	
	8.1	**Own Funds**	
	8.1.1	Are funds are created out of profit as per provisions of the Act, Rules and byelaws ?	See remarks in audit report paraghraph No --. Page No. --.
	8.1.2	Wheter Reserve fund is invested outside its business seperately as per Rule 54 ? If not state reasons.	See remarks in audit report paraghraph No --. Page No. --.
	8.1.3	Has the Bank adopted rules for creation of Agricultural Credit Stabilisation Fund, and utilised and operated the fund according to the rules framed so far?	See remarks in audit report paraghraph No --. Page No. --.
	8.1.4	Whether the charity fund is created out of profit and utilisated as per Rule 69 of the Act?	See remarks in audit report paraghraph No --. Page No. --.
	8.1.5	Whether the Building fund and other funds created out of profit are properly used as per rules framed for them ? If not discuss in brief in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	8.1.6	Whether the byelaws provides any other fund from the appropriation of profits and accordingly the provision of the fund is created in appropriation of profit.	See remarks in audit report paraghraph No --. Page No. --.
	8.2	**Funds created by charging P/L account and Provisions?**	
	8.2.1	Whether the bank has created Investment amortisation and investment flactuation fund as per guidelines issued by the RBI/ NABARD / ACT and Rules.	
	8.2.3	Whether the bank has provided for the Bad and doubt ful debts and amounts as per guidelines issued by the RBI/NABARD (Prudential Norms) and necessary provision is made for the overdue interest reserve ? State the short fall in provisioning with reasons? Necessary disclouse has been given in the annual report regarding NPA.	
	8.2.4	Whether the necessary provisions have been made as per Section 65 and Rule 49 A of the Cooperative societies Act 1960 and Accounting Standards accepted by the Bank.	
	8.2.5	Provisions for the Staff Gratuity and Providenf fund have been made and ivestments theor is made according to rules framed by the bank. State Short fall in the provisions with effect on profit and loss account.	

1	2	3	4
	8.3	**Investments**	
	1	Whether the bank has framed investment policy as required by the RBI guidelines and proper segregation of investment is made in permanent and other categaries.	
	2	Whether the bank has appointed sub commttee for the investment ? Has the committee has taken review of the investments and report has been sent to the Board of Directors?	
	3	The bank has made arrangement for audit of the investment as per guidelines issued by the RBI/NABARD on periodic basis and the report is considered by the Board, comment of deficiencies if any?	
	4	Comment on the investment portfolio regarding its profitability, security, non performing investments, provisions thereof, classification, trading and trading profit and loss with reasons thereof.	
	8.4	**Budgetery Control**	
	1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	
	2	Is the expenditure on various items within budget limits?	
	3	Are reappropriations approved by the AGBM. Comment on variation with reasons thereof..	
	8.5	**Net worth and other financial parameters**	
	A	State the networth as per guidelines issued by the RBI/NABARD? Comment on the general financila condition of the bank based on the net worth.	
	B	Compare various parameters such as business of bank with deposits, loans and advances , employees, etc., time frame of deposits, loans, investements in terms of assest liability management (ALM), performance of the management,	
9		**MANAGEMENT**	
	9.1	**Sub Committees**	
	A	Whether the bank has appointed sub committes as per guidelines issued by the Reserve bank of India for ALM, Investment, loans and advances, executive committee, audit committee and other required committee. Whether the sub committees have been properly delegated the powers and they are working within the frame of such powers.	
	B	comment on the working of the sub committees with the delegation of power, execution, and submission and acceptance of the sub committee proceedings by the Board of Directors.	
	9.2	**Internal Control, Internal audit and System audit**	
	A	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	
	B	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	
	C	Whether internal control is based on the guidelines issued by the RBI/NABARD.	
	D	Internal audit system of bank is satisfactory and consistant with guidelines issued by the RBI/NABARD.	

1	2	3	4
	9.3	**Inspections and enquiries**	
	1	Complience of Inspections taken by the Nabard/RBI is submitted within stipulated time limit and to the satisfaction of the insepcting authority.	
	2	Whether any enquiry under section 83/84 or 88 is completed or in prograss by the Registrar.	
	3	Any penelty has been imposed by the RBI for the breach of the provisions of the Banking Regulation Act 1949.	
	9.4	**Branches**	
	A	Necessary permissions from the competent authority (RBI/NABRD/ Registrar) has been obtained for opening of the new branches.	
	B	Whether the bank has obtained licences for branches from the RBI.	
10		**General**	
	10.1	The bank has follwed the guidelines regarding vehicles issued by the department and the expenditure on them is within reasonable limit.	
	10.2	Necessary records have been mainatained by the bank in regards to maintenance of vehicle, spare part, use of oil and petrol, disel etc.	
11		**Investment**	
	11.1	Classification of Investments	
	11.2	Valuation	
	11.3	amortisation, depreciation, fluctuation fund	
	11.4	investment with banks and financial institutions	
	11.5	investment in bonds, PSU, shares, debentures, mutual funds, etc.	
	11.6	investment policy	

FORM No. 5

For Non- Banking Financial and Credit dispensing Societies
(Applicable to Salary Earners societies, Urban and Rural Credit societies and Vividh Karyakari Agricultrual societies)
Note : The query not applicable to any type of society shall be mentioned with remarks "not applicable"

PART C

I **1**	**2**	**SOCIETY INFORMATION** **3**	**Particulars to be filled by the auditor** **4**
	1	Name of the Society	
	2	Licence No. from the Reserve Bank of India and period of licence	
	3	No. of Branches	
	4	Area of operation	
II		Financial Parameters	
	i	CD Ratio (wherever applicable)	
	ii	Total deposits	
	iii	CASA Deposits	

1	2	3	4
	iv	Net interest margin	
	v	Gross NPA	
	vi	Net NPA	
	vii	CRAR	
	viii	Net profit / loss for current year	
	ix	Accumulated loss if any	
	x	% of dividend declared for current year and last two years.	
	xi	Total loans outstanding and total unsecured loans out of total loans.	
	xii	Violation of individual exposure. If yes, state number of borrower exposure is exceed.	Yes / No
	xiii	State overdue exceeding one year where legal action for recovery not taken.	
	xiv	State whether liquidity is maintained throughout year. If No, state the number of occasions where liquidity falls short.	Yes / No
	xv	State the amount outstanding of directors, their relatives, firms and companies in which directors are interested and overdue if any.	
II		**WORKING OF THE SOCIETY**	
	1	**Deposits**	
	1.1	State the deposits amount as on 31/3 with time wise bifurcation	
		Short Term Rs.	
		Medium Term	
		Long Term	
		Total	
	1.2	Whether the society has framed deposit rules as per directives of department or competant authority?	
	1.3	Whether the society has insured deposits upto Rs. 1 lakh, if so state the authority and paid premium on the due dates. premium Rs.	Date / / 20 premium Rs. Date / / 20
	1.4	The rates on deposits are with consitant with directives of the Co-operation department or not ? Whether the society has attracted the deposits with higher rate of Interest and with some extra bonus or other facility , award or prises if so ? Comment	See remarks in audit report paraghraph No --. Page No. --.
	1.5	What the ratio of overdue loan with deposits? Whether this will comply the provision of liquidity as per Section 42 of the MCS Act 1960, for repaying the deposit on due date with interest.	See remarks in audit report paraghraph No --. Page No. --.
	1.6	Is the own funds with reserves **(net worth)** does affects the deposits security in respect of losses to be sustained by the society. Or whether there is deposit errosion ? Comment in audit report.	See remarks in audit report paraghraph No --. Page No. --.
	1.7	The bank has asset liability management committee and the committee has taken proper care to match the assets and liabilities ? Comment on mismatch with reasons thereof in the audit report.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	1.8	Do the balances of personal ledger agree wit the balances of such accounts with general ledger?	
	1.9	Whether the bank has obtained confimation letters from the depositholders? Check on percentage basis.	
	1.10	Whether the society has accepted deposits from Non members inrespective of non provision in the byelaws of the society. If so comment in audit report giving details of such deposits no. of depositors, and matured deposits of the depositors.	
	1.11	Advances granted against the security of deposits proper care regarding own deposit, custody of deposist receipt, adjustment of advance on due of reciept is taken ?	
	1.12	In case of death of deposit holder refund of deposit is made as per rules framed by the society and to the legal heirs after taking necessary documents.	
	1.13	In case of loss of deposit receipt necessary indemnity bond has been taken proper to refund or adjustment of the deposit towards loans or advances.	
	1.14	Necessary permission is taken from the Registrar for adjustment of deposits towards loans and advances in case of society is unable to refund deposit due to minus networth.	
	2	**Loans and advances**	
		State the amounts disbused , recovered and outstanding and overdue from the board of directors of the society. State the total of loan from board members to total loans outstanding. Whether limits has been adhered to and no excessive loans are granted and disbursed to them.	
	2A	**Cash Credits and advances**	
	1	Whether proper margin are decided by the Board for cash credit advances regarding pledge, clean, and hypothication and are they consistant with the societies Policy framed by the AGBM and approved by the Registrar	
	2	Veryfy large cash credit advances (considering societies total business) with documentation and disbursement as per agreed term and conditions by the borrower and satitsfactory turnover in its.	
	3	Verfy pleged goods are in accrodance with margin, saleble condition and covering the loan amount? If deficiencies comment in audit report.	
	4	Goods pledged and hypothicated are properly mortgated and necessary lien has been made with competent authority, with registering them..	
	5	Whether adequate insurance has been taken regarding mortgated goods? And renewed it time to time to cover. shortfall if, comment in audit report.	
	6	Verify the clean cash credits are sanctioned with other cash credits to cover the security ? If not comment on them in the audit report regarding unsecured advances and relation ship of the borrower with the directors and their relataives of the society.	

1	2	3	4
	2B	**Non Performing Assets**	
	1	Whether the society has provided for all bad and doubtful debts, amounts as per predential norms laid down by the Registrar. Comment in audit report.	
	2	Necessary provision for the sundry debtors and other assets have been made as per guidelines from the Registrar.	
	3	Provision for overdue interes reserve is adequate and covers all overdue interest. Short fall shall be commented in to audit report. Necessary matching provision as per MCS Act has been providied, comment.	
	4	Disclouser regarding movement in NPA and Proft and loss has been made by the society as guidelines issued by the Registrar. Comment on variation of the guidelines.	
	5	Comment on NPA Assets in the audit report regarding its quantum, effect on profit and loss account, net worth and general financial conditions and liquidity of the society	
	2BC	**Individual and All Other Advances**	
	1	Verify loan cases at least large loans covering 1% of total loans, in regards to proper sanction, limits, security, mortgage, proper registrations, stamp duty, eligibility of the borrower, repaying capacity, documents supporting and afer disbusement, etc.	
	2	State secured and unsecured loans and advances in all types of loans and whether they are within limit prescribed as per MCS Act, Rules and byelaws. If byelaws does not permit unsecured loans state quatam and amount of loans and offer detail comments on such loans.	
	3	Where ever lien is necessary such as KVP/ NSC/ LIC, FD etc., are registered ? If not comment.	
	4	Whether any loan has been given to builders and contractors state the amount and no. of cases and total agreegate of such loans to total loans? Whether byelaws permits such loans if so give detail comments on eligibility of borrower, repaying capacity, collateral security etc..	
	5	Whether the surities has takne considering their repayment capacity to all loans where they are surity and borrower ?	
	6	whether the society has obtained documents for all loans necessary *e.g.* application for loan, no dues certificates from other financial institutions (including urban banks and other credit societies in the area) , surity bond, loan bond, mortagage deed registered with the competent authority, salary ceritificates, balance sheet and other financial statements, registration certificates of business with local and other authorities where ever required.	
	7	whether the loans are disbursed within the limits prescribed in byelaws and guidelines, directives issued by the Registrar if not comment in audit report.	

1	2	3	4
	8	Whether the society is overtrading or undertrading considering the availability of funds with the society. State the C. D. Ratio as prescribed by the Registrar and comment upon in audit report.	
	9	Necessary authority letter for deduction from salary has been taken by the society from the member as per section 49 of the M.C.S. Act? Recoveries are effected from the employer and for non recovery necessary action as per section 49(2) has been taken on the employer ? comment	
	2BD	**Recovery Actions**	
	1	State the number of borrowers, amount of default, action taken for the recovery, corresive action, etc. and comment in audit report.	
	2	Action as per surfoshi, bifr, etc., are taken and registered with the Companies registrar for Companies.	
	3	Give total amount covered by cases under arbitration (Give details regarding No of cases pending with registrar or nominee, no. of awards pending and under execution etc.	
	4	If OTS scheme has been implemented by the society as per guidelines from the Government, Cooperation department and is the scheme of society is consistant with guidelines issued by them. State the amount of relief given by the society and eligibility of the borrowers.	
	5	**Non fund base services**	
	1	State the nature of such business undertaken by the bank such as bills collection for electricity companies, insurance premia etc.,	
	2	Compare the cost of such business and earning from it, with profitability and comment upon in the audit report.	
	6	**Compliance of Statutory Provisions**	
	6.1	**Coopertive Societies Act 1960**	
	6.1.1	Whether the soceity has submitted necessary returns to the department as prescribed in Section 75(2) and 79 of the Act.	See remarks in audit report paraghraph No --. Page No. --.
	6.2.1	**Fluid Resources / Liquidity**	
	A	Whether the society has maintained proper liquid asset as per provisions of the MCS Act section 42 and guidelines issued by the Registrar.	
	B	Any deficiencies has been observed by the auditor in maintanace of the liquid assets comment in audit report with reasons thereof.	See remarks in audit report paraghraph No --. Page No. --.
	7	**Borrowings**	
	1	What are the amount of loan and credit limits sanctioned by the financing Bank under various purposes. Give details in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	2	Operations of the various credit limits are satisfactory and repayments are made in due course ? State the amounts of overdue if any and period thereof.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	3	Discuss in brief regarding terms and conditions of various credits, which are not fulfilled.	See remarks in audit report paraghraph No --. Page No. --.
	4	Whether the credit sanctioned for specific purpose is utilised for the same purpose? If not discuss in brief in audit report.	See remarks in audit report paraghraph No --. Page No. --.
	8	**Finance**	
	8.1	**Own Funds**	
	8.1.1	Are funds are created out of profit as per provisions of the Act, Rules and byelaws ?	See remarks in audit report paraghraph No --. Page No. --.
	8.1.2	Wheter Reserve fund is invested outside its business seperately as per Rule 54 ? If not state reasons.	See remarks in audit report paraghraph No --. Page No. --.
	8.1.3	Whether the charity fund is created out of profit and utilisated as per Rule 69 of the Act?	See remarks in audit report paraghraph No --. Page No. --.
	8.1.4	Whether the Building fund and other funds created out of profit are properly used as per rules framed for them ? If not discuss in brief in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	8.1.5	Whether the byelaws provides any other fund from the appropriation of profits and accordingly the provision of the fund is created in appropriation of profit.	See remarks in audit report paraghraph No --. Page No. --.
	8.2	**Funds created by charging P/L account and Provisions?**	
	8.2.1	Whether the society has created investment flactuation fund as per M.C.S. ACT and Rules.	
	8.2.2	Whether the society has provided for the Bad and doubt ful debts and amounts as per guidelines issued by the Cooperation department (Prudential Norms) and necessary provision is made for the overdue interest reserve ? State the short fall in provisioning with reasons? Necessary disclouser has been given in the annual report regarding NPA.	
	8.2.3	Whether the necessary provisions have been made as per Section 65 and Rule 49 A of the Cooperative societies Act 1960 and Accounting Standards accepted by the Bank.	
	8.2.4	Provisions for the Staff Gratuity and Provident fund (If applicable) have been made and ivestments theor is made according to rules framed by the bank. State Short fall in the provisions with effect profit and loss account.	
	8.3	**Investments**	
	1	Whether the society has framed investment policy?	
	2	Comment on the investment portfolio regarding its profitability, security, non performing investments, provisions thereof, classification, with reasons thereof.	
	8.4	**Budgetery Control**	
	1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	

1	2	3	4
	2	Is the expenditure on various items within budget limits?	
	3	Are reappropriations approved by the AGBM. Comment on variation with reasons thereof.	
	8.5	**Net worth and other financial parameters**	
	A	State the networth as per Section of the M. C. S. Act and rules? Comment on the general financial condition of the soceity based on the net worth.	
	B	Compare various parameters such as business of soceity with deposits, loans and advances, employees, etc., time frame of deposits, loans, investements in terms of assest liability management, performance of the management,	
9		**MANAGEMENT**	
	9.1	**Sub Committees**	
	A	Whether the soceity has appointed sub committes as per provisions in its byelaws. Whether the sub committees have been properly delegated the powers and they are working within the frame of the such powers.	
	B	comment on the working of the sub committees with the delegation of power, execution, and submission and acceptance of the sub committee proceedings by the Board of Directors.	
	9.2	**Internal Control and audit**	
	A	Whether proper delegation of powers has been made to the middl and higher management and approved by the Board.	
	B	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	
	C	Whether internal control is based on the guidelines issued by the Cooperation department and auditing practices	
	D	Is the Internal audit system of soceity is satisfactory and consistant.	
	9.3	**Inspections and enquiries**	
	1	Complience of Inspections taken by the Cooperation department and financial Institure is submitted within stipulated time limit and to the satisfaction of the insepcting authority.	
	2	Whether any enquiry under section 83/84 or 88 is completed or in prograss by the Registrar.	
	9.4	**Branches**	
	A	Necessary permissions from the competent authority (Registrar) has been obtained for opening of the new branches.	
	B	Whether the branches are within the area of operation of the society?	
10		**GENERAL**	
	1	The society has follwed the guidelines regarding vehicles/ adver tisement etc., issued by the department and the expenditure on them is within reasonable limit.	
	2	Necessary books of accounts regarding membership, investement, shares, shares transfer, minuts, etc., as per Act, Rules have been maintained by the society? Comments on the books of accounts not maintained and updated?	

1	2	3	4
11	1	**Expenditure** Whether the expenditure statements are approved by the board of directors ? State the expenditure not related to the business of the society.	

FORM No. 6

For Service Societies

(Applicable to crop protection society, coop. hospitals, education societies, coop. printing press, transport societies, berojgar service, Water users and lift irrigation societies)

Note : The query not applicable to any type of society shall be mentioned with remarks "not applicable"

PART C

I 1	2	SOCIETY INFORMATION 3	Particulars to be filled by the auditor 4
	1	Name of the Society	
	2	No. of Branches	
	3	Area of operation	
	4	Services provided as per bylaws	
II		**Financial Parameters**	
	i	Net worth	
	ii	Accumulated loss	
	iii	Net profit for current year and net profit for previous two years.	
	iv	% of dividend declared for current year and previous two years.	
	v	Borrowing capacity	
	vi	Actual borrowing	
	vii	Government share capital / loan due during current period.	
	viii	Government share capital / laon repaid during current period.	
	ix	Amount of sundry debtors outstanding for more than 1 year but no legal action for recovery is taken.	
II		**WORKING OF THE SOCIETY**	
1		**BUSINESS**	
	1.1	**Services**	
	A	Whether the services provided by are as pr byelaws of the society.	
	B	What are services segment wise earning by the society.	
	C	whethr the society has sufficient infrastructure for providing services to the customers,.	
	D	What is the quality concept used by the society and it is adhered to while providing services.	
	E	Services provided by the society are profitable if not what action has been taken by the management? Comment on reasons for loss	
	F	What are supporting activities has been taken by the society to the services as per byelaws.	

1	2	3	4
3		**FINANCE MANAGEMENT**	
	3.1	**Borrowings**	
	1	What are the amount of loan and credit limits sanctioned by the financing Bank under various schemes for short term and medium and long term purposes.	See remarks in audit report paraghraph No --. Page No. --.
	2	Operations of the various credit limits are satisfactory and repayments are made in due course ? State the amounts of overdue if any and period thereof.	See remarks in audit report paraghraph No --. Page No. --.
	3	Discuss in brief regarding terms and conditions of various credits, which are not fulfilled.	See remarks in audit report paraghraph No --. Page No. --.
	4	Whether the credit sanctioned for specific purpose is utilised for the same purpose? If not discuss in brief in audit report.	See remarks in audit report paraghraph No --. Page No. --.
	3.2	**Own Funds**	
	1	Are funds are created out of profit as per provisions of the Act, Rules and byelaws ?	See remarks in audit report paraghraph No --. Page No. --.
	2	Wheter Reserve fund is invested outside its business seperately as per Rule 54 ? If not state reasons.	See remarks in audit report paraghraph No --. Page No. --.
	3	Whether the charity fund is created out of profit and utilisated as per Rule 69 of the Act?	See remarks in audit report paraghraph No --. Page No. --.
	4	Whether the Building fund and other funds created out of profit are properly used as per rules framed for them ? If not discuss in brief in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	5	Whether the byelaws provides any other fund from the appropriation of profits and accordingly the provision of the fund is created in appropriation of profit.	See remarks in audit report paraghraph No --. Page No. --.
	3.3	**Funds created by charging P/L account and Provisions?**	
	1	Whether the society has created investment flactuation fund.	See remarks in audit report paraghraph No --. Page No. --.
	2	Whether the society has provided for the Bad and doubt ful debts and amounts as per guidelines issued by Registrar and necessary provision is made for the overdue interest reserve ? State the short fall in provisioning with reasons? Necessary disclouse has been given in the annual report regarding provision for this purpose.	See remarks in audit report paraghraph No --. Page No. --.
	3	Whether the necessary provisions have been made as per Section 65 and Rule 49 A of the Co-operative societies Act 1960 and Accounting Standards accepted by the society.	See remarks in audit report paraghraph No --. Page No. --.
	4	Provisions for the Staff Gratuity and Providenf fund have been made and investments thereof is made according to rules framed by the society. State Short fall in the provisions with effect on profit and loss account.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	3.4	**Deposits**	
	1	Whether the society has accepted non refundable deposits from the producers members and non members. Necessary permissions have been taken by the society for accepting deposits as per byelaws.	See remarks in audit report paraghraph No --. Page No. --.
	2	whether the society has accepted refundable deposits from the members and non members. Necessary permissions have been taken by the society for accepting deposits as per byelaws. Such deposits are repaid on due date or not, state the amount due but not paid by the society, and provision made by the society for such repayment with interets.	See remarks in audit report paraghraph No --. Page No. --.
	3.5	**BUDGETERY CONTROL**	
	1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	See remarks in audit report paraghraph No --. Page No. --.
	2	Is the expenditure on various items within budget limits?	See remarks in audit report paraghraph No --. Page No. --.
	3	Are reappropriations approved by the AGBM. Comment on variation with reasons thereof.	See remarks in audit report paraghraph No --. Page No. --.
	3.6	**Insurance**	
	1	Whether the society has adequately insured all assets, machinery, stocks, and other assets from the company as directed by the Government? Whether the insurance claimes have been preferred as per terms and conditions of policy.	See remarks in audit report paraghraph No --. Page No. --.
	2	Whether the insurance for cash and cash in transit have been taken and insurance for personal accidents have been taken.	See remarks in audit report paraghraph No --. Page No. --.
	3	Whether the society has maintained insurance claim register?	See remarks in audit report paraghraph No --. Page No. --.
	3.7	**Expenditure**	
	1	Whether the expenditures are got sanctioned by the board time to time and also sanctioned by the AGBM.	See remarks in audit report paraghraph No --. Page No. --.
	2	Expain in audit report regarding expenditure not related with business of the society.	See remarks in audit report paraghraph No --. Page No. --.
	3.8	**Outstanding dues and amounts**	
	1	State the overdue amounts under heading sundry debtors, credit sales and other outstanding , advances, (quote amounts outstanding for more than 6 months).	See remarks in audit report paraghraph No --. Page No. --.
	2	State the action taken for the recoveries of the above amounts with details in regards amounts involved, no. of debtors, details of action, notices, awards, decrees etc.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	3	State the decrees executed and amount recoverd during audit period? And exenditure is being recoved from the concerned.	See remarks in audit report paraghraph No --. Page No. --.
	3.9	**Net worth and other financial parameters**	
	1	State the Net worth of the society as on 31/3 of the financial year, as provided in the section of the M.C.S. Act and rules? And guidelines issued by the Cooperation department.	See remarks in audit report paraghraph No --. Page No. --.
	2	State the book value of the societies share capital as on 31/3 and reasons for declining the book value than face value.	See remarks in audit report paraghraph No --. Page No. --.
	3.10	**Constructions and Building**	
	1	See the constructions of various buildings, machinery plants, sheds, houses and other are duly processed regarding calling of tenders from the approved contractors, preparing proper estimateds, sanctioning from competernt authority, revision of estimates, sanctioning the contracts, utilisation of funds for such purposes as sanctioned by the competent authority, reasons for variation in estimates and actual expediture etc.	See remarks in audit report paraghraph No --. Page No. --.
	2	Proper proceedure laid down in the byelaws and directed by the competent authority has been follwed while awarding contracts of construction and erections.	See remarks in audit report paraghraph No --. Page No. --.
	3	State the advances outstanding from the contractors and action initiated against them for non recovery of advances.	See remarks in audit report paraghraph No --. Page No. --.
	4	Wheter penel action has been taken against the contractors not completing the works within time shedule prescribed in the contract deed as per terms and conditons.	See remarks in audit report paraghraph No --. Page No. --.
	5	Whether the accounting standard for constructions has been follwed while accouting such constructions on various stages ?	See remarks in audit report paraghraph No --. Page No. --.
	6	Whether the quality of construction has been verified by the architect, engineers appointed for the same? Any deficiencies and effect on financial estimates should be commented upon in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	7	Any material supplied such as cement, steel, etc., by the society as per contract deed is proper in quantity, and amount. Any variation should be commented upon in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	8	Proper aportionment of exependiture in Revenu and Capital expenditure has been made as per Accouting standard.	See remarks in audit report paraghraph No --. Page No. --.
	3.11	**Revaluation of Assets**	
	1	Whether the society has revalued its assets? If so, State the amount of original value of assets, value after revaluation, capital reserve, and rate of depreciation ? Proper accounting has been made as per accounting standard or not ? If not comment in audit report regarding financial effects on financial Statements.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	4	**MANAGAEMENT**	
	4.1	**Meetings and proceedings**	
		i) State the meeting of board of directors are held within stipulated time in byelaws (say 1 month, two month) and the proceedings are written upto date or not?	See remarks in audit report paraghraph No --. Page No. --.
		ii) Read the minutes of Board of Directors, sub committees, and AGBM and state the decisions which are contrarary to the Act, Rules and byelaws and against the interest of the society and its members.	
		iii) comment on the working of the sub committees with the delegation of power, execution, and submission and acceptance of the sub committee proceedings by the Board of Directors.	
	4.2	**Inspections and enquiries**	
	1	Whether any enquiry under section 83/84 or 88 is completed or in prograss by the Registrar.	
	2	Any penelty has been imposed by the Registrar for the breach of the provisions of the M.C.S. Act 1960?	
	3	Complience of Inspections taken by the Financing institute is submitted within stipulated time limit and to the satisfaction of the insepcting authority.	
	4.3	**Internal control and audit**	
	1	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	
	2	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	
	3	Whether internal control is based on the sound priciples and any deficiencies should be commented upon in the audit report.	
	4	Internal audit system of society is satisfactory and consistant and the society has complied the internal audit report withing time limit. State the descripancies noted by the internal auditor but not complied with.	

FORM No. 7

For Housing Societies

PART C

I **1**	**2**	**SOCIETY INFORMATION** **3**	**Particulars to be filled by the auditor** **4**
	1	Name of the Society	
	2	Sub classification of the society	
	A	tenant ownership housing society	
	B	tenant co-partnership housing society	
	C	other housing society	

1	2	3	4
II		**WORKING OF THE SOCIETY**	
		Financial management	
	1	**Government / Financial Institute -Assistance , Loans etc.**	
	1.1	Whether the society has obtained Governemnt Assistance for the construction of the houses/ Flats/ bunglows etc.	
	1.2	State the nature of assistance, amount sanctioned, amount received and utilised and date of submission of utilisation certificate.	
	1.3	State the financial assistance not utilised and remained balance with the society, reasons of non-utilisation and action taken by the society for its utilisation.	
	1.4	If any financial assistance is mis-utilised for the purpose other than its sanction, state the amount, purpose of utilisation and persons responsible for mis-utilisation and modus operandious of mis-utilisation, persons benefited by such amount of financial assistance.	
	A	**Loan from government / government undertakings**	
		Sanctioned amount and date of sanction	
		Amount actually received upto audit period	
		amount utilised upto audit period	
		Amount remained with society for utilisation	
		Date of submission of utilisation certificates and amounts thereof	
		i)	
		ii)	
		iii)	
	B	Other financial assistance from government / government undertakings (Specify) …….	
		Sanctioned amount and date of sanction	
		Amount actually received upto audit period	
		amount utilised upto audit period	
		Amount remained with society for utilisation	
		Date of submission of utilisation certificates and amounts thereof	
		i)	
		ii)	
		iii)	
	2	**Finance from other financial institutions** (individual loans taken by members which is not accounted in the society's books, no comments are required by auditor for the following points)	
	a	Sanctioned amount	
	b	Amount actually received	
	c	amount utilised	
	d	Amount remained with society for utilisation	
	e	State the financial assistance not utilised and remained balance with the society, state the reasons of non-utilisation and action taken by the society for its utilisation.	

1	2	3	4
	f	If any financial assistance is mis-utilised for the purpose other than its sanction, state the amount, purpose of utilisation and persons responsible for mis-utilisation and modus operandious of mis-utilisation persons benefited by such amount of financial assistance.	
	3	Whether the members of the society have availed loan from financial institutions in the personal capacity? Necessary permission from the society has been taken and the charge on the assets of the society has been created state the No. of members and amount of loan and charge on the assests? Verify the register maintained for the same from the information submitted by the members and comments on them in the audit report.	
	4	Whether the loans taken by the society or by the members (in respect of government employees from the government / government undertakings) are repaid in time and verify the overdues and comment thereupon.	
	5	Whether the necessary documents i.e. NOC of the society, mortgage deed, etc. have been executed by the society or members with the financial Institutions or the Government as the case may be. Verify them and comment in audit report.	
	6	Whether the term and conditions laid down by the Financial Institution / Government have been followed by the society/ member or not? If not, comment in the audit report.	
	7	Whether the society has maintained loan register with details of sanction, disbursement, repayment, balance and NOC after full repayment.	
	8	Whether the society has obtained certificate regarding full payment of loan from concerned government department for release of mortgage?	
	3	**Land and construction of the buildings**	
	3.1	**Lands**	
		a. Whether the land is owned by the society, state S.No., Area, city servey No. date of purchase, amount of purchase and amount spent on development of land. State the registration number of purchase deed and date.	
		b. If the land is taken on lease, state the lessor, lease period, lease rent and amount of lease rent paid so far? Verify agreement for lease, comment on registration, terms and conditions of lease. Whether lease register is maintained or not? Whether tri-party agreement is executed for land originally leased by MHADA, HUDCO, CIDCO or any other such authority and sub leased to society?	
		c. If the land belongs to owner and given to developement to the developer, state the owner, developer, agreement of development, its terms and conditions and whether sale deeds are made with members by the developer and owner or as per power of attorny. the auditor should verify the documents and comments in his audit report regarding title of land and building. (whether the society has got the conveyance of land and building).	

1	2	3	4
		d) If the society has purchased land, necessary permission for non agricultural land has been obtained from the competent authority or not? If not comment in audit report.	
	3.2	**Constructions**	
	1	(a) whether the construction has commenced or not and necessary permissions from local authority have been taken or not ?	
		(b) State total number of flats / houses / bunglows / commercial units, out of which are completed, under construction and constructions yet to be commenced.	
		(c) whether flats / houses / bunglows / commercial units are alloted to the members? Whether allotment register is maintained or not? Whether any member is remained unalloted ? What action has been taken against such members as per byelaws ?	
	2	whether building has been constructed on contract basis ? Whether the terms and conditions of the contract are followed ? Verify and comment in audit report.	
	3	whether these contracts are sanctioned by competent authority (AGBM).	
	4	whether tenders have been called by publishing in local newspaper with rates? If the tender is alloted to the contractor other than lowest bid, reasons thereof are given in the proceeding of sanction of tender. Verify and comment in audit report.	
	5	whether the amount paid to the contractor on the basis of progress report by architect or not? Whether the running bills and final bill are taken before payment to the contractor.	
	6	On what terms and conditions, an architect was appointed ? Whether the appointment is permitted by AGBM ?	
	7	Whether there is any breach of terms and conditions by contractors or architects ? Give remarks and state financial impact on the society.	
	8	Whether prior to construction, the society has obtained certificates regarding drainage, water supply, roads and sacntion to final layout.	
	9	Whether society has obtained completion / occupancy certificate from the local authorities / sanctioning authority?	
	10	Whether any changes has been made to the sanctioned plans, approvals are obtained from the competent authority ? If not, comment in audit report.	
	11	Whether buildings and constructions are insured or not?	
4		**Conveyance Deed**	
	4.1	Whether constructions are made by builder / developer and sale agreement are executed with members ?	
	4.2	Whether the land has been transfered to the society by the builder / developer or not ?	
	4.3	Whether for transfer of land in the name of society, conveyance deed has been executed by the builder / developer or not ? If not, what action has been taken for the conveyance ?	

1	2	3	4
5		Reconstruction / Redevelopment of building	
	5,1	Whether AGBM has accorded its approval for redevelopment of the building as per byelaws?	
	5,2	Whether tenders have been invited for redevelopment ?	
	5,3	Whether proposals of redevelopment have been considered by the AGBM with quorum required by byelaws ?	
	5,4	Whether the society has appointed an architect and legal advisor for preparation of redevelopment of plan and scrutiny of tenders received for redevelopment.	
	5,5	Whether agreements have been executed between society and architect / legal advisor ?	
	5,6	Whether comparative study in terms of financial and technical aspects of all proposals has been made ?	
	5,7	State the criterias adopted by the board for approval of proposal out of proposals received.	
	5,8	Whether approval of AGBM has been obtained for the final proposal ?	
	5,9	Whether agreement for redevelopment is executed between the society and developer ? Whether the certified copy of the agreement is available with the society ? Give list of other agreements / documents executed between the society and the redeveloper.	
	5,10	Checkup whether any terms and conditions of redevelopment agreements are prejudicial to the interest of the society and its members. If yes, state the same.	
	5.11	Comment upon progress of reconstruction as per the terms of redevelopment agreement.	
	5.12	Whether there is any breach of terms and conditions of the agreement between the redeveloper and society ? If yes, comment upon the same alongwith its financial impact on society and members.	
	5.13	Whether any member of the society is related with the redeveloper in any way and if yes, whether the interest has been disclosed by the said member to the AGBM ?	
	5.14	Whether the progress of construction is as per the schedule given in the redevelopment agreement ? If not, state the action taken by the society.	
	5.15	Whether necessary permissions from local authority have been taken for redevelopment or not ? If not, comment in audit report.	
	5.16	Whether society has obtained completion / occupancy certificate from the local authorities / sanctioning authority?	
	5.17	Whether any changes have been made to the sanctioned plans, approvals are obtained from the competent authority ? If not, comment in audit report.	
	5.18	Whether buildings and constructions are insured or not?	
	5.19	Whether new members are admitted in process of redevelopment ?	
		If yes, whether procedure for admission of memebrship has been followed or not as per the byelaws ?	

1	2	3	4
6		**Monthly Contribution for maintainence**	
	6.1	Whether the society has decided contribution for maintainence as per byelaws and sanction of AGBM has been taken?	
	6.2	Whether the contribution is according to parameters set in the byelaws and as per directions of the Registrar ?	
	6.3	Whether any amount of such contribution is outstanding and overdue as per byelaws? State the name of the concerned member and amount.	
	6.4	Whether the society has charged and recovered penal interest on the overdue contribution amount.	
7		**Funds management**	
	7.1	Whether the society has provided for sinking fund, repairs and maintainence fund, election fund as per byelaws ?	
	7.2	Whether rules for utilisation of sinking fund and repairs and maintainence fund have been prepared and approved by the AGBM ?	
	7.3	Whether such funds are utilised during the period of audit, necessary permissions have been taken from the competent authority ?	
	7.4	Whether surplus funds are invested as per Act, Rules and byelaws separately or not ? Comment in the audit report.	
8		**Transfer of Flats / Houses / Bunglows by members.**	
	8.1	Whether during the period of audit any transfer of flats / houses / bunglows by memebrs have been taken place ?	
	8.2	While transfering the flats / houses / bunglows, provisions of byelaws has been followed ? If not, comment in the audit report.	
	8.3	Whether any premium / donation has been taken by the society for such transfer is within the limit prescribed by the Government / Registrar.	

FORM No. 8

For Marketing and trading Societies

(Applicable to Marketing, Consumers , Ginning & Pressing, Pooling, cotton producers societies)

PART C

I 1	2	SOCIETY INFORMATION 3	Particulars to be filled by the auditor 4
	1	Name of the Society	
	2	Departments or branches	
		type or business of branchNo. of. Branches	
		Consumer goods section	
		Fair price Shop	
		Medical shops	
		Fertiliser and pesticides sections	

1	2	3	4
		Mannuar mixture and producer section	
		Export goods section	
		super markets or bazars	
		Petorl pumps	
		others (specify)	
II		**Financial Parameters**	
	i	Net worth	
	ii	Accumulated loss	
	iii	Net profit for current year	
	iv	% of dividend declared for current year and last two years	
	v	Borrowing capacity	
	vi	Actual borrowing	
	vii	Debt equity ratio	
	viii	Current ratio	
	ix	Acid Test ratio	
	x	Stock turnover ratio	
	xi	Debtors turnover ratio	
	xii	Government share capital / loan due during current period	
	xiii	government share capital / loan repaid during current period	
	xiv	overdue from sundry debtors for more than 1 year where legal action not taken for recovery	
III		**Working of the Society**	
A		***Manufacturing** (*only in case of production unit to the trading society) **and Business**	
	* 1	**Manufacturing Cost**	
	1.1	State the manufacturing cost productwise and impact of byproducts if any on the main product.	
	1.2	Where the cost of raw material is fixedby mangagement as per accounting policy accepted and accouting standard prescribed by the department.	
	1.3	State the percentage of raw material cost, overhead cost, (fixed and variable both seperately).	
	1.4	State the BEP regarding quantity and amount.	
	1.5	What action plan is implemented by the society to control the cost of production commensuarte to selling price of the product.	
	1.6	State the expences which cost unnecessarly on the cost of production and action taken to reduce the same by the managament of the society.	
	1.7	In case of manuar mixures proper propotionate raw material is mixed by the society and it is according to the fertiliser control order.	
	*2	**Purchase procudure and material Stores for production**	
	2.1	a) Whether the procudure following by the society as approved in the byelaws or directed by the competent authority is with the sound priciple of "Reasonable price and Quality" , if not explain with examples in the audit report.	

1	2	3	4
	2.2	b) Whehter the society has maintained list of approved suppliers, producers, and traders? Limit from purchase them is fixed and adhered to ?	
	2.3	c) Goods received are properly verified for the quality and quantity ordered , and necessary recoreds have been maintained.	
	2.4	d) Goods rejected, returned are property accounted for or not? If accepted such goods discounts received are properly recored or not ?	
	2.5	The comparative statement prepared after receipt of quotations are based on the equal footing or not. If not explain in the audit report.	
	2.6	what is the procedure adopted for requirement of material, whether on the average consumtion method is followed or not ? Give your observations and comment upon it.	
	2.7	Over purchase or under purchase has effected the production ? Give your comments in the audit report.	
	2.8	Store accounts are maintained property with scientifc method or not?	
	2.9	Required levels for purchase such as minimum,maximum, (for both non moving & moving) , reorder level etc. are maintained or not? Comment on it in audit report.	
	2.10	The valuation of the Store is made on the basis of proper accounting standard for it or not? What is the financial impact on the Profit or loss account due to improper valuation? State in the audit report	
	2.11	What is cost of idle / non moving stores with the society, what action has been taken by the society for its disposal.	
	2.12	Obtain the valuation certificate from the management with details of method of valuation and attach it with the audit report.	
	2.13	The society has procedure to take stock taking at periodical intervals or not, when the stock was last counted by the Society? Which deficiencies are noticed and action taken to rectify the society shall be commented in the audit report.	
	2.14	Whether allocations are based on proper accounting standards decided by the society to the concern works, products or not if not state the financial effect on the production cost.	
	*3	**Captive consumptions**	
	3.1	State the quantity used for captive cosumption of products by the society productwise and amount wise, necessary tax set off has been takne by the society or not? How the material used for captive consumtion is valued ? Whether the method of valuation is proper and according to the concerne accounting standard or not? Comment in audit report the effect of defficiencies in the mehods on profit and loss account.	
	*4	**Manufacturing Indicators** (only for manufacutirng unit of the society)	
	4.1	What the production capacity of the societies units and actual achivement ? State the reasons for not achiving the standard production.	

1	2	3	4
	4.2	Losses in manufacturing are within the limit prescribed by the competent authority or not. Give reasons for short fall with effect on profit and loss account due to losses ? Are they business lossses or damages? Losses are due to neglegence of management or due to natural calamities? Comment in the audit report.	
	*5	**Engineering Section**	
		Comment in audit report regarding -	
	5.1	a) Losses on variaous reasons like mechanical defects.	
		b)	
		c)	
		d)	
		i) daily crushing / production capacity	
	5.2	ii) efficiency in use of fuel	
		iii) other technical aspect as per techincal report prepared by the section.	
		iv) programme of periodic repairs and maintence is properly sheduled and observed.	
	*6	**Production Section**	
	6.1	State the annual production capacity, its utilisation, stoppeges, reasons for stoppeges, properness of stoppeges with standard norms,and finacial effects of the stoppeges.	
	6.2	State total production of finished goods.	
	6.3	State the by-products generated if any and percentage to the raw material.	
	6.4	Cost of byproducts and main products per unit of production.	
	6.5	period of production.	From to
	*7	**BY PRODUCTS**	
	7.1	State the various byproducts (if any) and there cost of production, sales and profit or loss.	
	7.2	Whether the method of valuation of byproducts is proper and according to the accounting standards?	
	7.3	State the method of valuation of finished products, raw material and work in progress.	
	7.4	State the contribution of byproducts to net or gross profit or loss.	
	*8	**PRODUCTIONS**	
	8.1	Wheter separte records have been maintained for such units and updated ?	
	8.2	State the unitwise production, production cost, raw material consumed, stocks, captive consumptions, valuation method, and profit or loss of the unit and comment on its proper and trueness.	
	*9	**RAW MATERIAL**	
	9.1	State whether purchases of raw material is made at competative rates.	
	9.2	State whether method followed for purchase of raw material is satisfactory.	

1	2	3	4
	9.3	Whether necessary opinion of competent authority is taken regarding quality of raw material.	
B		**Constructions and erections**	
	1	See the constructions of various buildings, machinery plants, sheds, houses and other are duly processed regarding calling of tenders from the approved contractors, preparing proper estimates, sanctioning from competent authority, revision of estimates, sanctioning the contracts, utilisation of funds for such purposes as sanctioned by the competent authority, reasons for variation in estimates and actual expediture etc.	
	2	Proper proceedure laid down in the byelaws and directed by the competent authority has been follwed while awarding contracts of construction and erections.	
	3	State the advances outstanding from the contractors and action initiated against them for non recovery of advances.	
	4	Wheter penel action has been taken against the contractors not completing the works within time shedule prescribed in the contract deed as per terms and conditons.	
	5	Whether the accounting standard for constructions has been follwed while accouting such constructions on various stages ?	
	6	Whether the quality of construction has been verified by the architect, engineers appointed for the same? Any deficiencies and effect on financial estimates should be commented upon in the audit report.	
	7	Any material supplied such as cement, steel, etc., by the society as per contract deed is proper in quantity, and amount. Any variation should be commented upon in the audit report.	
	8	Proper aportionment of exependiture in Revenu and Capital expenditure has been made as per Accouting standard.	
C		**Revaluation of Assets**	
	1	Whether the society has revalued its assets? If so, State the amount of original value of assets, value after revaluation, capital reserve, and rate of depreciation ? Proper accounting has been made as per accounting standard or not ? If not comment in audit report regarding financial effects on financial Statements.	
D		**Anxilary Activities**	
	1	**Other activities**	
		State the other activities as per byelaws undertaken by the society for fulfilment of its object?	
E		**Selling procedure**	
	1	**Main and by products**	
	1.1	State the selling procedure adopted by the society for main products and comment on its effectivenes to earning capacity and properness as per guidelines issued by the competent authority.	
	1.2	Whether the selling procedure as per decided by the policy framed by the Board of Director.	

1	2	3	4
	1.3	State the selling procedure adopted by the society for by products and comment on its effectivenes to earning capacity, and properness as per guidelines issued by the competent authority.	
	1.4	Whether the sales are effected on cash / DD basis or on credit basis? If Credit sales are allowed proper contracts have been signed by the obligators and they are scruplosely followed.Whether the bylaws or any order from the Registrar permits credit sales if not comment on it and loss of interest, terms and conditions etc.	
	1.5	State the outstanding amounts of credit sales and period thereof; necessary provision has been made for overdue amounts.	
	2	**Consumer goods business**	
	2.1	Is the society doing any business to procure in wholesale and store conusmer goods for supply on wholsale or retail basis to consumer members and other consumers ? Give details	
	2.2	State the value of purchases made directly from the manufacturers of the specified essential commodities	
	2.3	Are there any cases in which the Managing Committee members have taken advanctage ;of fluctuations of market prices and made any transactions harmful to the society?	
	2.4	Is the system of price fixing foolwed and retial prices fixed in accrodance with the resolutions passed by the Managing committee or any other subcommittee appointed for the purpose?	
G		**Finance Management**	
	1	**Borrowings**	
	1.1	What are the amount of loan and credit limits sanctioned by the financing Bank under various purposes.	
	1.2	Operations of the various credit limits are satisfactory and repayments are made in due course ? State the amounts of overdue if any and period thereof.	
	1.3	Discuss in brief regarding terms and conditions of various credits, which are not fulfilled.	
	1.4	Whether the credits sanctioned for specific purpose is utilised for the same purpose? If not discuss in brief in audit report.	
	1.5	State the credits sanctioned for infrastructure like godowns, building, processing untis, cold storages etc. whether repayments are satisfactory, state the amount of overdues if any.	
	2	**Own Funds**	
	2.1	Are funds created out of profit as per provisions of the Act, Rules and byelaws ?	
	2.2	Wheter Reserve fund is invested outside its business seperately as per Rule 54 ? If not state reasons.	
	2.3	Whether the charity fund is created out of profit and utilisated as per Rule 69 of the Act?	
	2.4	Whether the Building fund and other funds created out of profit are properly used as per rules framed for them ? If not discuss in brief in the audit report.	

1	2	3	4
	2.5	Whether the byelaws provides any other fund from the appropriation of profits and accordingly the provision of the fund is created in appropriation of profit.	
	3	**Funds created by charging P/L account and Provisions?**	
	3.1	Whether the society has created investment flactuation fund and it is adequate ?	
	3.2	Whether the society has provided for the Bad and doubt ful debts and amounts as per guidelines issued by Registrar and necessary provision is made for the overdue interest reserve ? State the short fall in provisioning with reasons? Necessary disclouser has been given in the annual report regarding provision for this purpose.	
	3.3	Whether the necessary provisions have been made as per Section "65" and Rule "49 A" of the Cooperative societies Act 1960 and Accounting Standards accepted by the society.	
	3.4	Provisions for the Staff Gratuity and Providenf fund have been made and investments thereof is made according to rules framed by the society. State Short fall in the provisions with effect on profit and loss account.	
	4	**Deposits**	
	4.1	Whether the society has accepted non refundable deposits from the producers members and non members. Necessary permissions have been taken by the society for accepting deposits as per byelaws.	
	4.2	whether the society has accepted refundable deposits from the members and non members . Necessary permissions have been taken by the society for accepting deposits as per byelaws. Such deposits are repaid on due date or not, state the amount due but not paid by the society, and provision made by the society for such repayment with interest.	
	5	**Budgetery Control**	
	5.1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	
	5.2	Is the expenditure on various items within budget limits?	
	5.3	Are reappropriations approved by the AGBM. Comment on variation with reasons thereof.	
	6	**Insurance**	
	6.1	Whether the society has adequately insured all assets, machinery, stocks, and other assets from the company as directed by the Government? Whether the insurance claimes have been preferred as per terms and conditions of policy.	
	6.2	Whether the insurance for cash and cash in transit have been taken and insurance for personal accidents have been taken.	
	6.3	Whether the society has maintained insurance claim register?	
	7	**Expenditure**	
	7.1	Whether the expenditures are got sanctioned by the board time to time and also sanctioned by the AGBM.	

1	2	3	4
	7.2	Expain in audit report regarding expenditure not related with business of the society. And expenditure related to section 71 A of the M.C.S. Act.	
	8	**Outstanding dues and amounts**	
	8.1	State the overdue amounts under heading sundry debtors, credit sales and other outstanding , advances, (quote amounts outstanding for more than 6 months)	
	8.2	State the action taken for the recoveries of the above amounts with details in regards amounts involved, no. of debtors, details of action, notices, awards, decrees etc.	
	8.3	State the decrees executed and amount recoverd during audit period? And exenditure is being recoved from the concerned.	
	8.4	**Net worth and other financial parameters**	
	8.5	State the Net worth of the society as on 31/3 of the financial year, as provided in the section of the M.C.S. Act and rules? And guidelines issued by the Cooperation department.	
	8.6	State the book value of the societies share capital as on 31/3 and reasons for declining the book value than face value.	
	9	**Investments**	
	9.1	Whether investment register is mantained properly ?	
	9.2	Whether investment is as per Section 70 of MCS Act 1960 as amended by amendment Act 2013 ?	
	9.3	Whether interest on investment is received in time ?	
	9.4	Whether there are any deposits / certificates which are matured but not encashed ?	
H		**Managaement**	
	1	**Meetings and proceedings**	
	1.1	i) State the meeting of board of directors are held within stipulated time in byelaws (say 1 month, two month as stated in bylaws) and the proceedings are written upto date or not?	
	1.2	ii) Read the minutes of Board of Directors, sub committees, and AGBM and state the decisions which are contrarary to the Act, Rules and byelaws and against the interest of the society and its members.	
	1.3	iii) comment on the working of the sub committees with the delegation of power, execution, and submission and acceptance of the sub committee proceedings by the Board of Directors.	
	2	**Inspections and enquiries**	
	2.1	Whether any enquiry under section 83/84 or 88 is completed or in progress by the Registrar against the society.	
	2.2	Is any penelty has been imposed by the Registrar for the breach of the provisions of the M.C.S. Act 1960?	
	2.3	Complience of Inspections taken by the Financing institute is submitted within stipulated time limit and to the satisfaction of the insepcting authority.	

1	2	3	4
	3	**Internal control and audit**	
	3.1	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	
	3.2	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	
	3.3	Whether internal control is based on the sound priciples and any deficiencies should be commented upon in the audit report.	
	3.4	Whether Internal audit system of society is satisfactory and consistant and the society has complied the internal audit report withing time limit. State the descripancies noted by the internal auditor but not complied with.	

FORM No. 9

For Animal Husbundries and dairy Societies

(Applicable to Dairy, fisheries, piggaries, poultyform, Dhoodh utpadak sangh, Macchimar sangh and other animal husbundiry federal societies)

PART C

I 1	2	SOCIETY INFORMATION 3	Particulars to be filled by the auditor 4
	1.1	Name of the Society.	
2		**WORKING OF THE SOCIETY**	
	2.1	**Financial Parameters**	
	i	Net worth	
	ii	Accumulated loss	
	iii	Net profit for current year and net profit for previous two year	
	iv	% of dividend declared for current year and previous two years	
	v	Borrowing capacity	
	vi	Actual borrowing	
	vii	Government share capital / loan due during current period	
	viii	Government share capital / laon repaid during current period	
	ix	Amount of sundry debtors outstanding for more than 1 year but no legal action for recovery is taken	
3		**FINANCE MANAGEMENT**	
	3.1	**Borrowings**	
	1	What are the amount of loan and credit limits sanctioned by the financing Bank / Institutes for various purposes.	
	2	Whether operations of the various credit limits are satisfactory and repayments are made in due course ? State the amounts of overdue if any and period thereof .	
	3	Discuss in brief regarding terms and conditions of various credits, which are not fulfilled.	
	4	Whether the credits sanctioned for specific purpose is utilised for the same purpose? If not discuss in brief in audit report.	

1	2	3	4
	5	State the credits sanctioned for infrastructure like godowns, building, processing units, cold storages etc. whether repayments are satisfactory, state the amount of overdues if any.	
	6	Whether the society has exceeded borrowing limit as per Section 35 and Byelaws of the society. If yes, necessary permissions are obtained from the Registrar.	
	3.2	**Own Funds**	
	1	Whether funds are created out of profit as per provisions of the Act, Rules and byelaws ?	
	2	Whether Reserve fund is invested outside its business seperately as per Rule 54 ? If not, state reasons.	
	3	Whether the charity fund is created out of profit and utilisated as per Rule 69 of the Act?	
	4	Whether the Building fund and other funds created out of profit are properly used as per rules framed for them ? If not discuss in brief in the audit report.	
	5	Whether the byelaws provides any other fund from the appropriation of profits and accordingly the provision of the fund is created in appropriation of profit.	
	6	Funds created by charging to P/L account and Provisions?	
	7	Whether the society has created investment fluctuation fund and is it adequate ?	
	8	Whether the society has provided for the Bad and doubtful debts and amounts as per guidelines issued by Registrar and necessary provision is made for the overdue interest reserve ? State the short fall in provisioning with reasons? Necessary discloser has been given in the annual report regarding provision for this purpose.	
	9	Whether the necessary provisions have been made as per Section "65" and Rule "49 A" of the Cooperative societies Act 1960 and Accounting Policies accepted by the society.	
	10	Provisions for the Staff Gratuity and Provident fund have been made and investments thereof is made according to rules framed by the society. State Short fall in the provisions with effect on profit and loss account.	
	3.3	**Deposits**	
	1	Whether the society has accepted deposits from the members and non members? Necessary permissions have been taken by the society for accepting deposits as per byelaws.	
	2	Whether there are any deposits which are matured but not refunded. If yes, state the amount of such deposit and reasons for non payment.	
	3.4	**Budgetery Control**	
	1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	
	2	Is the expenditure on various items are within budget limits?	

1	2	3	4
	3	Whether reappropriations are approved by the AGBM. Comment on variation with reasons thereof.	
	3.5	**Insurance**	
	1	Whether the society has adequately insured all assets, machinery, stocks, and other assets from the insurance company (Vima Nidhi) as directed by the Government? Whether the insurance claims have been preferred as per terms and conditions of policy.	
	2	Whether the insurance for cash and cash in transit have been taken and insurance for personal accidents have been taken.	
	3	Whether the society has maintained insurance claim register?	
	3.6	**Expenditure**	
	1	Whether the expenditures are got sanctioned by the board time to time and also sanctioned by the AGBM.	
	2	State in audit report regarding expenditure not related with business of the society and expenditure related to Section 71 A of the M.C.S. Act.	
	3.7	**Outstanding dues and amounts**	
	1	State the overdue amounts under heading sundry debtors, credit sales and other outstanding , advances, (quote amounts outstanding for more than 6 months).	
	2	State the action taken for the recoveries of the above amounts with details in regards amounts involved, no. of debtors, details of action, notices, awards, decrees etc.	
	3	State the decrees executed and amount recoverd during audit period? And exenditure is being recovered from the concerned defaulter.	
	3.8	**Net worth and other financial parameters**	
	1	State the Net worth of the society as on 31/3 of the financial year, as provided in the section of the M.C.S. Act and Rules? And guidelines issued by the Cooperation department.	
	2	State the book value of the share capital of the societies as on 31/3 and reasons for declining the book value than face value.	
4		**MANAGAEMENT**	
	4.1	**Meetings and proceedings**	
	1	State the number of meetings of board of directors are held within stipulated time in byelaws? Whether the proceedings are written upto date or not?	
	2	Read the minutes of Board of Directors, sub committees, and AGBM and state the decisions which are contrarary to the Act, Rules and byelaws and against the interest of the society and its members.	
	3	comment on the working of the sub committees with regard to delegation of power, execution, submission and acceptance of the sub committee proceedings by the Board of Directors.	
	4	Whether the proceedings of sub committees are updated ?	

1	2	3	4
	5	In case of printed proceedings, verify that there is no change after printing and authenticated by the Manager and Chairman regarding authentication. Verify that the printed proceedings are pasted in bound book and duly sealed.	
	4.2	**Inspections and enquiries**	
	1	Whether any enquiry under section 83/84 or 88 is completed or in progress by the Registrar against the society.	
	2	Is any penalty has been imposed by the Registrar for the breach of the provisions of the M.C.S.Act 1960?	
	3	Complience of Inspection taken by the Financing institute is submitted within stipulated time limit and to the satisfaction of the insepcting authority.	
	4	Any inspection under Section 89 A or otherwise conducted by the department, if yes, whether satisfactory compliance has been submitted by the society.	
	4.3	**Internal control and audit**	
	1	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	
	2	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	
	3	Whether internal control is based on the sound principles and any deficiencies should be commented upon in the audit report.	
	4	Whether Internal audit system of society is satisfactory and the society has complied with the internal audit report within time limit. State the descripancies noted by the internal auditor but not complied with.	
	4.4	**Government aids**	
	1	State the Government aids recived by the society by way of Share Capital, management subsidy, diesel subsidy, guarantee and loans for capital infrasturcture etc.	
	2	State whether the aids received for the purpose is utilised for the same purpose, comment on deviation if any in audit report.	
5	**A**	**Business of the Society (for primary dairy society)**	
	5.1	**Milk Procurement and supply**	
	1	Whether there is sufficient system for milk collection and testing of fat and other related matters.	
	2	State the minimum percentage of fat required for the purchase of milk and the members supplying the milk are acknowledged for the same.	
	3	State the number of collection centers and the members supplying milk to the society.	
	4	State the milk supplied by the society to the Governement collected from - Members Non- members	

1	2	3	4
	5	State the quantity of milk supplied to the federal socity (Taluka sangh, District sangh or any other federal society, name it)	
	6	State the quantity of milk supplied to the Consumers directly.	
	7	State the amount of commission and transportation cost received from the federal society for supply of milk.	
	5.2	**Milk Transportation**	
	1	Whether the society owns milk vans for transportation? If yes, logbooks have been maintained by the society? Verify on test basis and comment.	
	2	Whether proper depreciation has been charged on the vehicles as per standard accouting policy adopted by the society?	
	3	If society does not owns milk vans what arrangment have been made by the society? Necessary records of such have been maintained? What is the cost of such transportation? Whether agreements for such transportation have been made?	
	B	**BUSINESS OF THE SOCIETY(for federal sangh and dairy society)**	
	5.3	**Milk Procurement and supply**	
	1	Whether there is sufficient system for milk collection, storeges and testing of fats and other related matters.	
	2	State the minimum percentage of fat required for the purchase of milk and the member societies supplying the milk are acknowledged for the same.	
	3	State the number of collection centers and member societies supplying milk to the federal society - a) within area of operation	
		b) outside area of operation	
		State the collection of milk from -	
		a) Affliated societies	
		b) other societies	
		c) individual members	
		d) non members	
		e) other specify	
	4	State the quantity and amount of milk sold by the society to the -	
		a) Government milk scheme	
		b) schools and colleges	
		c) hospitals	
		d) other consumers	
	5	State the amount of commission and transportation cost received from the Government milk scheme and others for supply of milk.	
	6	Verify the price fixation method of society for milk supplied to it. Whether it is proper and based on cost of procurement and other related costs?	
	7	Whether any milk is curdled while supplying ? State the quantity and cost of such milk? Whether proper action has been taken for such losses? Whether the committee has approved such losses with proper reasons ther of?	

1	2	3	4
	8	Whether proper books have been maintained for milk purchase and consumable required for it?	
	5.4	**Milk Transportation**	
	1	Whether the society owns milk vans for transportation? If is necessary logbooks have been maintained by the society? Verify on percent basis and comment.	
	2	Whether proper depreciation has been charged on the vehicles as per accouting policy consistantly adopted by the society?	
	3	If society does not owns milk vans what arrangment have been made by the society? Necessary records of such have been maintained? What is the cost of such transportation? Agreements for such transportation have been made?	
	5.5	**Other Business**	
	1	Whether the sangh/ society is providing cattle feeds for the live stock? if yes, state the quantitive details with amount of purchase, sale, stock and profit or loss in this business.	
	2	Whether the society has maintained the proper books of stocks for such cattle feeds.	
	3	Whether the sangh/ society is producing other products from the milk, such as butter, cheese, shrikhand etc., State the qunatity of such products, milk and other material utilised for such, the cost of production and selling price fixed for the products, profit earned from the business. Whether such profit has been passed on by way of addition to milk rate to the milk suppliers?	
	4	Whether the society is having pastaurisation and chilling plant for milk. If yes, state the maintainence cost of such machinery.	
	5	Whether packing material is purchased by following laid down procedure by the concerned Government authorities from the concerned department? Is stock have been maintained ? Comment on purhcase procedure in the audit report.	
	6	Verify the technical reports of the officers of the society for various products and machinery.	
	7	Comment on the capacity utilisation of machineries and verify the performance of machineries with regard to-	
		a) Process cost and process losses	
		b) Use of fuel	
		c) Stoppages on various reasons	
		d) Periodic maintainence	
		e) Depreciation charged	
	8	State the quantity and amount for consumption of stores / spares, tool and tackles and packing materials etc. with proportionate to production.	
	9	Cold Storage - Whether society has facility of cold storage? Whether society has facility for transporation of milk from the centers to cold storage? If yes, state the quantity of ice used for transportation and its properness.	

1	2	3	4
	5.6	**Live Stocks**	
	1	State the number of live stock with the society for milk supply?	
	2	Whether the society has properly insured the live stock?	
	3	Whether the live stock is medically examined by the veternary doctor? Whether the live stock is maintained in proper physical healthy condition?	
	4	Verify the actual live stock with the stock registers maintained by the society.	
	5	Verify the consumption of cattle feed for live stock and its properness.	
	6	Verify the milk collected from live stock.	
	7	Whether necessary accouting is made on the basis of revaluation and addition / deletion on birth and death of animals.	
	5.7	**Business (for fisheries societies)**	
	1	Whether the society has undertaken the business of supply of necessary goods for the business as per objects of the society.	
	2	State the quantity and amount of such supply to the members by the society?	
	3	Whether such goods are supplied as per demands from the members / society members.	
	4	Whether the society has purchased the goods on its own responisbility and is authorised to do such business as per byelaws.	
	5	Whether such goods are purchased from the federal society, state the quantity and amount of such purchase. If it from the open market. State the quantity and amount of such purchase.	
	6	Whether the society has followed proper purchase procedure laid down in the byelaws and directions issued by the competent authority. Comment in the audit report regarding purchase procedure .	
	7	Whether the society has undertaken the business of supply of necessary goods as a agent then, state the amount of commision earned by the society.	
	5.8	**Purchase of seedlings**	
	1	Whether the society has purchased seedlings as per provision in the byelaws.	
	2	Whether the society has called tender for the seedlings and accordingly purchased it. Whether the proper procedure has been follwed by the society as laid down by the competent authorities.	
	3	State the quantity and amount of such purchases. Whether the society has maintained the list of suppliers for the same and decision is taken by the committee appointed for the same.	
	4	Whether the society has paid advances for such supply, state the amount outstanding and action taken for the recovery of such amounts. Whether the society has fixed limits for purchases and it is adhered to.	
	5	State the mortality percentage of such seedlings upto supply to members.	

1	2	3	4
	6	Whether the society has provided advances to its members within the limits prescribed in the byelaws and necessary documents as loan bonds etc., have been taken from them. State the amount of overdues and action taken for recovery of overdues.	
	5.9	**fishing tanks**	
	1	State the no. of fishing tanks available with the society?	
	2	Whether they have been taken on rent from the private persons or local authorities? State the annual value of rent paid, payble to them.	
	3	Whether the society has taken proper care for production of fish from the tanks and what procedure has been adopted by the society for such production.	
	5.10	**Fishing boats**	
	1	Whether the society owns fishing boats? State :-	
		a) boats owned by society	
		b) boats owned by members	
		c) automised (mechanically equipped) boats owned by	
		i) society	
		ii) members	
	2	Whether the society has framed rules for leting out the boats? If yes whether there is any breach of rules.	
	3	State the amount of rent received, recevibale from the members and others	
	4	State the outstanding overdue amount of rent and action taken for the recovery of the same.	
	5.11	**Sale of products**	
	1	Whether society sales the fish and other material required for business on credit ?	
	2	Whether any sales amount is outstanding? State overdue amount. What action has been taken for the recovery of the overdue amount?	
	3	What arrangment has been made by the society for the sales of fish.	
	4	What is the amount of profit earned by the society from the sales?	
	5	Whether the federal society has given any rebate on the sale? State the amount of such rebate.	
	6	State the price fixing method for sale of fish.	
	6	State the amount of export sale of fish by the society.	
	5.12	**Closing stock**	
	1	Whether the society has maintained stock registers for various goods supplied by the society?	
	2	What is the method of valuation of stock? Whether the valuation of the stock has been done by the society as per AS 2(Valuation of inventories) ?	

1	2	3	4
	3	Whether shortages are accounted for by the society? State the amount of shortages. Whether shortages are approved by the magaging committee?	
	5.13	**Vehicles and boats**	
	1	Whether the society has purchased boats and vehicles for fishing and transportation? If yes, whether logbooks have been maintained?	
	2	Whether necessary permission from the competent authority has been taken for such purchases?	
	3	Whether the society has framed rules for use of boats and vehicles? If yes, whether there is any breach of rules.	
	4	Whether duty slip is prepared by the authorised officer for the use of vehicles and boats?	
	5	Whether the proper accounts of oil, petrol, spares have been maintained by the society? Whether sanction has been accorded by the managing committee for such expenses?	
	6	Whether depreciation is charged as per policy adopted by the committee as per accouting standard?	
	5.14	**Business of the Society (for hatcharies society)**	
	1	State the number of hens, and other birds maintained by the society.	
	2	State the number of eggs produced.	
	3	Whether the society has maintained registers for the birds.	
	4	Whether the society has supplied birds to the members for supply of eggs. State number of eggs supplied by the members to the society.	
	5	Whether the society has financed to the members for purchase of birds? If yes, state the amount of outstanding, overdue, action taken for recovery etc., in the audit report.	
	5.15	**Haching and rearing**	
	1	Whether the society has haching and rearing center? State the number of birds produced at that centers.	
	2	Whether the society has produced birds from incubater machines, state the number of such birds.	
	3	State the number of incubater machines purchased by the society and loan availed for the purchase of machine?	
	4	State the capacity of the incubater machines, utilised capacity and idle time, reasons for non utilisation of capacity etc.	
	5	State the amount and quantity of feeds purchased for the birds by the society.	
	5.16	**Sale of birds and eggs**	
	1	State the production of birds and eggs by the members and supplied to the society.	
	2	Whether the selling price is fixed on the proper norms or not?	
	3	Whether the society has opened centers for sale of products *i.e.* birds and eggs.	
	4	Whether the sale centers are earning profit to meet their all costs.	

1	2	3	4
	5	State the percentage of mortality and damages to birds and eggs and cost thereof.	
	6	What care has been taken by the society to reduce mortality of the birds.	
	7	State the sales amount of birds.	
	5.17	**Business of the Society (for piggeries society)**	
	1	Whether the society has maintained registers for various types of pigs. State the total number of pigs.	
	2	State the opening, closing, expired and sold pigs with amount there of.	
	3	Whether the member breeds pigs and sale them through the society.	
	4	Whether the sheds are constructed for the pigs ? State the cost of sheds, borrowings for the same, repayment there of and balance of borrowing with details of financing agency.	
	5	Whether the society has insured the sheds.	
	6	Whether the society has purchased / rented/ leased any land for the pigs breeding ?	
	7	Verify the lease deeds, purchase deeds and comment upon regarding title of the land and terms and conditions of let outs, lease deeds.	
	8	Whether the society produces any feeds for the pigs? If yes, state the quantity and cost of such feeds.	
	9	Whether the society supplies the pigs feeds to the members? State the quantity supplied and amount, amount outstanding and overdue from them. State the action taken by the society for the recovery of overdues.	
	10	State the medical expenses incurred on the health maintenance of the pigs during the audit period.	
	5.18	**Sale of pigs**	
	1	Verify the system of fixing selling price of the pigs, whether it covers all cost of production.	
	2	State the selling price and number of pigs sold to various customers. State whether the society has sold meat in packed form or pigs directly ?	
	3	Whether the society exports hairs of the pigs ? State the quantity, and amount of export. Whether the society also sales it in local market, state quantity and amount.	
	4	State losses caused to the society in products due to various reason and whether the management of society has approved the losses ?	
	5	Whether the society has machinery to produce meat. State the quantity and amount of such product, and selling price?	

FORM No. 10

For other Societies

(Applicable to all societies, which are not included in form No. 3 to 9)

PART C

I 1	 2	SOCIETY INFORMATION 3	Particulars filled by the auditor 4
	1.1	Name of the Society	
2		**WORKING OF THE SOCIETY**	
	2.1	**Financial Parameters**	
	i	Net worth	
	ii	Accumulated loss	
	iii	Net profit for current year and net profit for previous two year	
	iv	% of dividend declared for current year and previous two years	
	v	Borrowing capacity	
	vi	Actual borrowing	
	vii	Government share capital / loan due during current period	
	viii	Government share capital / laon repaid during current period	
	ix	Amount of sundry debtors outstanding for more than 1 year but no legal action for recovery is taken	
3		**FINANCE MANAGEMENT**	
	3.1	**Borrowings**	
	1	What are the amount of loan and credit limits sanctioned by the financing Bank / Institutes for various purposes.	
	2	Whether operations of the various credit limits are satisfactory and repayments are made in due course ? State the amounts of overdue if any and period thereof.	
	3	Discuss in brief regarding terms and conditions of various credits, which are not fulfilled.	
	4	Whether the credits sanctioned for specific purpose is utilised for the same purpose? If not discuss in brief in audit report.	
	5	State the credits sanctioned for infrastructure like godowns, building, processing units, cold storages etc. whether repayments are satisfactory, state the amount of overdues if any.	
	6	Whether the society has exceeded borrowing limit as per Section 35 and Byelaws of the society. If yes, necessary permissions are obtained from the Registrar	
	3.2	**Own Funds**	
	1	Whether funds are created out of profit as per provisions of the Act, Rules and byelaws ?	
	2	Whether Reserve fund is invested outside its business seperately as per Rule 54 ? If not, state reasons.	
	3	Whether the charity fund is created out of profit and utilisated as per Rule 69 of the Act?	

1	2	3	4
	4	Whether the Building fund and other funds created out of profit are properly used as per rules framed for them ? If not discuss in brief in the audit report	
	5	Whether the byelaws provides any other fund from the appropriation of profits and accordingly the provision of the fund is created in appropriation of profit.	
	6	Funds created by charging to P/L account and Provisions?	
	7	Whether the society has created investment fluctuation fund and is it adequate ?	
	8	Whether the society has provided for the Bad and doubtful debts and amounts as per guidelines issued by Registrar and necessary provision is made for the overdue interest reserve ? State the short fall in provisioning with reasons? Necessary discloser has been given in the annual report regarding provision for this purpose.	
	9	Whether the necessary provisions have been made as per Section "65" and Rule "49 A" of the Co-operative societies Act 1960 and Accounting Policies accepted by the society	
	10	Provisions for the Staff Gratuity and Provident fund have been made and investments thereof is made according to rules framed by the society. State Short fall in the provisions with effect on profit and loss account.	
	3.3	**Deposits**	
	1	Whether the society has accepted deposits from the members and non members? Necessary permissions have been taken by the society for accepting deposits as per byelaws.	
	2	Whether there are any deposits which are matured but not refunded. If yes, state the amount of such deposit and reasons for non payment.	
	3.4	**Budgetery Control**	
	1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	
	2	Is the expenditure on various items are within budget limits?	
	3	Whether reappropriations are approved by the AGBM. Comment on variation with reasons thereof.	
	3.5	**Insurance**	
	1	Whether the society has adequately insured all assets, machinery, stocks, and other assets from the insurance company (Vima Nidhi) as directed by the Government? Whether the insurance claims have been preferred as per terms and conditions of policy.	
	2	Whether the insurance for cash and cash in transit have been taken and insurance for personal accidents have been taken.	
	3	Whether the society has maintained insurance claim register?	
	3.6	**Expenditure**	
	1	Whether the expenditures are got sanctioned by the board time to time and also sanctioned by the AGBM.	

1	2	3	4
	2	State in audit report regarding expenditure not related with business of the society and expenditure related to Section 71 A of the M.C.S. Act.	
	3.7	**Outstanding dues and amounts**	
	1	State the overdue amounts under heading sundrydebtors, credit sales and other outstanding, advances, (quote amounts outstanding for more than 6 months).	
	2	State the action taken for the recoveries of the above amounts with details in regards amounts involved, No. of debtors, details of action, notices, awards, decrees etc.	
	3	State the decrees executed and amount recoverd during audit period? And expenditure is being recovered from the concerned defaulte.	
	3.8	**Net worth and other financial parameters**	
	1	State the Net worth of the society as on 31/3 of the financial year, as provided in the section of the M.C.S. Act and Rules? And guidelines issued by the Co-operation department.	
	2	State the book value of the share capital of the societies as on 31/3 and reasons for declining the book value than face value.	
4		**MANAGAEMENT**	
	4.1	**Meetings and proceedings**	
	1	State the number of meetings of board of directors are held within stipulated time in byelaws? Whether the proceedings are written upto date or not?	
	2	Read the minutes of Board of Directors, sub committees, and AGBM and state the decisions which are contrarary to the Act, Rules and byelaws and against the interest of the society and its members.	
	3	Comment on the working of the sub committees with regard to delegation of power, execution, submission and acceptance of the sub committee proceedings by the Board of Directors.	
	4	Whether the proceedings of sub committees are updated ?	
	5	In case of printed proceedings, verify that there is no change after printing and authenticated by the Manager and Chairman regarding authentication. Verify that the printed proceedings are pasted in bound book and duly sealed.	
	4.2	**Inspections and enquiries**	
	1	Whether any enquiry under section 83/84 or 88 is completed or in progress by the Registrar against the society.	
	2	Is any penalty has been imposed by the Registrar for the breach of the provisions of the M.C.S.Act 1960?	
	3	Complience of Inspection taken by the Financing institute is submitted within stipulated time limit and to the satisfaction of the inspecting authority.	
	4	Any inspection under Section 89 A or otherwise conducted by the department, if yes, whether satisfactory compliance has been submitted by the society.	

1	2	3	4
	4.3	**Internal control and audit**	
	1	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	
	2	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	
	3	Whether internal control is based on the sound principles and any deficiencies should be commented upon in the audit report.	
	4	Whether Internal audit system of society is satisfactory and the society has complied with the internal audit report within time limit. State the descripancies noted by the internal auditor but not complied with.	
5		**BUSINESS OF THE SOCIETY**	
	5.1	State the objects of the society in brief as per byelaws.	
	5.2	Whether the society has undertaken the business as stated in the objects in byelaws.	
	5.3	Give details of business done by the society, its achivement, profitability and performance ability during the period of audit.	
	5.4	Comment in the general remarks in audit report regarding societies business achivements.	

FORM No. 11

For Sakhar Sangh, Spinning Mill Federation & Handloom Powerloom Federation

Note : The query not applicable to any type of society shall be mentioned with remarks "not applicable"

Sr. No.		SOCIETY INFORMATION	Particulars to be filled by the auditor
1	2	3	4
	1.1.	Name of the Society.	
	1.2.	Nature of Federal Society.	
2		**WORKING OF THE SOCIETY**	
	2.1	Affilation of the societies.	
	2.2	State the number of societies affiliated to the federal society.	
	2.3	Proper procedure has been followed for affiliation of the society during the audit period as per byelaws.	
	2.4	State the subscription collected from the affiliated societies during the audit period, outstanding balance and overdues, amount if any.	
	2.5	State the recovery procedure adopted for recovery of overdue subscriptions and proper accounts are maintained or not.	
3		**Purchase procedure**	
	3.1	Whether the purchase procudure is followed by the federal society on behalf of member societies as provided in the byelaws or as directed by the competent authority.	See remarks in audit report paraghraph No --. Page No. --.
	3.2	Whether the purchase procedure is in line with the sound principle of "Reasonable price and Required Quality", if not explain with examples in the audit report.	

1	2	3	4
	3.3	Whether the federal society has maintained list of approved suppliers, producers, and traders? Whether the limit of purchase from them is fixed and adhered to ?	
	3.4	Goods received are properly verified for the quality and quantity ordered, and necessary records have been maintained by federal society and documents are handed over to the member society.	
	3.5	Goods rejected, returned are properly accounted for or not? If such sub quality or goods with different specifications are accepted, then whether the rates are suitably amended or not? ; or action has been taken against the suppliers by the federal society.	
	3.6	Wherever the purchase procedure as directed by the Cooperation Department is followed for the financial limit fixed by the department. If not, explain with examples in audit report. (Such as Machinery purchase, Lift irreigation schemes etc.)	See remarks in audit report paraghraph No --. Page No. --.
	3.7	The comparative statement prepared after receipt of quotations are based on the proper technical and financial parameter or not. If not, comment in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
4		**Constructions and erections of machinery**	
	4.1	See the contracts for constructions of various buildings, machinery plants, sheds , houses and other are duly processed by the federal society on behalf of member societies, if so authorised.	See remarks in audit report paraghraph No --. Page No. --.
	4.2	Proper procedure regarding calling of tenders from the approved contractors, preparing proper estimates, sanctioning from competernt authority, revision of estimates, sanctioning the contracts, utilisation of funds for such purposes as sanctioned by the competent authority, reasons for variation in estimates and actual expenditure etc. are followed by the federal society.	
	4.3	Proper proceedure laid down in the byelaws and directed by the competent authority has been followed while awarding contracts of construction and erections.	See remarks in audit report paraghraph No --. Page No. --.
	4.4	Whether penel action has been taken against the contractors not completing the works within time shedule prescribed in the contract deed as per terms and conditons.	See remarks in audit report paraghraph No --. Page No. --.
5		**Other activities**	
	5.1	State the other activities as per byelaws undertaken by the federal society for fulfilment of its object?	See remarks in audit report paraghraph No --. Page No. --.
6		**FINANCE MANAGEMENT**	
	6.1	**Own Fnds**	
	1	Are any funds are created as per provisions of the Act, Rules and byelaws ?	See remarks in audit report paraghraph No --. Page No. --.
	2	Whether such funds are invested as per provisions of the Act, Rules and byelaws ? or invested seperately as per Rule 54 ? If not state reasons.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	3	Whether the Building fund and other funds created out of surplus are properly used as per rules framed for them ? If not discuss in brief in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	4	Whether the byelaws provides any other fund from the surplus.	See remarks in audit report paraghraph No --. Page No. --.
	5	Funds created by charging P/L account and Provisions?	
	6	Whether the society has provided for the Bad and doubtful amounts and subscriptions.	See remarks in audit report paraghraph No --. Page No. --.
	7	Whether the necessary provisions have been made as per Section 65 and Rule 49 A of the Cooperative societies Act 1960 and Accounting Standards accepted by the society.	See remarks in audit report paraghraph No --. Page No. --.
	8	Provisions for the Staff Gratuity and Providenf fund have been made and investments thereof is made according to rules framed by the society. State Short fall in the provisions with effect on profit and loss account.	See remarks in audit report paraghraph No --. Page No. --.
7		**BUDGETERY CONTROL**	
	7.1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	See remarks in audit report paraghraph No --. Page No. --.
	7.2	Is the expenditure on various items within budget limits?	See remarks in audit report paraghraph No --. Page No. --.
	7.3	Are reappropriations approved by the AGBM. Comment on variation with reasons thereof.	See remarks in audit report paraghraph No --. Page No. --.
8		**Insurance**	
	8.1	Whether the society has adequately insured all assets from the company as directed by the Government? Whether the insurance claimes have been preferred as per terms and conditions of policy.	See remarks in audit report paraghraph No --. Page No. --.
	8.2	Whether the insurance for cash and cash in transit have been taken.	See remarks in audit report paraghraph No --. Page No. --.
	8.3	Whether the society has maintained insurance claim register?	See remarks in audit report paraghraph No --. Page No. --.
9		**Expenditure**	
	9.1	Whether the expenditures are got sanctioned by the board time to time and also sanctioned by the AGBM.	See remarks in audit report paraghraph No --. Page No. --.
	9.2	Expain in audit report regarding expenditure not related with business of the society.	See remarks in audit report paraghraph No --. Page No. --.
10		**Income**	
	10.1	State the sources of income of the federal society except subscriptions.	

1	2	3	4
	10.2	Whether such income is properly taken into account. Whether any such income is in liue of service rendered to member societies and sufficient to meet the expenditure of such services.	
	10.3	Any services provided by the federal society are charged properly.	
11		**Outstanding dues and amounts**	
	11.1	State the overdue amounts under heading sundry debtors and other outstanding, advances, (quote amounts outstanding for more than 6 months)	See remarks in audit report paraghraph No --. Page No. --.
	11.2	State the action taken for the recoveries of the above amounts with details in regards amounts involved, number of debtors, details of action, notices, awards, decrees etc.	See remarks in audit report paraghraph No --. Page No. --.
	11.3	State the decrees executed and amount recovered during audit period? And expenditure is being recovered from the concerned.	See remarks in audit report paraghraph No --. Page No. --.
12		**Net worth and other financial parameters**	
	12.1	State the Net worth of the federal society as on 31/3 of the financial year , as provided in the section of the M.C.S. Act and rules? And guidelines issued by the Cooperation department.	See remarks in audit report paraghraph No --. Page No. --.
13		**MANAGAEMENT**	
	13.1	**Meetings and proceedings**	
	1	State the meeting of board of directors are held within stipulated time in byelaws (say 1 month, two month) and the proceedings are written upto date or not?	See remarks in audit report paraghraph No --. Page No. --.
	2	Read the minutes of Board of Directors, sub committees, and AGBM and state the decisions which are contrarary to the Act, Rules and byelaws and against the interest of the society and its members.	See remarks in audit report paraghraph No --. Page No. --.
	3	comment on the working of the sub committees with the delegation of power, execution, and submission and acceptance of the sub committee proceedings by the Board of Directors.	See remarks in audit report paraghraph No --. Page No. --.
14		**Inspections and enquiries**	
	14.1	Whether any enquiry under section 83/84 or 88 is completed or in progress by the Registrar.	See remarks in audit report paraghraph No --. Page No. --.
	14.2	Any penelty has been imposed by the Registrar for the breach of the provisions of the M.C.S. Act 1960?	See remarks in audit report paraghraph No --. Page No. --.
	14.3	Whether inspection under Section 89 A is carried out and compli-ance report of the same is submitted in time.	
15		**Internal control and audit**	
	15.1	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	
	15.2	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	15.3	Internal audit system of federal society is satisfactory and the society has complied the internal audit report within the time limit. State the descripancies noted by the internal auditor but not complied with.	See remarks in audit report paraghraph No --. Page No. --.
16		**Statutory Audit**	
	16.1	Whether the statutory audit is completed for the previous year and compliance of the same is submitted within the time limit.	
	16.2	Necessary returns as per Section 79 and 75 (2 a) are submitted to the Registrar within the time limit.	

FORM No. 12

For Urban Bank Federation, Credit Societies and Salary Earners Societies Federation

Note : The query not applicable to any type of society shall be mentioned with remarks "not applicable"

I		SOCIETY INFORMATION	Particulars to be filled by the auditor
1	**2**	**3**	**4**
	1.1	Name of the Society.	
	1.2	Nature of Federal Society.	
2		**WORKING OF THE SOCIETY**	
	2.1	Affilation of the societies.	
	2.2	State the number of societies affiliated to the federal society.	
	2.3	Proper procedure has been followed for affiliation of the society during the audit period as per byelaws.	
	2.4	State the subscription collected from the affiliated societies during the audit period, outstanding balance and overdues, amount if any.	
	2.5	State the recovery procedure adopted for recovery of overdue subscriptions and proper accounts are maintained or not.	
3		**Other activities**	
	3.1	State the other activities as per byelaws undertaken by the federal society for fulfilment of its object?	See remarks in audit report paraghraph No --. Page No. --.
	3.2	Whether the federation has provided guidelines for weak urban banks as per directions given by the TAFCUB and has presented to the TAFCUB urban bank's compliance of such directions.	
4		**FINANCE MANAGEMENT**	
	4.1	**OWN FUNDS**	
	1	Are any funds are created as per provisions of the Act, Rules and byelaws ?	See remarks in audit report paraghraph No --. Page No. --.
	2	Whether such funds are invested as per provisions of the Act, Rules and byelaws ? or invested seperately as per Rule 54 ? If not state reasons. .	
	3	Whether the Building fund and other funds created out of surplus are properly used as per rules framed for them ? If not discuss in brief in the audit report.	

1	2	3	4
	4	Whether the byelaws provides any other fund from the surplus.	See remarks in audit report paraghraph No --. Page No. --.
	5	Funds created by charging P/L account and Provisions?	See remarks in audit report paraghraph No --. Page No. --.
	6	Whether the society has provided for the Bad and doubtful amounts and subscriptions.	
	7	Whether the necessary provisions have been made as per Section 65 and Rule 49 A of the Cooperative societies Act 1960 and Accounting Standards accepted by the society.	See remarks in audit report paraghraph No --. Page No. --.
	8	Provisions for the Staff Gratuity and Provident fund have been made and investments thereof is made according to rules framed by the society. State Short fall in the provisions with effect on profit and loss account.	See remarks in audit report paraghraph No --. Page No. --.
5		**BUDGETERY CONTROL**	
	5.1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	See remarks in audit report paraghraph No --. Page No. --.
	5.2	Is the expenditure on various items within budget limits?	See remarks in audit report paraghraph No --. Page No. --.
	5.3	Are reappropriations approved by the AGBM. Comment on variation with reasons thereof.	See remarks in audit report paraghraph No --. Page No. --.
6		**Insurance**	
	6.1	Whether the society has adequately insured all assets from the company as directed by the Government? Whether the insurance claimes have been preferred as per terms and conditions of policy.	See remarks in audit report paraghraph No --. Page No. --.
	6.2	Whether the insurance for cash and cash in transit have been taken.	
	6.3	Whether the society has maintained insurance claim register?	See remarks in audit report paraghraph No --. Page No. --.
7		**Expenditure**	
	7.1	Whether the expenditures are got sanctioned by the board time to time and also sanctioned by the AGBM	See remarks in audit report paraghraph No --. Page No. --.
	7.2	Explain in audit report regarding expenditure not related with business of the society.	See remarks in audit report paraghraph No --. Page No. --.
8		**Income**	
	8.1	State the sources of income of the federal society except subscriptions.	
	8.2	Whether such income is properly taken into account. Whether any such income is in liue of service rendered to member societies and sufficient to meet the expenditure of such services.	
	8.3	Any services provided by the federal society are charged properly.	

1	2	3	4
9		**Outstanding dues and amounts**	
	9.1	State the overdue amounts under heading sundry debtors and other outstanding, advances, (quote amounts outstanding for more than 6 months).	See remarks in audit report paraghraph No --. Page No. --.
	9.2	State the action taken for the recoveries of the above amounts with details in regards amounts involved, number of debtors, details of action, notices, awards, decrees etc.	See remarks in audit report paraghraph No --. Page No. --.
	9.3	State the decrees executed and amount recovered during audit period? And expenditure is being recovered from the concerned.	See remarks in audit report paraghraph No --. Page No. --.
10		**Net worth and other financial parameters**	
	10.1	State the Net worth of the federal society as on 31/3 of the financial year , as provided in the section of the M.C.S. Act and rules? And guidelines issued by the Cooperation department.	See remarks in audit report paraghraph No --. Page No. --.
11		**MANAGAEMENT**	
	11.1	**Meetings and proceedings**	
	1	State the meeting of board of directors are held within stipulated time in byelaws (say 1 month, two month) and the proceedings are written upto date or not?	See remarks in audit report paraghraph No --. Page No. --.
	2	Read the minutes of Board of Directors, sub committees, and AGBM and state the decisions which are contrarary to the Act, Rules and byelaws and against the interest of the society and its members.	See remarks in audit report paraghraph No --. Page No. --.
	3	iii) comment on the working of the sub committees with the delegation of power, execution, and submission and acceptance of the sub committee proceedings by the Board of Directors.	See remarks in audit report paraghraph No --. Page No. --.
12		**Inspections and enquiries**	
	12.1	Whether any enquiry under section 83/84 or 88 is completed or in progress by the Registrar.	See remarks in audit report paraghraph No --. Page No. --.
	12.2	Any penelty has been imposed by the Registrar for the breach of the provisions of the M.C.S. Act 1960?	See remarks in audit report paraghraph No --. Page No. --.
	12.3	Whether inspection under Section 89 A is carried out and compliance report of the same is submitted in time.	
13		**Internal control and audit**	
	13.1	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	See remarks in audit report paraghraph No --. Page No. --.
	13.2	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	See remarks in audit report paraghraph No --. Page No. --.
	13.3	Internal audit system of federal society is satisfactory and the society has complied the internal audit report within the time limit. State the descripancies noted by the internal auditor but not complied with.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
14		**Statutory Audit**	
	14.1	Whether the statutory audit is completed for the previous year and compliance of the same is submitted within the time limit.	
	14.2	Necessary returns as per Section 79 and 75 (2 a) are submitted to the Registrar within the time limit.	

FORM No. 13

For Labour Contract Societies Federation (District & State Level)

Note : The query not applicable to any type of society shall be mentioned with remarks "not applicable"

I		SOCIETY INFORMATION	Particulars to be filled by the auditor
1	**2**	**3**	**4**
	1.1	Name of the Society.	
	1.2	Nature of Federal Society.	
2		**Working of the Society**	
	2.1	Affilation of the societies.	
	2.2	State the number of societies affiliated to the federal society.	
	2.3	Proper procedure has been followed for affiliation of the society during the audit period as per byelaws.	
	2.4	State the subscription collected from the affiliated societies during the audit period, outstanding balance and overdues, amount if any.	
	2.5	State the recovery procedure adopted for recovery of overdue subscriptions and proper accounts are maintained or not.	
3		**Works Contracts given to the societies**	
	3.1	Whether the work contracts as recommended by the federation given to the labour contract societies within the limit specified in governemnt resolution.	See remarks in audit report paraghraph No --. Page No. --.
	3.2	Whether the federation has provided necessary guidelines for distribution of work to various societies from the government departments and local authorities.	
	3.3	Whether the federal society is providing assistance to the labour contract societies for classification and registration with the public works department.	
4		**Other activities**	
	4.1	State the other activities as per byelaws undertaken by the federal society for fulfilment of its object?	See remarks in audit report paraghraph No --. Page No. --.
5		**Finance Management**	
	5.1	**Own Funds**	
	1	Are any funds are created as per provisions of the Act, Rules and byelaws ?	See remarks in audit report paraghraph No --. Page No. --.
	2	Whether such funds are invested as per provisions of the Act, Rules and byelaws ? or invested seperately as per Rule 54 ? If not state reasons.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	3	Whether the Building fund and other funds created out of surplus are properly used as per rules framed for them ? If not discuss in brief in the audit report.	See remarks in audit report paraghraph No --. Page No. --.
	4	Whether the byelaws provides any other fund from the suplus	See remarks in audit report paraghraph No --. Page No. --.
	5	Funds created by charging P/L account and Provisions?	
	6	Whether the society has provided for the Bad and doubtful amounts and subscriptions.	See remarks in audit report paraghraph No --. Page No. --.
	7	Whether the necessary provisions have been made as per Section 65 and Rule 49 A of the Cooperative societies Act 1960 and Accounting Standards accepted by the society -	See remarks in audit report paraghraph No --. Page No. --.
	8	Provisions for the Staff Gratuity and Providenf fund have been made and investments thereof is made according to rules framed by the society. State Short fall in the provisions with effect on profit and loss account.	See remarks in audit report paraghraph No --. Page No. --.
6		**Budgetory Control**	
	6.1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	See remarks in audit report paraghraph No --. Page No. --.
	6.2	Is the expenditure on various items within budget limits?	See remarks in audit report paraghraph No --. Page No. --.
	6.3	Are reappropriations approved by the AGBM. Comment on variation with reasons thereof.	See remarks in audit report paraghraph No --. Page No. --.
7		**Insurance**	
	7.1	Whether the society has adequately insured all assets from the company as directed by the Government? Whether the insurance claimes have been preferred as per terms and conditions of policy.	See remarks in audit report paraghraph No --. Page No. --.
	7.2	Whether the insurance for cash and cash in transit have been taken.	See remarks in audit report paraghraph No --. Page No. --.
	7.3	Whether the society has maintained insurance claim register?	See remarks in audit report paraghraph No --. Page No. --.
8		**Expenditure**	
	8.1	Whether the expenditures are got sanctioned by the board time to time and also sanctioned by the AGBM	See remarks in audit report paraghraph No --. Page No. --.
	8.2	Expain in audit report regarding expenditure not related with business of the society.	See remarks in audit report paraghraph No --. Page No. --.
9		**Income**	
	9.1	State the sources of income of the federal society except subscriptions.	

1	2	3	4
	9.2	Whether such income is properly taken into account. Whether any such income is in liue of service rendered to member societies and sufficient to meet the expenditure of such services.	
	9.3	Any services provided by the federal society are charged properly.	
10		**Outstanding dues and amounts**	
	10.1	State the overdue amounts under heading sundry debtors and other outstanding, advances, (quote amounts outstanding for more than 6 months)	See remarks in audit report paraghraph No --. Page No. --.
	10.2	State the action taken for the recoveries of the above amounts with details in regards amounts involved, number of debtors, details of action, notices, awards, decrees etc.	See remarks in audit report paraghraph No --. Page No. --.
	10.3	State the decrees executed and amount recovered during audit period? And expenditure is being recovered from the concerned.	See remarks in audit report paraghraph No --. Page No. --.
11		**Net worth and other financial parameters**	
	11.1	State the Net worth of the federal society as on 31/3 of the financial year , as provided in the section of the M.C.S. Act and rules? And guidelines issued by the Cooperation department.	See remarks in audit report paraghraph No --. Page No. --.
12		**Managaement**	
	12.1	**Meetings and proceedings**	
	1	State the meeting of board of directors are held within stipulated time in byelaws (say 1 month, two month) and the proceedings are written upto date or not?	See remarks in audit report paraghraph No --. Page No. --.
	2	Read the minutes of Board of Directors, sub committees, and AGBM and state the decisions which are contrarary to the Act, Rules and byelaws and against the interest of the society and its members.	See remarks in audit report paraghraph No --. Page No. --.
	3	iii) comment on the working of the sub committees with the delegation of power, execution, and submission and acceptance of the sub committee proceedings by the Board of Directors.	See remarks in audit report paraghraph No --. Page No. --.
13		**Inspections and enquiries**	
	13.1	Whether any enquiry under section 83/84 or 88 is completed or in progress by the Registrar.	See remarks in audit report paraghraph No --. Page No. --.
	13.2	Any penelty has been imposed by the Registrar for the breach of the provisions of the M.C.S. Act 1960?	See remarks in audit report paraghraph No --. Page No. --.
	13.3	Whether inspection under Section 89 A is carried out and compliance report of the same is submitted in time.	
14		**Internal control and audit**	
	14.1	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	See remarks in audit report paraghraph No --. Page No. --.
	14.2	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	14.3	Internal audit system of federal society is satisfactory and the society has complied the internal audit report within the time limit. State the descripancies noted by the internal auditor but not complied with.	See remarks in audit report paraghraph No --. Page No. --.
15		**Statutory Audit**	
	15.1	Whether the statutory audit is completed for the previous year and compliance of the same is submitted within the time limit.	
	15.2	Necessary returns as per Section 79 and 75 (2 a) are submitted to the Registrar within the time limit.	

FORM No. 14

For State level Cotton, Consumer, Marketing Federations and Tribal Development Corporation and District level Consumer and Marketing Federations including Ginning Pressing Federations

Note : The query not applicable to any type of society shall be mentioned with remarks "not applicable"

I 1	2	SOCIETY INFORMATION 3	Particulars to be filled by the auditor 4
	1.1	Name of the Federal Society.	
	1.2	Departments or branches.	
	1.3	type or business of branchNo. of. Branches.	
	1.4	Consumer goods section.	
	1.5	Fair price Shop.	
	1.6	Medical shops.	
	1.7	Fertiliser and pesticides sections.	
	1.8	Mannuar mixture and producer section.	
	1.9	Export goods section.	
	1.10	super markets or bazars.	
	1.11	Petrol pumps.	
	1.12	others (specify).	
2		**WORKING OF THE SOCIETY**	
A		***Manufacturing** (*only in case of production unit to the trading society) **and Business**	
	1	**Manufacturing Cost**	
	1.1	State the manufacturing cost productwise and impact of byproducts if any on the main product.	
	1.2	Where the cost of raw material is fixed by mangagement as per accounting policy accepted and accouting standard prescribed by the department.	
	1.3	State the percentage of raw material cost, overhead cost, (fixed and variable both seperately)	
	1.4	State the BEP regarding quantity and amount.	

1	2	3	4
	1.5	What action plan is implemented by the society to control the cost of production commensuarte to selling price of the product.	
	1.6	State the expences which cost unnecessarly on the cost of production and action taken to reduce the same by the managament of the society.	
	1.7	In case of manuar mixures proper propotionate raw material is mixed by the society and it is according to the fertiliser control order.	
	2	**Purchase procudure and material Stores for production**	
	2.1	a) Whether the procudure following by the society as approved in the byelaws or directed by the competent authority is with the sound priciple of "Reasonable price and Quality", if not, explain with examples in the audit report.	
	2.2	b) Whehter the society has maintained list of approved suppliers, producers, and traders? Limit from purchase them is fixed and adhered to ?	
	2.3	c) Goods received are properly verified for the quality and quantity ordered, and necessary recoreds have been maintained.	
	2.4	d) Goods rejected, returned are properly accounted for or not? If yes then goods, discounts received are properly recored or not?	
	2.5	The comparative statement prepared after receipt of quotations are based on the equal footing or not. If not explain in the audit report.	
	2.6	what is the procedure adopted for requirement of material, whether on the average consumtion method is followed or not ? Give your observations and comment upon it.	
	2.7	Over purchase or under purchase has effected the production ? Give your comments in the audit report.	
	2.8	Store accounts are maintained property with scientifc method or not?	
	2.9	Required levels for purchase such as minimum,maximum, (for both non moving & moving) , reorder level etc. are maintained or not? Comment on it in audit report.	
	2.10	The valuation of the Store is made on the basis of proper accounting standard for it or not? What is the financial impact on the Profit or loss account due to improper valuation? State in the audit report.	
	2.11	What is cost of idle / non moving stores with the society , what action has been taken by the society for its disposal.	
	2.12	Obtain the valuation certificate from the management with details of method of valuation and attach it with the audit report.	
	2.13	The society has procedure to take stock taking at periodical intervals or not, when the stock was last counted by the Society? Which deficiencies are noticed and action taken to rectify the society shall be commented in the audit report.	
	2.14	Whethr allocations are based on proper accounting standards decided by the society to the concern works, products or not if not state the financial effect on the production cost.	

1	2	3	4
3		**Captive consumptions**	
	3.1	State the quantity used for captive cosumption of products by the society productwise and amount wise, necessary tax set off has been takne by the society or not? How the material used for captive consumtion is valued ? Whether the method of valuation is proper and according to the concerne accounting standard or not? Comment in audit report the effect of defficiencies in the mehods on profit and loss account.	
4		**Manufacturing Indicators** (only for manufacutirng unit of the society)	
	4.1	What the producation capacity of the societies units and actual acivement ? State the reasons for not achiving the standard production.	
	4.2	Losses in manufacturing are within the limit prescribed by the competent authority or not. Give reasons for short fall with effect on profit and loss account due to losses ? Are they business lossses or damages? Losses are due to neglegence of management or due to natural calamities? Comment in the audit report.	
5		**Engineering Section (only for Marketing Federation where mix fertilizers, cattle feed and oil is produced)**	
		Comment in audit report regarding -	
	5.1	a) Losses on variaous reasons like mechanical defects.	
		b)	
		c)	
		d)	
	5.2	i) daily crushing / production capacity.	
		ii) efficiency in use of fuel.	
		iii) other technical aspect as per techincal report prepared by the section.	
		iv) programme of periodic repairs and maintence is properly sheduled and observed.	
6		**Production Section**	
	6.1	State the annual production capacity, its utilisation, stoppeges, reasons for stoppeges, properness of stoppeges with standard norms,and finacial effects of the stoppeges.	
	6.2	State total production of finished goods.	
	6.3	State the by-products generated if any and percentage to the raw material.	
	6.4	Cost of byproducts and main products per unit of production.	
	6.5	period of production.	From to
7		**By Products**	
	7.1	State the various byproducts (if any) and there cost of production, sales and profit or loss.	
	7.2	Whether the method of valuation of byproducts is proper and according to the accounting standards?	

1	2	3	4
	7.3	State the method of valuation of finished products, raw material and work in progress.	
	7.4	State the contribution of byproducts to net or gross profit or loss	
8		**Productions**	
	8.1	Whether separate records have been maintained for such units and updated ?	
	8.2	State the unitwise production, production cost, raw material consumed, stocks, captive consumptions, valuation method, and profit or loss of the unit and comment on its proper and trueness.	
9		**Raw Material**	
	9.1	State whether purchases of raw material is made at competative rates.	
	9.2	State whether method followed for purchase of raw material is satisfactory.	
	9.3	Whether necessary opinion of competent authority is taken regarding quality of raw material.	
10		**Constructions and erections**	
	10.1	See the constructions of various buildings, machinery plants, sheds , houses and other are duly processed regarding calling of tenders from the approved contractors, preparing proper estimateds, sanctioning from competernt authority, revision of estimates, sanctioning the contracts, utilisation of funds for such purposes as sanctioned by the competent authority, reasons for variation in estimates and actual expediture etc.	
	10.2	Proper proceedure laid down in the byelaws and directed by the competent authority has been follwed while awarding contracts of construction and erections.	
	10.3	State the advances outstanding from the contractors and action initiated against them for non recovery of advances.	
	10.4	Wheter penel action has been taken against the contractors not completing the works within time shedule prescribed in the contract deed as per terms and conditons.	
	10.5	Whether the accounting standard for constructions has been follwed while accouting such constructions on various stages ?	
	10.6	Whether the quality of construction has been verified by the architect, engineers appointed for the same? Any deficiencies and effect on financial estimates should be commented upon in the audit report.	
	10.7	Any material supplied such as cement, steel, etc., by the society as per contract deed is proper in quantity, and amount. Any variation should be commented upon in the audit report.	
	10.8	Proper aportionment of exependiture in Revenu and Capital expenditure has been made as per Accouting standard.	
11		**Revaluation of Assets**	
	11.1	Whether the society has revalued its assets? If so, State the amount of original value of assets, value after revaluation, capital reserve, and rate of depreciation ? Proper accounting has been made as per accounting standard or not ? If not comment in audit report regarding financial effects on financial Statements.	

1	2	3	4
12		**Anxilary Activities**	
	12.1	**Other activities**	
	1	State the other activities as per byelaws undertaken by the society for fulfilment of its object?	
13		**Selling procedure**	
	13.1	**Main and by products**	
	13.2	State the selling procedure adopted by the society for main products and comment on its effectivenes to earning capacity, and properness as per guidelines issued by the competent authority.	
	13.3	Whether the selling procedure as per decided by the policy framed by the Board of Director.	
	13.4	State the selling procedure adopted by the society for by products and comment on its effectivenes to earning capacity, and properness as per guidelines issued by the competent authority.	
	13.5	Whether the sales are effected on cash / DD basis or on credit basis? If Credit sales are allowed proper contracts have been signed by the obligators and they are scruplosely followed. Whether the bylaws or any order from the Registrar permits credit sales if not comment on it and loss of interest, terms and conditions etc.	
	13.6	State the outstanding amounts of credit sales and period thereof; necessary provision has been made for overdue amounts.	
14		**Consumer goods business**	
	14.1	Is the society doing any business to procure in wholesale and store conusmer goods for supply on wholsale or retail basis to consumer members and other consumers ? Give details.	
	14.2	State the valud of purchases made directly from the manufacturers of the specified essential commodities.	
	14.3	Are there any cases in which the Managing Committee members have taken advanctage ;of fluctuations of market prices and made any transactions harmful to the society?	
	14.4	Is the system of price fixing foolwed and retial prices fixed in accrodance with the resolutions passed by the Managing committee or any other subcommittee appointed for the purpose?	
15		**Finance Management**	
	15.1	**Borrowings**	
	1	What are the amount of loan and credit limits sanctioned by the financing Bank under various purposes.	
	2	Operations of the various credit limits are satisfactory and repayments are made in due course ? State the amounts of overdue if any and period thereof.	
	3	Discuss in brief regarding terms and conditions of various credits, which are not fulfilled.	
	4	Whether the credits sanctioned for specific purpose is utilised for the same purpose? If not discuss in brief in audit report.	
	5	State the credits sanctioned for infrastructure like godowns, building, processing untis, cold storages etc. whether repayments are satisfactory, state the amount of overdues if any.	

1	2	3	4
	15.2	**Own Funds**	
	1	Are funds created out of profit as per provisions of the Act, Rules and byelaws ?	
	2	Wheter Reserve fund is invested outside its business seperately as per Rule 54 ? If not state reasons.	
	3	Whether the charity fund is created out of profit and utilisated as per Rule 69 of the Act?	
	4	Whether the Building fund and other funds created out of profit are properly used as per rules framed for them ? If not discuss in brief in the audit report.	
	5	Whether the byelaws provides any other fund from the appropriation of profits and accordingly the provision of the fund is created in appropriation of profit.	
	6	Funds created by charging P/L account and Provisions?	
	7	Whether the society has created investment flactuation fund and it is adequate ?	
	8	Whether the society has provided for the Bad and doubtful debts and amounts as per guidelines issued by Registrar and necessary provision is made for the overdue interest reserve ? State the short fall in provisioning with reasons? Necessary disclouser has been given in the annual report regarding provision for this purpose	
	9	Whether the necessary provisions have been made as per Section "65" and Rule "49 A" of the Cooperative societies Act 1960 and Accounting Standards accepted by the society.	
	10	Provisions for the Staff Gratuity and Providenf fund have been made and investments thereof is made according to rules framed by the society. State Short fall in the provisions with effect on profit and loss account.	
	15.3	**Deposits**	
	1	Whether the society has accepted non refundable deposits from the producers members and non members . Necessary permissions have been taken by the society for accepting deposits as per byelaws.	
	2	whether the society has accepted refundable deposits from the members and non members . Necessary permissions have been taken by the society for accepting deposits as per byelaws. Such deposits are repaid on due date or not, state the amount due but not paid by the society, and provision made by the society for such repayment with interets.	
	15.4	**Budgetery Control**	
	1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	
	2	Is the expenditure on various items within budget limits?	
	3	Are reappropriations approved by the AGBM. Comment on variation with reasons thereof.	
	15.5	**Insurance**	
	1	Whether the society has adequately insured all assets, machinery, stocks, and other assets from the company as directed by the Government? Whether the insurance claimes have been preferred as per terms and conditions of policy.	

1	2	3	4
	2	Whether the insurance for cash and cash in transit have been taken and insurance for personal accidents have been taken.	
	3	Whether the society has maintained insurance claim register?	
	15.6	**Expenditure**	
	1	Whether the expenditures are got sanctioned by the board time to time and also sanctioned by the AGBM	
	2	Expain in audit report regarding expenditure not related with business of the society. And expenditure related to section 71 A of the M.C.S. Act.	
	15.7	**Outstanding dues and amounts**	
	1	State the overdue amounts under heading sundry debtors, credit sales and other outstanding , advances, (quote amounts outstanding for more than 6 months)	
	2	State the action taken for the recoveries of the above amounts with details in regards amounts involved, no. of debtors, details of action, notices, awards, decrees etc.	
	3	State the decrees executed and amount recovered during audit period? And exenditure is being recovered from the concerned.	
	15.8	**Net worth and other financial parameters**	
	1	State the Net worth of the society as on 31/3 of the financial year, as provided in the section of the M.C.S. Act and rules? And guidelines issued by the Co-operation Department.	
	2	State the book value of the societies share capital as on 31/3 and reasons for declining the book value than face value.	
	15.9	**Investments**	
	1	Whether investment register is mantained properly ?	
	2	Whether investment is as per Section 70 of MCS Act 1960 as amended by amendment Act 2013 ?	
	3	Whether interest on investment is received in time ?	
	4	Whether there are any deposits / certificates which are matured but not encashed ?	
16		**MANAGAEMENT**	
	16.1	**Meetings and proceedings**	
	1	i) State the meeting of board of directors are held within stipulated time in byelaws (say 1 month, two month as stated in bylaws) and the proceedings are written upto date or not?	
	2	ii) Read the minutes of Board of Directors, sub committees, and AGBM and state the decisions which are contrarary to the Act, Rules and byelaws and against the interest of the society and its members.	
	3	iii) comment on the working of the sub committees with the delegation of power, execution, and submission and acceptance of the sub committee proceedings by the Board of Directors.	
	16.2	**Inspections and enquiries**	
	1	Whether any enquiry under section 83/84 or 88 is completed or in progress by the Registrar against the society.	

1	2	3	4
	2	Is any penelty has been imposed by the Registrar for the breach of the provisions of the M.C.S. Act 1960?	
	3	Complience of Inspections taken by the Financing institute is submitted within stipulated time limit and to the satisfaction of the insepcting authority.	
	16.3	**Internal control and audit**	
	1	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	
	2	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	
	3	Whether internal control is based on the sound priciples and any deficiencies should be commented upon in the audit report	
	4	Whether Internal audit system of society is satisfactory and consistant and the society has complied the internal audit report withing time limit. State the descripancies noted by the internal auditor but not complied with.	

FORM No. 15

For Housing Federations and Other District & State Level Federal Societies

Note: The query not applicable to any type of society shall be mentioned with remarks "not applicable"

Sr. No.		SOCIETY INFORMATION	Particulars to be filled by the auditor
1	2	3	4
	1.1	Name of the Society	
	1.2	Nature of Federal Society	
2		**Working of the Society**	
	2.1	Affilation of the societies	
	2,2	State the number of societies affiliated to the federal society	
	2.3	Proper procedure has been followed for affiliation of the society during the audit period as per byelaws.	
	2.4	State the subscription collected from the affiliated societies during the audit period, outstanding balance and overdues, amount if any.	
	2.5	State the recovery procedure adopted for recovery of overdue subscriptions and proper accounts are maintained or not	
3		**Other activities**	
	3.1	State the other activities as per byelaws undertaken by the federal society for fulfilment of its object?	See remarks in audit report paraghraph No --. Page No. --.
4		**Finance Management**	
	4.1	**Own Funds**	
	1	Are any funds are created as per provisions of the Act, Rules and byelaws ?	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	2	Whether such funds are invested as per provisions of the Act, Rules and byelaws ? or invested seperately as per Rule 54 ? If not state reasons	See remarks in audit report paraghraph No --. Page No. --.
	3	Whether the Building fund and other funds created out of surplus are properly used as per rules framed for them ? If not discuss in brief in the audit report	See remarks in audit report paraghraph No --. Page No. --.
	4	Whether the byelaws provides any other fund from the suplus	See remarks in audit report paraghraph No --. Page No. --.
	5	Funds created by charging P/L (Income & Expenditure) account and Provisions?	
	6	Whether the society has provided for the Bad and doubtful amounts and subscriptions.	See remarks in audit report paraghraph No --. Page No. --.
	7	Whether the necessary provisions have been made as per Section 65 and Rule 49 A of the Co-operative Societies Act 1960 and Accounting Standards accepted by the society	See remarks in audit report paraghraph No --. Page No. --.
	8	Provisions for the Staff Gratuity and Provident fund have been made and investments thereof is made according to rules framed by the society. State Short fall in the provisions with effect on profit and loss account.	See remarks in audit report paraghraph No --. Page No. --.
	4.2	**Budgetory Control**	
	1	Whether Revenue and capital budgets are approved by the Board and Annual General meeting.	See remarks in audit report paraghraph No --. Page No. --.
	2	Is the expenditure on various items within budget limits?	See remarks in audit report paraghraph No --. Page No. --.
	3	Are reappropriations approved by the AGBM. Comment on variation with reasons thereof.	See remarks in audit report paraghraph No --. Page No. --.
	4.3	**Insurance**	
	1	Whether the society has adequately insured all assets from the company as directed by the Government? Whether the insurance claimes have been preferred as per terms and conditions of policy.	See remarks in audit report paraghraph No --. Page No. --.
	2	Whether the insurance for cash and cash in transit have been taken.	
	3	Whether the society has maintained insurance claim register?	See remarks in audit report paraghraph No --. Page No. --.
	4.4	**Expenditure**	
	1	Whether the expenditures are got sanctioned by the board time to time and also sanctioned by the AGBM	See remarks in audit report paraghraph No --. Page No. --.
	2	Explain in audit report regarding expenditure not related with business of the society.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	4.5	**Income**	
	1	State the sources of income of the federal society except subscriptions	
	2	Whether such income is properly taken into account. Whether any such income is in liue of service rendered to member societies and sufficient to meet the expenditure of such services	
	3	Any services provided by the federal society are charged properly.	
	4.6	**Outstanding dues and amounts**	
	1	State the overdue amounts under heading sundry debtors and other outstanding, advances, (quote amounts outstanding for more than 6 months)	See remarks in audit report paraghraph No --. Page No. --.
	2	State the action taken for the recoveries of the above amounts with details in regards amounts involved, number of debtors, details of action, notices, awards, decrees etc.	See remarks in audit report paraghraph No --. Page No. --.
	3	State the decrees executed and amount recovered during audit period? And expenditure is being recovered from the concerned.	See remarks in audit report paraghraph No --. Page No. --.
	4.7	**Net worth and other financial parameters**	
	1	State the Net worth of the federal society as on 31/3 of the financial year, as provided in the section of the M.C.S. Act and rules? And guidelines issued by the Co-operation department.	See remarks in audit report paraghraph No --. Page No. --.
5		**MANAGAEMENT**	
	5.1	**Meetings and proceedings**	
	1	State the meeting of board of directors are held within stipulated time in byelaws (say 1 month, two month) and the proceedings are written upto date or not?	See remarks in audit report paraghraph No --. Page No. --.
	2	Read the minutes of Board of Directors, sub committees, and AGBM and state the decisions which are contrarary to the Act, Rules and byelaws and against the interest of the society and its members.	See remarks in audit report paraghraph No --. Page No. --.
	3	comment on the working of the sub committees with the delegation of power, execution, and submission and acceptance of the sub committee proceedings by the Board of Directors.	See remarks in audit report paraghraph No --. Page No. --.
	5.2	**Inspections and enquiries**	
	1	Whether any enquiry under section 83/84 or 88 is completed or in progress by the Registrar.	See remarks in audit report paraghraph No --. Page No. --.
	2	Any penelty has been imposed by the Registrar for the breach of the provisions of the M.C.S. Act 1960?	See remarks in audit report paraghraph No --. Page No. --.
	3	Whether inspection under Section 89 A is carried out and compliance report of the same is submitted in time.	
	5.3	**Internal control and audit**	
	1	Whether proper delegation of powers has been made to the middle and higher management and approved by the Board.	See remarks in audit report paraghraph No --. Page No. --.

1	2	3	4
	2	The powers delegated are adhered to by the appropriate authorities and within limit prescribed for them.	See remarks in audit report paraghraph No --. Page No. --.
	3	Internal audit system of federal society is satisfactory and the society has complied the internal audit report within the time limit. State the descripancies noted by the internal auditor but not complied with.	See remarks in audit report paraghraph No --. Page No. --.
	5.4	**Statutory Audit**	
	1	Whether the statutory audit is completed for the previous year and compliance of the same is submitted within the time limit.	
	2	Necessary returns as per Section 79 and 75 (2 a) are submitted to the Registrar within the time limit.	

ANNEXURE – 4

Information / documentation to be collected from society by the auditor.

1) Documents to be kept ready by the Society before commencement of Audit :-

Name of The Society :

Financial Year for which Audit to be conducted :

Sr. No.	Requirement	Received or Not (Y or N)	Date of Receipt
1	**2**	**3**	**4**
1	Appointment letter of Auditor along with the resolution		
2	General information about the society as per Annexure (a)		
3	Copy of Society Registration Certificate, approved byelaws, PAN, TAN, VAT, Service Tax, Provident Fund, Professional Tax & registration under other relevant Act including license of RBI for banking business and branch opening.		
4	Certified copy of Last Year's Audited Accounts along with Audit Report, Annexure and the AGM Annual Report copy.		
5	Copy of Annual Returns as per Section 79 (1 A) and 79 (1 B) of immediately preceding year.		
6	Financial statements duly adopted by Board of Directors such as Trial Balance, Balance Sheet, Profit and Loss accounts and schedules in form N for all types of societies except Co-operative Banks as per Banking Regulation Act, 1949.		
7	List of amendment made in Byelaws along with the approval / granted by the Registrar during audit period		
8	List of overdues - In case of Co-operative Credit Structure Entity (SCB, DCCB, PACS) as prescribed by the NABARD / RBI and in case of other the pro-forma is appended in annexure (f)		
9	List of other advances including Anamat along with date of advance given to employees and others		
10	List of balances of personal ledger as per schedule and balance sheet		
11	Bank reconciliation statements		
12	List of vehicles, expenses incurred on vehicle along with the log book		
13	List of movable / immovable assets - Property registered should be maintained as prescribed in the rule. Form no.X-1. (Annexure q)		
14	List of movable / immovable assets sold during the year - With details of profit or loss		
15	List of active members and non active members with reason as on 31st march as per form J 1 and J 2 given in Annexure (d)		
16	Statement of general information and working of society		
17	Statement of verification of cash and securities by board or authorized person by the board (Annexure b)		
18	List of loans and advances to directors and their relatives along with overdues if any. (Annexure g)		

1	2	3	4
19	Other advances given to the directors such as travelling advance, Anamat, any other advance given for specific purpose		
20	Demand, collection and balance statement (Annexure h)		
21	Schedule of investment and confirmation statement (Annexure i)		
22	Schedule of NPA / BDDR (Annexure j)		
23	Schedule of directors who have absented for 3 or months of board meeting		
24	Statement of misappropriation or embezzlement (Annexure m)		
25	Schedule of arbitration, execution and court cases (Annexure o)		
26	List of the Managing Committee / Board of directors along with designation (Annexure f)		
27	List of Sub Committee along with names		
28	List of Managing officers, managers / chief executive officer / branch managers (officer defined in Section 2 (20) of the Act.		
29	Cash and Cheque Voucher file		
30	Deposit Slips For Maintenance Cheques Deposited.		
31	Cheque Received Register		
32	Bill & Receipt Register		
33	Petty Cash Register		
34	Books of accounts to be kept ready for audit		
34.1	Day book, Cash book, bank book, subsidiaries cash book and general ledger		
34.2	All personal ledgers		
34.3	All committee's and AGM minute book		
34.4	Bank passbook / statements with balance confirmation certificates of all accounts		
34.5	Property register		
34.6	Investment register		
34.7	Stock book		
34.8	Movable property register		
34.9	Demand Collection and Balance register in case of salary earners		
34.10	Liquidity register in case of bank and credit societies		
34.11	Share transfer register		
34.12	Member register in I form		
34.13	Audit rectification register		
35	Bank Reconciliation Statement		
36	Bank Balance Confirmations from all the Banks.		
37	TDS Certificates from all the banks along with latest form 26 AS		
38	General Body and Management Committee Minutes Books		

1	2	3	4
39	I Register, J Form, Investment Register, Property Register, Audit Rectification Register, etc. as per model byelaws.		
40	List of Share Certificates Pending for issuance		
41	List of Pending Share Transfers / Refund (along with share valuation worksheet as per last year audited balance sheet) as of 31st March		
42	Provisions for Outstanding Expenses and List of Outstanding expenses paid subsequently (after the balance sheet date)		
43	Prepaid Expenses- Files to be submitted for verification along with supporting documents		
44	Any contract for purchase of fixed asset or repairs along with tender documents and minutes		
45	TDS / Service tax / VAT / Professional tax / ESIC / Provident fund challans and returns file		
46	List of committee members / board of directors along with designation.		
47	Any policy documents including Information system audit and delegation of authority		
48	Management representation including verification of fixed assets, stock and cash		
49	Concurrent audit report, inspection report, information system audit report for the current year.		
50	Statement of bank reconciliation and balance confirmation as per Annexure (c)		
51	List of employees (Annexure e)		
52	Schedule of loans and advances to the members as on 31st march including overdue (Annexure n)		
53	Schedule of closing stock as on 31st march with valuation duly verified by management (Annexure p)		
54	Loans taken by the society (Annexure k)		
55	List of directors who were absent for more than 3 consecutive meetings without leave of absence (Annexure l)		
56	Contracts / any transaction in which directors or relatives are interested and its disclosure (Annexure r)		
57	Cases filed by the society for the recovery and other matters and against the society (Annexure s)		

Annexure (a) :- General information about the society

Name and address of the society	
Date of registration and number	
Area of operation	
Class of society	
Nature of activity of society	
Main objects as per bye-laws	
Number of members as at 31-03-**	
Name of President	
Name of Vic-president	
Name of Chief Executive Officer	
Number of branches of the society	
Number of employees	
Last 3 years audit classification	

(Annexure b) :- Statement of verification of cash and securities by board or authorized person by the board

Statement of verification of cash :-

We hereby state and certify that the cash balance of Rs..... as at 31st March 20** is physically held in the head office, branches, sales depots of the society. We have obtained the balance certificate from the concerned officials for having verified the closing cash on hand as on 31st March 20**

Statement of verification of securities and valuation thereof :-

We hereby state and certify that the securities of Rs..... as at 31st March 20** is physically held in the head office, branches of the society. We have valued the securities on the basis of prevailing market rate. Depreciation is provided for and appreciation in value is ignored.

Annexure (c) :- Statement of bank reconciliation and balance confirmation

The following bank accounts were held by the society during the year and balances as at 31st March 20** are as follows.

Name of the bank	Account number	Balance as per bank	Balance as books	Reconciliation statement enclosed

Annexure (d) :- List of members as on 31st march

Sr.No.	Full name of member	Address	Class of Member

List of Active members as per Form J 1

Sr. No.	Full name of member	Postal address and Email address	Date of Classification as Active member

List of Non-Active members as per Form J 2

Sr.No.	Full name of member	Postal address and Email address	Date of Classification as Active member

(Annexure e) :- List of employees

Sr. No.	Name of the employee	Designation	Date of appointment

(Annexure f) :- List of the Managing Committee / Board of directors along with designation

Sr. No.	Name	Reserved as					Mobile number
		SC / ST	Women	Wnt	Other backward	Expert	

(Annexure g) :- List of loans and advances to directors and their relatives along with overdues if any.

Name of the Director / Relative	Nature of advances	Nature of loans and relation	Amount sanctioned	Outstanding as at 31-03

(Annexure h) :- Demand, collection and balance statement

Sr. No.	Name of the member	Demands raised during the year	Collections during the year	Balance outstanding as at 31-03-20**

(Annexure i) : - Schedule of investment and confirmation statement

Sr.No.	Particulars of investment	Amount invested	Interest actually received on investment	Interest due at the year end	Balance as per balance certificate / passbook, specify

(Annexure j) : - Schedule of NPA / BDDR

Membership number	Name of the member	Nature of loans and advances	Account number	Balance outstanding as at 31-03-20**

(Annexure k) : - Loans taken by the society

Sr.No.	Name of the bank / society	Amount of loan or deposit	Date of loan	Security offered	Balance as at 31-03-20**

(Annexure l) : - List of directors who were absent for more than 3 consecutive meetings without leave of absence

Name of the Director	Date of the meeting in which absented

(Annexure m) : - Statement of misappropriation or embezzlement

We hereby state the details of misappropriation or embezzlement of funds in the society during the co-operative year.

Nature of misappropriation or embezzlement of frauds During the co-operative year	Date of detection	Amount involved	Name of persons responsible	Designation of responsible persons	Details of FIR if any	Progress of recovery

Detailed note regarding modus operendi should be given.

(Annexure n) : - Schedule of loans and advances to the members as on 31st march including overdue

Membership number	Name of member	Nature of loan / advance	Account number	Sanctioned loan	Balance as on 31-03-20**	Overdue	
						Upto 1 year	More than 1 year

(Annexure o) : - Schedule of arbitration, execution and court cases

Name of the member	Nature of loans and advances	Amount claimed by the society				Date referred to arbitration / court	Details of execution
		Principal	Interest	Cost	Total		

(Annexure p) :- Schedule of closing stock as on 31st march with valuation duly verified by management

List of items	Opening balance	Purchased during the year	Sold during the year	Closing balanc	Rate	Amount

Above stocks are classified as below :-

- Trading stock Rs.
- Raw material Rs.
- Works in progress Rs.
- Finished goods Rs.
- Other goods Rs.

Note :-

1. Rate is taken at cost or market price whichever is less.
2. In case of exclusive method, rate should be taken at net of taxes and duties.

(Annexure q) : - List of movable / immovable assets - Property registered should be maintained as prescribed in the rule. Form no.X-1.

This is to certify that we have physically verified fixed assets as on 31st march with fixed asset register and it is matching with books of accounts. We have found / not found any impairments in assets.

(Annexure r) : - Contracts / any transaction in which directors or their relatives are interested and its disclosure

Sr.No.	Name of Director and / or their relatives	Date of transaction	Nature of transaction / contract	Consideration	Date of approval of BoD meeting	Remarks

(Annexure s) : - Cases filed by the society for the recovery and other matters and against the society

a) Cases filed by the society (u/s 101, 91, SARFAESI, IPC)

Sr.No.	Name of the party filed	Authority with whom the case is	Date	Case number	Purpose	Amount involved	Nature and value of security	Remarks

b) cases filed against the society

Sr.No.	Name of the party	Authority with whom the case is filed	Date	Case number	Purpose	Amount involved	Remarks

Note :- The auditor should ask the above information as applicable to the concern type of society prior to commencement of his audit.

ANNEXURE – 5

Format of Summons

Whereas, I / we has / have been empowered to audit the account of ———————————— ———————— (society name) under Section 75 (2 A) and Section 81 (1) (a) of Maharashtra Co-operative Societies Act, 1960, and

Whereas, as a director, officer or employee of society, you are under obligation to produce before me / us books of accounts maintained by society under Rule 65 of Maharashtra Co-operative Societies Rules 1961, and

Whereas, such property, cash, securitites, books, documents and other relevant papers are in your custody and for which you are responsible, and

Whereas, I / we am / are empowered to call books, documents and papers before me / us at the registered address of society and time under Section 81 (3), and

Whereas, as a director, officer or employee, it is your responsibility to supply books, documents and papers under Section 81 (4), and

Whereas, it is informed to you to produce records, books, documents and other papers by letter dated ……, but those are not supplied to us or you are avoiding to supply, and

Whereas, I / we am / are empowered under Section 81 (3) & (4), your hereby informed that the books, documents, papers complete in all respect for the financial year ———————— should be supplied to us at the registered address of society ———————————————— (society name) on ———————— (date) at ———————— (time)

Otherwise it will be an offence under Section 146 (g) & (l) of Maharashtra Co-operative Societies Act, 1960 and punishable under Section 147 (g) & (l) of Maharashtra Co-operative Societies Act, 1960. So this summons is issued with my seal & signature.

Place :-

Date :-

(Name & Designation)

To,

————————————-

_____

_____

CHAPTER No. 6

LIST OF REFERENCE BOOKS

Sr.No.	Book or Reference material		Author
1	Hand book of Auditing Pronouncement Vol I & II	2002	The Institute of Chartered Accountant of India.
2	The Maharashtra Agricultural Produce Marketing (Regulation Act 1963 & Rule 1967.)	2000	A.R.B.Kher.
3	The Maharashtra Co-op Socys Act.1960. Vol I & II.	1999	K.S.Gupte's (Revised by A.M.Divekar)
4	Criminal Manual	2003	P.L.Malik & K.K.Malik. Eastern Book Co.
5	The Bombay Stamp Act,1958.	Bare Act	
6	Transfer of Property Act, Limitation Act.	Bare Act	
7	Handbook of Practical Auditing.	2004	B. N. Tondon, S. Sudharsanam S. Sundharabahu.
8	Indian Contract Act.	Bare Act	
9	The Indian Penal Code.	Bare Act	
10	Criminal Major Acts.	1993	Mrs.Padma Khastgir & S. K. Mitra.
11	Contempnary Auditing	1992	Kamal Gupta.
12	Maharashtra C.S.Act,1960 with Maharashtra State Gazettes publication	Bare Act	Government of Maharashtra
13	WIRC reference manual 2013-14 & 2014-15		ICAI
14	Accounting Standards & Standards on Auditing		ICAI
15	All Acts referred in Volume II	Bare Act	
16	Notifications issued by Co-operation, Textile department		
17	Circulars issued by Commissioner for Co-operation & Registrar of Co-operative Societies, Maharashtra State, Pune; Director of Sugar, Maharashtra State, Pune; Director of Handloom & Powerloom, Nagpur; Director of Marketing, M.S.Pune		
18	Master circulars		RBI, NABARD
19	Information from website		RBI, NABARD, Government of Maharashtra, ICAI
20	Previous audit manual 1974		Government of Maharashtra
21	Co-operative Audit Manual		Government of Karnataka
22	Audit instructions		Government of Karnataka

DISCLAIMER

Efforts have been made by the contributors to this Audit Manual to ensure the accuracy of the information in the manual. The views expressed in this Audit Manual are views of the contributors based on information and references available to them and it only provides guidelines for effective conduct of the audit. The users of the manual are supposed to study the relevant Acts and Rules, Circulars, Notifications, References mentioned in the manual and exercise their own judgement before forming any opinion during the course of their audit. The contributors do not express their opinion on any of the Act as mentioned / referred to in this manual. The Co-operative Department, Maharashtra State or any officer thereof do not necessarily subscribe the views expressed in this manual.

The contributors have referred to various Acts, Rules, Notifications & Circulars which are prevailing at the time of preparation of this manual, which are subject to amendments from time to time.

No part of this publication may be reproduced or transmitted in any form or by any means without the permission in writing from the Commissioner for Co-operation & Registrar of Co-operative Societies, Maharashtra State, Pune.

GPK.—Qb 10-2000 Bks.-2.2019

Government Press, Kolhapur