

AUDIT OF CO-OPERATIVE SOCIETIES

Any ten persons who are competent to enter into contract may make an application to the Registrar of Co-operative Societies as per section 6 of the Co-operative Societies Act, 1912. By-laws may be framed by each society and should be registered with Co-operative Societies. Effectiveness of change in by-laws of societies is applicable only when changes are approved by Registrar of Societies. There are two types of society's, limited liabilities and un-limited liabilities societies. Any member is not liable to pay more than the nominal value of share held by them and no member can own more than 20% of shares of societies.

Government is encouraging co-operative societies to help society. Co-operative societies are operative in various sections like consumer, industrial, service, marketing, etc.

Under accounting system of Co-operative societies, the terms receipt and payment are used for two-fold aspect of double entry system.

Members are elected at the annual general meeting of the society. Day-to-day work of cooperative society is managed by the managing committee.

Audit of Co-operative Society

Below are the provisions for Audit as Per Section 17 of the Co-operative Society Act, 1912 –

- The Registrar shall audit or cause to be audited by some person authorized by him by general or special order in writing on his behalf, the accounts of every registered society once at least every year.
- The Audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.
- The Registrar, the Collector or any person authorized by general or special order in writing on his behalf by the Registrar, shall at all-time have access to all the books, accounts, papers and securities of a society, and every officer of the society shall furnish such information concerning the transactions and working of the society as the person making such inspection may require.

Qualification of Auditor

- A chartered accountant within the meaning of the Chartered Accountant Act-1949, Or,
- A person who holds a government diploma in Co-operative Accounts or in Cooperation and Accountancy; or,
- A person who has served as an Auditor in the co-operative society department of the State Government and whose name has been included by the Registrar on

the Panel of Certified Auditors maintained and published by him in the official Gazette at least once every year.

Appointment of Auditor

The appointment of an Auditor is done by Registrar of Co-operative Societies. The Auditor conducts his audit on behalf of the Registrar. The Audit fees is paid by co-operative society according to the statutory scale of fees prescribed by the Registrar in this regard according to the category of society. The Auditor is required to submit his audit report directly to the Registrar and one copy of the audit report is submitted to the concerned society.

Rights of an Auditor

- As per Section 17, an Auditor can access all the books, accounts, documents and securities of the society.
- He has to see that Balance-sheet of the society shows a true and fair view of a business according to information and explanation given to him.
- Every officer of the society is bound to give all information regarding working and transactions of the society.

Duties of An Auditor

An Auditor needs to consider the following points to be able to perform his duties in an efficient way –

- An Auditor should be well-versed with the Co-operative Society Act, 1912 and the by-laws of the society.
- If there is any type of irregularities and improprieties found by an Auditor during his audit regarding Co-operative Societies Act, 1912 and by-laws, he should immediately point out the same.
- An Auditor should ascertain that how many shares are held by each member of the society; for this, he should check the member ship registers.
- An Auditor should be well aware of power of officers regarding loan, investment, borrowings, advancing of the funds.
- He should thoroughly check and vouch the cash book and bank book.
- An Auditor should check all the receipts and payments of the society according to standard auditing practice.
- He should go through the agreements between society and borrower to check the interest due on loan and repayment schedule. An Auditor should also check and compare the actual interest received and the repayment of loan received with dues from them.

- He should carefully vouch and verify that loan given to members of the society is according to agreement, regulation and resolution passed by the Managing Committee of the society or not.
- An Auditor has to assure that a loan given to a non-member is not without the permission of the Registrar.
- He should verify the loan given by Co-operative bank should be according to the prescribed limit.
- An Auditor should physically examine and verify the assets of a society.
- He should adopt different methods for different kind of societies.
- Balance-sheet, profit and loss account and Auditor report should be according to the proforma given by the Chief Auditor of the Co-operative Society of the State.
- Accounts should be according to the Co-operative Society Act and also with the provision of Income Tax Act.
- All the assets, expenses, income, cash-in-hand, etc. should be vouched and verified according to standard accounting procedures and principles.

Books, Accounts and Other Records of the Society

Under Section 43(h) of the Co-operative Society Act, 1912, the Government of a state can frame rules prescribing the books of accounts to be kept by a Co-operative society. Following books and accounts are prescribed by the Maharashtra Government.

- Cash Book
- General Ledger
- Stock register
- Personal Ledger
- Register of Members
- Register of Shares and debentures
- Minutes books of general body meeting and committee meetings
- Property Register
- Register recording loan applications
- Maintenance of register of audit objections and their rectifications

Special Features of Co-Operative Audit

The checking of posting, arithmetical accuracy, vouching, verification of assets and liabilities and scrutiny of balance sheet are same as Auditor do in any other case. We will now discuss a few important aspects related to the Audit of Co-operative societies.

Examination of Overdue Debts

An Auditor has to examine and classify overdue debts

- from six months to five years and,
- overdue above five years in two categories and shall have to report it in his audit report.

Overdue Interest

While calculating the profit of Co-operative society overdue amount of interest outstanding should be excluded.

Valuation of Assets and Liabilities

General principles of accounting and auditing conventions and standard are adopted at the time of valuation of assets and liabilities. No specific provisions or instructions under the Act and Rules are provided.

Adherence to Co-operative principles

An Auditor should ascertain how far the objectives, for which the Co-operative society is set up, have been achieved in course of its working. It is not necessarily in terms of profit, but in terms of extending of benefits to members who have formed the Society.

Certification of Bad-debts

As per Rule No.49 of the Maharashtra State Co-operative Rules, 1961, it is very interesting to note that no bad debts can be written off unless they are certified as bad debts by the Auditor. Where no such requirement of law exists, the managing committee of the society must authorize the write-off.

Observation of the Provisions of the Act and Rules

An Auditor should be well versed with the Provisions of the Act and Rules of the Cooperative Society and the by-laws thereof. If the Auditor finds any irregularity, it should be immediately assessed and reported to the next level.

Verification of Members Register and Examination of their Pass Books

This is essential especially in rural and agricultural credit society where members are illiterate, the Auditor should verify the pass book and members register to verify the amount of loan granted and their repayments. It will help to ensure that the books of accounts are free from any manipulation.

Special Report to the Registrar

During audit if any irregularities are found by the Auditor that should be reported to the Registrar and an appropriate action may be taken by the Registrar against the society.

Audit Classification of Society

After assessing the overall performance, an Auditor has to award a class to the society. Judgement of Auditor should be based on the criteria fixed by the Registrar. The Auditor should be very careful when making decisions related to the classes in the society; if management is not satisfied by the award he may file an appeal to the Registrar and the Registrar may direct to review the audit classification.

Discussion on Audit Draft

After completion of audit, minor irregularities may be settled and rectified; matters concerning policies should be discussed in detail. The audit report can never be finalized without discussing with the managing committee.

By-laws

Each registered society is required to frame its own by-laws which have to be registered with the Registrar of Co-operative societies. According to Section 11 of the Act, the amendment of the by-laws of a registered society shall not be valid until the same has been approved by the Registrar of the Co-operative societies.

Investment of Funds

A registered society can invest or deposit its funds only in –

- Saving bank account of Government Banks.
- Any of the securities specified under Section 20 of the Indian Trust Act, 1882.
- The shares or in the security of any other registered society.
- Any bank or person carrying on the business of banking approved for this purpose by the Registrar.
- Any other mode permitted by the Section 32 of the Co-operative Societies Act.

Restriction on Co-operative Society

Let us now understand the restrictions that are imposed on co-operative society.

Restriction on Shareholding

According to Section 5 of the Act, where liabilities of the members of a society is limited, no member other than a registered society can hold more than 20% of the shares capital or shares of the society worth more than Rupees one thousand.

Restriction on Transfer of Share

A member of registered society with unlimited liability, cannot transfer any shares held by him or his interest in the capital of the society unless –

- He has held that share for at least one year, and
- The transfer and change is made to the society or to a member of the society.

Restriction on Loan

- According to Section 29 of the Act, a registered society cannot advance any loan to any person other than a member except with the prior permission of the Registrar.
- A society with unlimited liability cannot lend money on the security of a movable property except with the sanction of the Registrar of Co-operative society.
- The State Government has the power and can prohibit or restrict loans against mortgage of immovable property by any registered society or class of registered societies.

Restriction on Borrowings

A registered society can receive deposits and loans from persons who are not members of the society, only such an extent and under such condition as may be prescribed by the rules of the Co-operative Societies Act or by-laws of the concerned society.

Exemptions

According to Section 28 Central Government may exempt any registered societies or class of registered societies from Income Tax (Payable on the profits of the society or on dividends or other profit related to payments received by the members of the society). Stamp duty or registration fees.

Reserve Fund, Contribution to Charitable Funds and Distribution of Profit

- According to Section 33, the first 25% of the net profit earned during the year should be transferred to a Reserve Fund.

- 10% of Balance amount of net profit after transferring 25% to Reserve fund, a registered society can contribute for charitable purpose with the sanction of Registrar.
- Under such conditions as may be prescribed by the rules or by-laws, the balance amount of current profit plus past years profit can be distributed to members of the society.
- Dividend can be distributed according to rules and by-laws but cannot be more than 6.25%.

Only after special order of the State Government, unlimited liability society can distribute his profit otherwise not.

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