

AUDIT OF CO-OPERATIVE SOCIETIES

Question 1

List the special features involved in the audit of a Cooperative Society. (8 Marks) (June 2009)

Answer

The general processes of auditing involved in audit work such as checking of posting, ascertainment of arithmetical accuracy, vouching, verification of assets and liabilities and final scrutiny of Balance Sheet are well known to the students, and the same are to be applied in co-operative audit as well. It need not be discussed in detail. However, the special features of co-operative audit, to be borne in mind in general while conducting the audit are as follows

- Examination of overdue debts.
- Special treatment of over due interest in the determination of profit.
- Certification of bad debts before write off.
- Valuation of assets and liabilities
- Adherence to co-operative Principles.
- Observations of the Provisions of the Act and Rules
- Verification of members Register and examination of their pass books
- Special report to the registrar on fraud, mismanagement and personal profiteering.
- Audit classification of society based on the audit findings
- Discussion of draft audit report with the managing committee.

Question 2

Under what circumstances, an auditor is required to submit a special report to the registrar of Co-operative Societies? (4 Marks) (November 2009)

Answer

During the course of audit, if the auditor notices that there are some serious irregularities in the working of the society he may report these special matters to the Registrar, drawing his specific attention to the points. The Registrar on receipt of such a special report may take

necessary action against the society. In the following cases, for instance a special report may become necessary:

- (i) Personal profiteering by members of managing committee in transactions of the society, which are ultimately detrimental to the interest of the society.
- (ii) Detection of fraud relating to expenses, purchases, property and stores of the society.
- (iii) Specific examples of mis-management. Decisions of management against co-operative principles.
- (iv) In the case of urban co-operative banks, disproportionate advances to vested interest groups, such as relatives of management, and deliberate negligence about the recovery thereof. Cases of reckless advancing, where the management is negligent about taking adequate security and proper safeguards for judging the credit worthiness of the party.

Question 3

"Examination of overdue debts, audit classification of society, and reporting the infringement of provisions of the Act are the special features of audit of a co-operative society." Do you agree?
(6 Marks) (November 2010)

Answer

Special Features of Co-operative Society Audit

The special features of co-operative society audit, to be borne in mind in general while conducting the audit are examination of overdue debts, overdue Interest, certification of bad debts, valuation of assets and liabilities, adherence to co-operative principles, reporting infringement of act and rules, verification of members' register and examination of their pass books, special report to the registrar, audit classification of co-operative society, discussion of draft audit report with managing committee etc.

Besides the other special features mentioned above the Examination of overdue debts, audit classification of society and reporting the infringement of provisions of the Act, are some of special features of audit of a co-operative society which are explained as follows:

- (1) **Examination of overdue debts:** Auditor of a co-operative society has to classify the overdue debts for a period from 6 months to five years and more than 5 years. Further these debts are to be analyzed in 'good' or 'bad' depending on the recoverability of the debts. The bad and doubtful debts require some provision and the auditor has to ascertain whether proper provision for bad & doubtful debts has been made. The current year's amount of overdue debts and its ratio to the working capital and loans outstanding is to be compared with last year to know whether the trend is increasing or decreasing. The status of the court cases for recovery of the overdue debts is also to be mentioned in the audit report. While calculating the profit the interest on the overdue debts is not to be taken into account. The Bad debts portion of the overdue debts is to be certified by the auditor for the purpose of writing off.

- (2) **Audit Classification of Co-operative Society:** It is a unique feature of the Co-operative audit. After completion of the audit the auditor has to evaluate the working of the society on the basis of various parameters and criteria which are specified by the Registrar. It may be noted here that if the management of the society is not satisfied about the award of audit class, it can make an appeal to the Registrar, and the Registrar may direct to review the audit classification. The auditor should be very careful, while making a decision about the class of society. For good performance having certain marks "A" class is given. The D class is given to the society which shows very poor performance. In the same way B or C class is awarded on the basis of the marks obtained by the society.
- (3) **Reporting infringement of Act and Rules:** The auditor of the co-operative Society is required to report the non compliance of the various provisions of the Co-operative Societies Act, Rules framed under that Act and the by laws of the society. He has to assess the financial implications of such infringements and disclose the same in his report. The infringements of serious nature are to be reported separately and infringements which do not have financial implications and which have no serious effect on the working of the society or rights of the members may be reported separately.

Thus we can say that Examination of overdue debts, audit classification of society and reporting the infringement of provisions of the Act, are only some of special features of audit of a co-operative society.

Question 4

State the requirements regarding the maintenance of books of accounts with respect to a multi-state co-operative society. (4 Marks) (May 2011)

Answer

Maintenance of Books of Accounts with respect to a Multi-State Co-Operative Society:

As per the Multi State Co-operative Society Rules, 2002, every multi state co-operative society shall keep books of accounts with respect to

- (i) all sum of money received and expended and the matters in respect of which the receipt and expenditure took place.
- (ii) all sales and purchases of goods.
- (iii) the assets and liabilities of the society.
- (iv) in the case of Multi State Co-operative Society engaged in production, processing and manufacturing particulars relating to utilization of materials or labour or other term of cost as may be specified in the bye laws of such a society.

Comprehensively, the following books of accounts may be maintained:

- **Cash book:** It may be maintained to record particulars regarding cash receipts and expenses under suitable heads, with clear distinction between capital and revenue items of receipts and expenses.

- *Stock register*: It may contain detailed information as regards receipts, issues and balances of stock-in-trade, date-wise. In a producers co-operative society, perpetual inventory records may be maintained based on an appropriate costing method.
- *Register of assets and investments*: It will contain detailed particulars regarding the various immovable and movable assets belonging to the society, such as, types of assets, location, date of acquisition, cost, depreciation provided, and so on.
- *Register of fixed deposits*: In the case of a co-operative credit society, or a co-operative bank, or any other society which is authorised by its laws to accept deposits from members/ non-members, a register of fixed deposits may be maintained giving details as regards the dates of acceptance, maturity, interest accrual, repayment, etc.
- *Register of sureties*: In the case of a co-operative credit society, loans are given against personal security of members as also surety (guarantee) provided by two other members. The Register of Sureties will give particulars about the number of borrowers in respect of which a member has stood surety, and show whether it is within the overall limit of surety-ship that may be given by a member as prescribed by the bye-laws.
- *Register of loan disbursement and recovery*: In the case of a co-operative credit society, this Register will provide particulars regarding loans sanctioned by the society, the dates of disbursement and recovery.