CO-OPERATIVE MANAGEMENT AND ADMINISTRATION

VI SEMESTER

CORE COURSE

B.Com.

(Co-operation-Specialisation)

(2011 Admission)

UNIVERSITY OF CALICUT

SCHOOL OF DISTANCE EDUCATION

CALICUT UNIVERSITY P.O., MALAPPURAM, KERALA, INDIA – 673 635

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STUDY MATERIAL

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CO-OPERATIVE MANAGEMENT & ADMINISTRATION

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MODULE -1

CO-OPERATIVE MANAGEMENT

Co-operative Movement in India has grown up into a huge network of primary, central, state and national as federal organisations covering the various facets of the economy viz, Banking, Agriculture, Supply, Distribution, Processing, Marketing, Housing, Transportation and Small Scale Industry. It means that it covered the entire sectors of the economy such as Primary, Secondary, and tertiary. But a notable feature is that most of the cooperatives in India are not efficiently working thereby they incur losses and have not achieved their goals. Lack of member awareness, vigilance and solidarity and the lack of professional management are some of the causes leading to dormancy or inefficiency of their performance. Cooperatives alone conform to the requirements of the new social order based on the values of socialism and democracy which is envisaged in the constitution of India.

CONCEPT OF CO-OPERATIVE MANAGEMENT

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

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

Cooperation, thus, is a movement whose theory has evolved with times and experiences gained by the cooperators. There is no rigidity either in the concept or in the practice. It is the objective, ideal or the purpose which is to be achieved. The cooperation movement existed because of its ideals and it is from the pursuits of these ideals that its principles are derived and characteristic features determined.

DEFINITIONS:

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

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

The third and last school believes that cooperative movement can be an important instrument in furthering the socialist progress. This is based on Marxist-Leninist theories that, cooperatives can help the transformation from capitalism and finally to communism. Accordingly, a cooperative society has been defined as an "economic and social organisation of the working people, serving not only interest of the members, but also social progress," which promotes safeguards and realizes the interests and aspirations of the working people".

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

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

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

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

UNIQUENESS OF COOPERATION

1. Co-operation is based on the principal of self-help through mutual help, abolition of profits and service above self.
2. In cooperation, individual freedom occupies a very important position.
3. The principles of 'voluntary association' and 'democratic management' are the guidelines for the cooperative movement.
4. Cooperation eliminates the employers and provides independence to the workers.
5. A cooperative society is a union of weak and needy individuals who have equal rights and has one vote irrespective of the number of shares held by him.

MANAGEMENT FUNCTIONS

Overall, management embodies four functions:-

1. Planning
2. Organizing
3. Directing/Motivating
4. Controlling

1. **Planning:** Planning determines where the organization is going and how it will get there. It sets organizational objectives and goals, forecasts the environment in which objectives must be accomplished, and determines the approach by which objectives and goals are to be accomplished. Planning is used to determine a policy and the procedures for putting it into effect. Planning usually consider several alternatives. Each should be judged on the basis of its economic or competitive effect and accompanying problems. Also, it must be consistent with cooperative principles and the association's objectives. Planning helps a manager shape the future of the organization rather than being caught in an endless trap of reacting only to current crises or problems.
2. **Organizing:** Organizing is concerned with determining the specific activities needed to accomplish the planned objectives and goals; grouping the activities into a logical pattern, framework, or structure; assigning the activities to specific positions and people; and providing means for coordinating the efforts of individuals and groups. Organizing is a bridge connecting the planned objectives to specific projects for accomplishing these objectives.
3. **Directing:** Directing through motivation concerns the people side of the organization. Cooperatives are people-driven organizations, from the standpoint of both employees and members. Managers must have leadership skills and be effective communicators. The manager's ability to influence members through leadership will help determine the extent to which both individuals and the entire organization accomplish their goals.
4. **Controlling:** A manager spends up to 95 percent of the time communicating. Good communication is essential to coordinating the organization's human and physical elements into an efficient and effective working unit. In controlling, management monitors the progress of planned activities. If progress is lagging, necessary adjustments are made. Controlling is the checkup part of a manager's job.

ROLE OF MANAGEMENT

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

A successful cooperative is viable in an economic or business sense and maintains or improves its cooperative character or features. A cooperative may succeed as a business, but gradually lose its cooperative character regarding member control, serving the needs of members, and distributing net margins. Likewise, it may succeed for a while as a cooperative, but fail as a sound business institution.

Managing a cooperative is challenging and difficult. It involves not only managing resources and business operations, as other businesses, but also dealing with problems stemming from the cooperative's distinctive characteristics. Because the cooperative's members are both owners and patrons, special relationships and problems arise concerning member and board of director roles and responsibilities. Seemingly conflicting answers to questions arise. What's different in managing a cooperative from any other type of business? The answers can range from "all the difference in the world" to "none at all."

In reality, managing a cooperative is different from other types of business as 'Decision-making techniques are identical, but the cooperative's objectives are different; therefore, the manager's conclusions will be different'.

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

1. **Adjusting decision-making to a business where the customers are** also **the owners.** In a supply purchasing cooperative, the manager of an investor-owned firm (IOF) may discover that many of the successful techniques associated with developing a saleable and satisfactory product (for the customer) and achieving maximum return on capital (for the owner) no longer apply. A cooperative manager has to adjust priorities and objectives to the realization that what's best for the customer (also the owner)really is best for the cooperative. This realization may explain why some low- or no-margin services continue to be provided and why certain related and perhaps high-margin activities are not considered in a cooperative. The manager of a marketing cooperative must understand why the cooperative often is obligated to take all of the members' products and attempt to find a market for them. The manager is not at liberty to pick and choose among such product suppliers and cut off marketing when inventories build up. And certainly to allow the member-producer to dictate the terms on which the cooperative business should receive the product would be a situation foreign to non-cooperative managers.
2. Dealing with complex issues of equitable treatment of owner-patrons, the manager of an IOF will discover that distributing the net earnings of a cooperative is much more complicated than declaring a dividend on capital stock. The standard cooperative practice of distributing net earnings on the basis of individual member volume, such as units marketed or quantity of supplies purchased, also will be new should he/she become a cooperative manager. For larger cooperatives that handle many products and involve value-added activities, the issue of equitable treatment of member owners can be complex. Another concept new to an IOF manager now heading a cooperatives the requirement that member-owners share equitably in financing the cooperative, and that management communicates that responsibility to them and develops financing programs they'll accept.
3. **Working in a service-oriented organization is a spotlighted atmosphere. The** manager of a typical cooperative will find that members formed it to provide a needed marketing or purchasing servicer both. Hence, every time they use the cooperative they evaluate the service performed by its employees. Often, members may wish to express their views directly to the manager or to get management advice about supplies to use or when to market their products.

Therefore, a cooperative manager may feel that he/she is operating in an enclosed environment, compared with the manager of an IOF whose only interface with most stockholders occurs at annual meetings when they want an accounting of why there were changes in the market value of their stock or in the dividends declared on it. Even in the day-to-day routine of a large cooperative, the new cooperative manager may encounter a different working environment. Senior manager of a regional cooperative once observed, “A major change I had to face was what I call working under a spotlight.“Soon after joining the cooperative, I found that the half-million farmers who owned our member cooperatives wanted to know what I was doing. Their interest was genuine. Thousands toured the cooperative each year and some wished to meet the executives and professionals. They were important to us and not just ordinary visitors. Rather, they were managers of local cooperatives that owned the regional, or farmers who owned the locals.”He concluded, “an executive or professional joining a cooperative must adapt himself to the publicity surrounding his work.”

4. Cooperatives have unique management implications of business ownership and control. Managers perform under the influence of various motivational factors-pay, power, prestige, and a place in history. Not all are fully transferable from an investor-oriented business to a member-user oriented cooperative. An example concerns the ownership and control of the business. An investor-oriented business executive or manager looking for a company to “gain control of’ either by outstanding performance, political maneuver, or eventual ownership will be surprised if the company is a cooperative. A cooperative manager can never acquire “ownership rights,” and must become resolved to always being an employee. Further, the manager will discover it necessary to deliberately involve a majority of the member-owners, not just a few principal stockholders, in major decisions affecting cooperative policy and its business objectives. The prospective cooperative manager, therefore, needs to carefully assess whether his/her management style and personal performance motives and ambitions are compatible with the constraints of a cooperative owned and democratically controlled by member-users.

RESOURCES TO MANAGE

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

People

The most important resource in a cooperative is people. The success of all phases of the business depends on competent personnel working together smoothly and efficiently. In a 1994 study conducted by Janice Dresbach, Ohio State University, cooperative mangers said training was highly important in the areas of improving customer relations, educating members about the cooperative way of doing business, working effectively with a board of directors, identifying member needs. In an earlier study, managers cited the ability to deal effectively with people was the qualification most important to the success of the best manager they had ever known. Ability to size up a situation and act accordingly was ranked next in importance. Qualifications considered least important were ability to keep pressure on until the job is done and technical knowledge of supplies handled. Personnel management thus is a critical phase of business management. It begins with the selection of personnel, followed by training and evaluation. Much depends on personnel supervisors who must plan the work, delegate responsibilities and authority, analyze jobs, and set performance standards, as well as train workers, review performance, set up grievance procedures, and provide leadership. And proper compensation, including fringe benefits and incentives, is important in personnel management. Management should also motivate and reward employees. This coaching function involves seeking suggestions from staff, creating an environment where employees can be innovative, establishing goals, inspiring and recognizing good performance, and developing teamwork and an esprit de corps among employees.

In a cooperative, management also must strongly emphasize member relations because ownership, control, and patronage all are member functions. This involves adequate two-way communication and information from management to members and from members to management. Continuous efforts are also needed to obtain new members to maintain the organization and an adequate volume of products or services. Maintaining or improving good member-patron relations involves providing good, honest service and helpful information about the cooperative and the products it handles. It means keeping members informed about policies, operating practices, and financial requirements; and pointing out their responsibilities for making the cooperative successful.

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

Facilities

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

DEMOCRACY

Democracy is a form of government in which all eligible citizens participate equally—either directly or through elected representatives—in the proposal, development, and creation of laws. It encompasses social, economic and cultural conditions that enable the free and equal practice of political self-determination.

Direct Democracy:

Direct Democracy is that form of government in which people directly participate in the affairs of the State. In this system, public opinion is expressed directly in Assemblies meetings. All the adult citizens have the right to participate in the meetings of the Assembly where all the laws are passed, taxes are assessed, and appointments to execute, the decisions taken in the Assembly are made.

Since this system is possible only in those states where the population is small and it is possible for all the citizens to participate directly in the affairs of the state, nowadays this system exists only in a few cantons of Switzerland and some states in U.S.A.

Indirect Democracy:

Since the modern states are much larger in size and population, it is not possible for all the citizens to participate directly in the affairs of the state; indirect democracy has been established in almost all the modern states. Under this system, people elect their representatives for a period who run the administration.

If they do not work according to the wishes of the people and for their welfare, they are changed at the time of next elections. People do not directly take part in the affairs of the state. They elect their representatives who conduct the affairs of the state.

Indirect democracy exists in India, England, U.S.A. and France etc.

Democracy in Cooperatives

Aside from the public sphere, similar democratic principles and mechanisms of voting and representation have been used to govern other kinds of groups. Many non-governmental organisations decide policy and leadership by voting. Most trade unions and cooperatives are governed by democratic elections. Corporations are controlled by shareholders on the principle of one share, one vote.

Cooperatives are democratic enterprises where both ownership and decision-making power are democratically shared. As a result, they keep money and power in the hands of the community. Each member has a share of the organization, which makes them co-owners of the cooperative. When decisions need to be made that affect the group, each member has one vote to say how the cooperative is run — a mix of direct democracy and representational structures

Decision Making

A co-operatives' future will be determined by the goals the members of the cooperatives set and how effectively they make decisions and solve problems as a group. Establishing common personal, business and social goals right from the start, and sticking to them, can help this process immensely. This not only keeps their decisions focused, but also helps to avoid misunderstandings that can lead to conflict. Then the decision making process is one of identifying the specific goal or problem to be addressed, gathering the best available information on the options and their outcomes and risks and making the choice with the best chance of providing an effective solution. Easily said, but challenging to do!

Within the worker cooperative society, specific decisions are in the hands of the general assembly. The Cooperative society Acts provide the foundation for this authority by law, however the cooperative society's bylaws may also provide that specific policy decisions, such as wage rates, may require approval by the members' meeting. Importantly the bylaws of the cooperative society, which regulate the life of the cooperative society, must be approved by the members and can only be changed by a meeting of the members.

One of the key legal responsibilities of the members is to elect the board of directors of the cooperative society. The bylaws will specify the number of directors, their qualification and length of terms. Directors, by law, are responsible for the affairs of the co-operative. Their duty is always to make decisions in the best interests of the cooperative society as a whole. The directors, once elected, in turn elect officers like president, vice-president, secretary and treasurer. These officers of the cooperative society will have specific duties outlined in the bylaws. In small cooperative societies, members often serve in more than one capacity and often all members are also directors.

Good collective decisions require well-researched information and good communications between the board of directors, manager and membership. Cooperative societies may operate democratically, but you can't stop in the middle of the workday to discuss every decision which must be made. The directors are responsible to ensure that an effective operational structure is in place that it is supported by the members. This may take many forms, depending upon the desires of the members and on the type of enterprise that the cooperative society operates.

Within most cooperative societies the following structures are usually in place and are the forum for the following types of decisions.

ANNUAL GENERAL MEETING (AGM).

1. The board of directors reports to membership, reviewing the past business year and the year's financial statements.
2. The board seeks approval of its recommendations for surplus allocation.
3. The Business plan and budgets for the coming year are presented for discussion and approval.
4. An auditor is appointed.
5. Membership elects a new board.
6. Other membership decisions specified in the bylaws are made.

BOARD OF DIRECTORS MEETING

1. The manager(s) reports to the board, which in turn provides direction to the manager(s).
2. The key function here is for the board to hold those in charge of making decisions on behalf of the cooperative society accountable for the outcomes of those decisions. This would also include evaluating the organizational structure used to make these decisions. The board evaluates the cooperative society's financial position to determine whether or not the budgeted objectives are being met and what actions should be taken to improve the situation.
3. The board makes or changes policies as required, or recommends a policy to the membership if only the membership has the authority in a particular area.
4. Board members discuss long-term goals and strategy and ensure that a good planning process is in place to guide the cooperative society in the coming year(s).
5. The board approves new members or terminates a person's membership.

OPERATIONAL MEETINGS

Consultation and decision-making about daily activities takes place between members and management. These meetings, and who participates, will vary from co-operative to co-operative depending upon the organizational structures that have been approved by the membership and/or the board of directors.

COMMITTEES

Sometimes committees are appointed to research issues and make recommendations to help the board, membership or management make decisions. These committees may be standing committees such as a finance committee or may be ad hoc committees set up to simply address one specific issue.

THE DEMOCRATIC STRUCTURE OF THE COOPERATIVE

Within the Cooperatives, specific decisions are in the hands of the general assembly. The Co-op Acts provide the foundation for this authority by law, however the co-op's bylaws may also provide that specific policy decisions, such as wage rates, may require approval by the members' meeting. Importantly the bylaws of the co-op, which regulate the life of the co-operative, must be approved by the members and can only be changed by a meeting of the members.

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Within most cooperative societies the following structures are usually in place and are the forum for the following types of decisions.

The general assembly comprises all members and constitutes the supreme deliberation and decision-making organ of the cooperative society. Its decisions bind all the members.

TYPES OF GENERAL MEETINGS:

1. **Inaugural (constituent) General Meeting**

   I. A cooperative holds this meeting to inaugurate the functioning of the cooperative, to authorize the list of the founding members, to discuss and adopt the -bylaws and draw up the regulations of the cooperative, to approve the financial and operational plan for the first year's 'activities and to elect the members of the cooperative's managerial committee and other committees.

   II. Founding members have no extra rights than other members, except that they participate in the inaugural general meeting.

   III. The inaugural general meeting will adopt by vote the list of founding members present at the meeting to be full members of the cooperative.

IV. Those who have not attended this inaugural meeting will have to be approved as members according to the stipulations lay down by the law and the bylaws regarding acceptance of new members to the cooperative.

V. The inaugural general meeting takes place only once.

2. An Annual General Meeting

I. An annual general meeting convenes once a year on a date fixed by the bylaws of the cooperative but, not later than three months after the end of the financial year.

II. The annual general meeting will assess all aspects of the previous year's activities from the reports of the president, the secretary general, the treasurer, the audit control and that of the control committee. They will examine, approve or adjust elements and give or refuse the cooperative's authorities the final confirmation.

III. Will approve the financial, social, and development plans for the following year.

IV. Will elect the managerial units of the cooperative and the control committee for the following year.

V. Will fix the authorized maximum amount of debts that the cooperative society may contract with any credit supply organization.

VI Will fix the investment and deposit ceilings above which decisions must be taken by a special general meeting.

VII. The annual general meeting will be convened and presided over by a special AD-HOC committee created by the annual general meeting for that purpose. The annual general meeting will never be convened and presided over by the outgoing or incoming' management of the cooperative.

3 Extraordinary General Meetings

This meeting will be called only when the following matters are considered:

- Amendments to the bylaws
- Acceptance of new members
- Expulsion of members
- Dissolution of the cooperative

Decisions thereof require a special majority of all the members present at the meeting.

4 Special or Ordinary General Meetings

This meeting may be called at any time during the year whenever necessary. It may be summoned at the insistence of the management committee, the audit or the control committee, the registrar of cooperatives, or at the request of at least ten percent (10%) of all the members of the cooperative.

CONDITIONS PERTAINING FOR ALL GENERAL MEETINGS REGARDLESS OF TYPE

1. A general meeting may be convened only when a quorum is present. A quorum should be one person more than 50% of all members of the cooperative. If there is no quorum the meeting will be postponed to no earlier than one hour later, and no more than one month later. Any number of members present in the latter case would then consist of a legal quorum

2. Members must be informed about the date, time and place, as well as the proposed agenda of the general meeting well in advance up to two months prior to the date of the general meeting. Where it is possible written notice must be sent to all members at their official addresses at least one month prior to annual and extraordinary general meetings. When ordinary general meetings are concerned the notice should be sent as early as possible. The notice should include the date of the alternative general meeting to be called if a quorum is not reached.

THE STEPS IN DECISION MAKING PROCESS

The following steps can be adapted in decision making process.

Step 1 Identifying/clarifying the decision to be made. If the decision has not yet been isolated, it should be identified as a first step.The decision-making process begins when a manager identifies the real problem. The accurate definition of the problem affects all the steps that follow; if the problem is inaccurately defined, every step in the decision-making process will be based on an incorrect starting point. One way that a manager can help determines the true problem in a situation is by identifying the problem separately from its symptoms.

Step 2 Identifying possible decision options. The next step requires the decision maker to spell out, as clearly as possible, just what the decision alternatives really are. In fact, the more ideas that comes up, the better. In other words, there are no bad ideas. Encouragement of the group to freely offer all thoughts on the subject is important. Participants should be encouraged to present ideas no matter how ridiculous they seem, because such ideas may spark a creative thought on the part of someone else.

Step 3 Gathering /processing information and analyze the alternatives.

Next, the decision maker collects or processes information that can help guide the decision. If such information is already at hand, then it simply needs to be processed; that is, studied and understood by the decision maker. If there is no relevant information available, or if there is insufficient information, then such information must be collected so it can be processed. The purpose of this step is to decide the relative merits of each idea. Managers must identify the advantages and disadvantages of each alternative solution before making a final decision.Evaluating the alternatives can be done in numerous ways. Here are a few possibilities:

1. Determine the pros and cons of each alternative.
2. Perform a cost-benefit analysis for each alternative.
3. Weight each factor important in the decision, ranking each alternative relative to its ability to meet each factor, and then multiply by a probability factor to provide a final value for each alternative.
4. Regardless of the method used, a manager needs to evaluate each alternative in terms of its **Feasibility —** can it be done? **Effectiveness —** How well does it resolve the problem

situation? **Consequences —** what will be its costs (financial and nonfinancial) to the organization?

Step 4 Select the best alternative. After a manager has analyzed all the alternatives, she must decide on the best one. The best alternative is the one that produces the most advantages and the fewest serious disadvantages. Sometimes, the selection process can be fairly straightforward, such as the alternative with the most pros and fewest cons. Other times, the optimal solution is a combination of several alternatives.

Sometimes, though, the best alternative may not be obvious. That's when a manager must decide which alternative is the most feasible and effective, coupled with which carries the lowest costs to the organization. Probability estimates, where analysis of each alternative's chances of success takes place, often come into play at this point in the decision-making process. In those cases, a manager simply selects the alternative with the highest probability of success.

Step 5 Making/implementing the decision. After the information has been considered according to its relevance and significance, a decision based on that information should be made and, thereafter, implemented

Step 6 evaluating the decision. In recognition of the fact that not all of one's decisions are likely to be defensible, the final step in the five-step decision making process is to determine whether the decision was appropriate. Ordinarily, this will be done by ascertaining the decision's consequences. Ongoing actions need to be monitored. An evaluation system should provide feedback on how well the decision is being implemented, what the results are, and what adjustments are necessary to get the results that were intended when the solution was chosen.

In order for a manager to evaluate his decision, he needs to gather information to determine its effectiveness. Was the original problem resolved? If not, is he closer to the desired situation than he was at the beginning of the decision-making process?

If a manager's plan hasn't resolved the problem, he needs to figure out what went wrong. A manager may accomplish this by asking the following questions:

a) **Was the wrong alternative selected?** If so, one of the other alternatives generated in the decision-making process may be a wiser choice.

b) **Was the correct alternative selected, but implemented improperly?** If so, a manager should focus attention solely on the implementation step to ensure that the chosen alternative is implemented successfully.

c) **Was the original problem identified incorrectly?** If so, the decision-making process needs to begin again, starting with a revised identification step.

d) **Has the implemented alternative been given enough time to be successful?** If not, a manager should give the process more time and re-evaluate at a later date.

MODULE – II

MANAGEMENT STRUCTURE

GENERAL BODY

"General Body", means all the members of the Society and in relation to a national cooperative society or a federal cooperative means all the delegates of member cooperative societies or delegates of multi state cooperative society and includes a body constituted under the provisions of the Act.

ANNUAL GENERAL MEETING AND ROLE & RESPONSIBILITIES OF GENERAL BODY

(Powers and functions of the General Body)

The Board of the society under a resolution shall within six months after the close of the corresponding year call the annual general meeting at the principal place of business of the society for the purpose of:

1. Consideration of the audited statement of accounts;
2. Consideration of the audit report and annual report;
3. Consideration of audit compliance report;
4. Disposal of net profits;
5. Approval for appointment of Auditors & fixation of remuneration;
6. Review of operational deficit, if any;
7. Creation of specific reserves and other funds;
8. Approval of the annual budget;
9. Review of actual utilization of reserve and other funds;
10. Creation of specific reserves and other funds;
11. Approval of the long-term perspective plan and the annual operational plan;
12. Review of annual report and accounts of subsidiary institution, if any;
13. Expulsion of members;
14. List of employees who are relatives of members of the board or of the chief Executive;
15. Amendment of bye-laws, if any;
16. Formulation of code of conduct for the members of the board and officers;
17. Election & removal of members of the board, if any;

18. Consider the statement showing details of loans or goods on credit if any given to any director or to the spouse of the director or his/her son or daughter during the preceding year or outstanding against any of them;
19. Any other matter laid before it by the Board of Directors.

Board of Directors:

1) Directors to be elected by the General Body (number as may be specified in the Byelaws;
2) Nominated Directors (number as may be specified in the Bye-laws, if applicable);
3) Chief Executive and Functional Directors shall be the ex-officio members of the Board.
4) Two eminent persons may be co-opted by the Board of Directors;

NOTE: Functional Directors are applicable in case of National Cooperative Societies only.

5) Two subject matter specialists may be invited by the Board in any of its meetings;
6) Nominees of the Central Government, if any, as per the provisions of the Act. Where the Central Government or a State Government has subscribed to the share capital.

ROLE OF BOARD OF DIRECTORS (Powers & Functions of the Board of Directors)

1. To admit members;
2. To elect Chairman and Vice-Chairman of the society;
3. To authorize convening of Meetings of the General Body;
4. To interpret the organizational objectives and set-up specific goals to be achieved towards these objectives;
5. To make periodic appraisal of objectives;
6. To appoint, suspend or remove the Chief Executive and such other employee of the society as may be prescribed;
7. To make provisions for regulating the appointment of the society and the scales of pay, allowances and other conditions of service, including disciplinary action against such employees;
8. To place the annual report, annual financial statements, annual plan and budget for the approval of the general body;
9. To consider audit and compliance report and place the same before the general body
10. To acquire or dispose-off immovable property;
11. To review the membership in other cooperatives;
12. To approve annual and supplementary budget;
13. To recommend to the General Body distribution of profits;
14. To raise funds;
15. To sanction loans to the members;
16. To fill any vacancy/vacancies in the Board by election;

17. To approve the panel of auditors for placing in the General Body;
18. To appoint such Committees, Sub-Committees as may be necessary and delegate to them such powers as may be appropriate;
19. To frame regulations for the election of delegates to the General Body, Members to the Board of Directors and for the conduct of Meetings of the General Body and the Board of Directors as per the provisions of the Act;
20. To take such other measures or to do such other acts as may be prescribed or required under this act or the bye-laws or as may be delegated by the general body.

CHAIRMAN AND VICE-CHAIRMAN/ PRESIDENT

There shall be a Chairman and a Vice-Chairman elected by the Board of Directors from among themselves. The Chairman and in his absence, the Vice-Chairman shall preside over the Meeting of the General Body and the Board of Directors. The terms of office of the Chairman and Vice-Chairman shall be co-terminus with the term of the elected Members of the Board unless Chairman or Vice-Chairman ceases to be a Director earlier. In case of any vacancy within this period, the Board shall fill up the vacancy through re-election for the unexpired term of the Board.

POWERS AND FUNCTIONS OF THE CHAIRMAN:

The Chairman shall have the following powers and functions:

(i) He shall preside over the meeting of the general body, Board of Directors and executive committee;
(ii) The Chairman shall sign the proceedings of all the meetings presided over by him;
(iii) In the event of equality of votes on a resolution the Chairman shall have casting vote in the meeting;
(iv) To convene the meeting of the Board of Directors, Executive Committee and other Committees of which he is the Chairman;
(v) The Chairman may delegate any of his powers and functions to the Vice-Chairman;

CHIEF EXECUTIVE

The Chief Executive shall be appointed by the Board and shall aid and assist the Board of Directors in its functions. He shall be member of all the committees, sub-committees of the Board of Directors as may be constituted.

POWERS AND FUNCTIONS OF THE CHIEF EXECUTIVE:

Subject to overall control and general supervision of the Board of Directors, the Chief Executive /Managing Director by whatever name he is called shall have the following powers, functions and responsibilities:

(i) To assist the Board of Directors in the formulation of policies, objectives and planning;
(ii) To implement the policies and plans duly approved by the General Body or the Board and furnish to the Board of Directors periodical information necessary for appraising the activities and progress of achievement towards implementations of the policies and programmes;

(iii) To summon meetings of various committees including the general body under the instructions of the Chairman;
(iv) To maintain proper records of the society;
(v) To manage the funds of the society, cause proper accounts to be maintained and audited;
(vi) To attend to all correspondence of the society;
(vii) To be responsible for collection and safety of the funds;
(viii) To execute the policies/programmes and business of the society and take such action as is necessary to give effect to the resolutions of the general body, Board of Directors or any other committee constituted under bye-laws;
(ix) To sign all deposit receipts of the society with banks in accordance with the resolution of the executive committee;

SECRETARY

The duties of the secretary shall be-

(a) to attend all meetings of the registered society and of the committee and to carry out all the instructions of the committee;

(b) to be present at the office during the hours of business as fixed from time to time by the committee;

(c) to record the whole of the transactions of the registered society in the books provided for that purpose; to conduct correspondence on behalf of the registered society; to prepare the annual statement of accounts and balance sheet; and to have charge of the documents, books and vouchers for payments and receipts on behalf of the registered society;

(d) to receive all applications for loans and bring the same before the committee; to prepare receipts and other documents in the form prescribed for signature by borrowers prior to their taking the loans sanctioned; and with the authority of the committee to supply information about the registered society which may be applied for by members;

(e) \ to receive all moneys due or payable to the registered society and issue receipts to the payer for same from a counterfoil receipt book supplied to the registered society for the purpose by the Registrar, obtaining at the same time the signature of the person making the payment on the counterfoil;

(f) to deposit with the treasurer from moneys collected by him on behalf of the registered society all sums in excess of an amount to be fixed from time to time by the committee and to obtain from him a receipt on a form to be taken from the prescribed counterfoil book;

(g) to keep separate all moneys belonging to the registered society and on no account to mix them with any other moneys; and to produce at all times when called upon to the committee, or the Registrar or any person authorized by him, all moneys in his hands belonging to the registered society;

(h) to make payments as authorized by the committee, obtaining the payee's signature on the payment book prescribed by the Registrar:

Provided that if the payment is made outside the registered society's office the secretary shall, in every instance, obtain from the payee a manuscript receipt and attach it to a separate page of the payment book; (i) to issue a receipt on a form to be taken from the prescribed counterfoil book when receiving money from the treasurer; and to summon meetings as provided in the rules.

MODULE – III

CO-OPERATIVE EDUCATION & TRAINING

IMPORTANCE OF EDUCATION AND TRAINING

It is a universally accepted fact that cooperative movement in its facets is depending on education and training of its members. Cooperative education and training are co-related and interdependent, without one the other cannot be possible. While education develops mental facilities and increases knowledge, training develops the skill, chieseles and levels it. Education sharpens the intellect, broadens the vision and builds up the character of an individual. Training gives a practical shape to all these matters. The success of co-operative movement is essential depending on cooperative education and training of members on the one hand and in the application of the principles, practice and methods of cooperation as a way of doing business, on the other hand. Both education and training are therefore essential for the proper development of any co-operative. The importance of co-operative education training is loudly pronounced for the underdeveloped and developing countries where literacy is at its low level. Some of the cooperators defined cooperation as “an economic programme employing educational action”. But to some other co-operators, co-operation is “an educational programme employing economical action”. The importance of co-operative education is also amplified by the saying namely “Create cooperators before creating cooperatives”.

Ever since the beginning of co-operative movement in the world as a way of doing business and as an economic programme aimed at the well-being of the people who belonged to the underprivileged and under classified societies, co-operative education training found its due importance in all its field of activities. Cooperation in its technical sense (as a way of doing business) was a new and strange phenomenon unknown to the ordinary people when it was introduced. And as such knowledge and information of this form of doing business and its practical application were considered essential for its success by the early cooperators. Rochdale Pioneers while formulating the principles for the successful conduct of their consumer store had foresightedly recognized the importance of cooperative education and training. And they did not fail to include co-operative education as one of their principle. The ICA in reformulating these principles had recognized in unequivocal terms, the importance of co-operative education and training and included this as one of the principles in 1966. And of date the ICA in revising these principles in 1995 did not fail to include cooperative education and training as one of the revised principles. A committee on cooperative education and training was formed in 1935. The Chairman of the committee was Sir Malcom Darling. This Committee is considered as the first committee which recommended for a planned programme as a systematic approach on co-operative education and training.

The main aspect of these recommendations relates to a three phased programme namely.

1. Education and training programme for the trainers namely instructors and teachers on cooperation.
2. Education and training programme for the personnel of cooperative department.
3. Education and training programme for employees of cooperative societies, MC members and ordinary members.

The committee also suggested that the entire scheme should be financed jointly by the Govt of India and Provincial Governments.

The Cooperative Planning Committee (Sarayya Committee) of 1946 reviewed the progress in co-operative education and training so far achieved by implementing various schemes.

The Committee was not satisfied with the progress. It recommended for opening cooperative colleges and intensifying the cooperative studies in schools and colleges. The Sarayya Committee also suggested for providing facilities for advanced study and research on cooperation in colleges. From the above instances and incidents it is accepted beyond doubt the necessity and importance of cooperative education and training for the development of cooperative movement in its totality.

ORIGIN AND GROWTH OF COOPERATIVE EDUCATION AND TRAINING IN INDIA

The history of cooperative education and training in India dates back to 1904 when the cooperative movement in India started. Sir Frederick Nicolson while submitting his report for introducing cooperative movement in India also exhorted for "enlighted membership". The organized efforts towards providing cooperative education and training were made next in 1914. The Edward Maclagan Committee of 1914 along with other recommendations had also submitted proposals for implementing various programmes for co-operative education and training. The Committee was of the opinion that lack of co-operative education and training will jeopardize the very progress of cooperative movement in India. In a sense, the Committee was exhorting to "create cooperators before creating cooperatives".

The Royal Commission on Agriculture in 1928 had also made certain specific recommendations for implementing education and training programmes on cooperation. The Commission was also of the opinion that co-operation should be made a subject of study in schools and colleges.

The most important event during the pre-independence era was the appointment of a committee which suggested that the national board for co-operative education and training should be renamed as National Council for Co-operative Training (NCCT).

NATIONAL COUNCIL FOR COOPERATIVE TRAINING

National Council for Cooperative Training which is known as NCCT was established as per the recommendations of Swaminathan Committee of 1973 on 1st July 1976 with its headquarters in New Delhi.

The members of this council consists of the representatives of the Government of India, RBI, NCUI, national and state level cooperative federation, National Council for Education, Research and Training (NCERT), University Grants Commission (UGC), Agricultural Universities of India, Registrar of co-operative societies and the Secretary of Government of India in charge of Co-operation.

The President of NCUI shall be the Chairman of NCCT and the Chief Executive of NCUI shall be the Director General of NCCT.

The NCCT is in overall charge of planning and coordination in the entire training programme on cooperation in the country. The prime objective of NCCT is

1. Strengthening managerial structure of cooperatives and helping them in professionalization by improving the skill and knowledge of employees through a variety of programmes.
2. To the respective state co-operative unions.
3. The administration of the National Institute at Pune and the intermediary training centres at the regional level should be transferred under the control of this board.
4. Cooperation should be made an optional subject of study for gradution and PG courses. The most important decision was that provision should be made b the state governments in their respective Co-operative Societies Act for creating a fund by the name of Education Fund to be subscribed by the cooperatives working in profit. This fund is to be exclusively used for cooperative education and training etc.

Another event that happened in this field was the appointment of a committee by the Government of India constituted by NCUI. Dr .M.S. Swaminathan was the Chairman of the Committee. It was appointed in 1973. Swaminathan Committee was asked to examine the adequacy of the existing structure by education, training, and also suggest measures for development and improvement. The committee submitted its report which contains following recommendations.

1. Education and training programme should be separated.
2. Establishment of training centres for providing training to the subordinate staff in each state.

This Committee also recommended for providing training to non-official cooperators. It was different category of cooperators. The activities of the central committee should be streamlined so as to make it more result oriented. In short the entire training and education programme in India were getting a definite shape as a result of the recommendations of the survey committee.

In the year 1960, the Government of India set up a Study Team to conduct a detailed study on the cooperative education and training programmes in India. The Committee was asked to examine the activities of the central committee and submit proposals for making these programmes more effective and suitable to meet the needs of the fast growing cooperative movement. The study team submitted its report during the same year. Simultaneously a national level conference of Ministers of Cooperation was convened at New Delhi. This conference discussed in detail the report of the Study Team and finally the conference took the following decisions.

The central committee for the cooperative education and training should be replaced by a more powerful body by name the National Board for Cooperative Education and Training.

The first important event during the post independence period in this field happened in 1953 when the Govt. of India in consultation with the RBI constituted a committee at the national level exclusively for cooperative education and training. And this committee was known as Central Committee for Cooperative Education and Training.

All India Rural Credit Survey Committee for 1954 in its foremost recommendations namely integrated system of rural credit included cooperative education as one of the important ingredients for the development and success of the cooperative movement in India. The Committee submitted specific schemes and programmes for strengthening, developing and diversifying the education and training activities of the central committee constituted in1953. The Committee also envisaged an integrated scheme for the training of employees of cooperative department and cooperative institutions and also the cooperators as a whole. The scheme suggested by the Committee were:

1. Classification of trainees in three categories namely higher, intermediate, and subordinate.
2. Upgradation of the existing training centre at Pune as a national level institute and expanding the training programmes for higher level traineers.

3. Establishment of Regional Training centres for providing training to the intermediate level staff. As a first step the committee suggested for starting 5 such centres.

It is the bounden duty of NCCT to bring out a managerial cadre capable of handling the cooperatives as the most modern business organisation. It has also been the endeavours of NCCT to develop job oriented and need based programmes for all sectors of employees with varied durations. A modular approach has been adopted by NCCT to develop more and more job oriented training packages for all the categories of employees by upgrading the training technology through diversified training programmes to achieve professional competence and administrative efficiency.

NCCT is having a 3 tier system of cooperative training consisting of

1. VAMNICOM at the apex level.
2. Institute of Cooperative Management (ICM)/co-operative training colleges at the middle level.
3. Subordinate training centres or Junior Training Centres at lower level.

The Vaikunda Mehta National Institute of Cooperative Management (VAMNICOM) and the Institute of Co-operative Management (ICM) are controlled and administered by NCCT directly while the subordinate training centres are governed by the respective state cooperative unions. But the entire programmes and schemes for training are chartered out and coordinated by NCCT at the national level.

COOPERATIVE EDUCATION

Unlike the cooperative training programmes in India, the cooperative education programme is not having a well organized set up in India. Until the Swaminathan Committee of 1973 all the programmes for cooperative education and training were jointly undertaken. As a result of the Swaminathan Committee report, these two schemes were separated and separate programmes were formulated for education and training. It has to be mentioned in this context that both the training and education programmes are formulated and guided by the NCUI. In 1956 a centre was started in New Delhi as a subsidiary to NCUI for providing education and training to the trainers or teachers of cooperation. This centre is known as National Centre for Cooperative Education.

NATIONAL CENTRE FOR COOPERATIVE EDUCATION- NCCE

The National Centre for Cooperative Education which is commonly known as NCCE was established in 1956 as a subsidiary ot NCUI. Originally this centre was to provide training and education t the trainers of cooperation. But subsequently when these two programmes were separated the NCCE continued to provide education to the trainers. The NCCE is considered as a national centre for education. Even though there exists no well knit organizational set up in cooperative education; the NCCE is considered and accepted as the apex level centre in educational set up. The NCCE is now undertaking programmes for teachers on modern methods and techniques of teaching. The activities of the centre have now been diversified to cater to the needs of the fast growing cooperative sector.

It has also stepped up its activities to include leadership development programmes for the leaders of different types of cooperatives.

The educational programmes in cooperation in India are not having a middle level organisation. The state cooperative unions are the state level agencies to implement educational programme at the grass root level and the education programmes are being implemented by the state cooperative union through their instructors.

NATIONAL COOPERATIVE UNION OF INDIA - NCUI

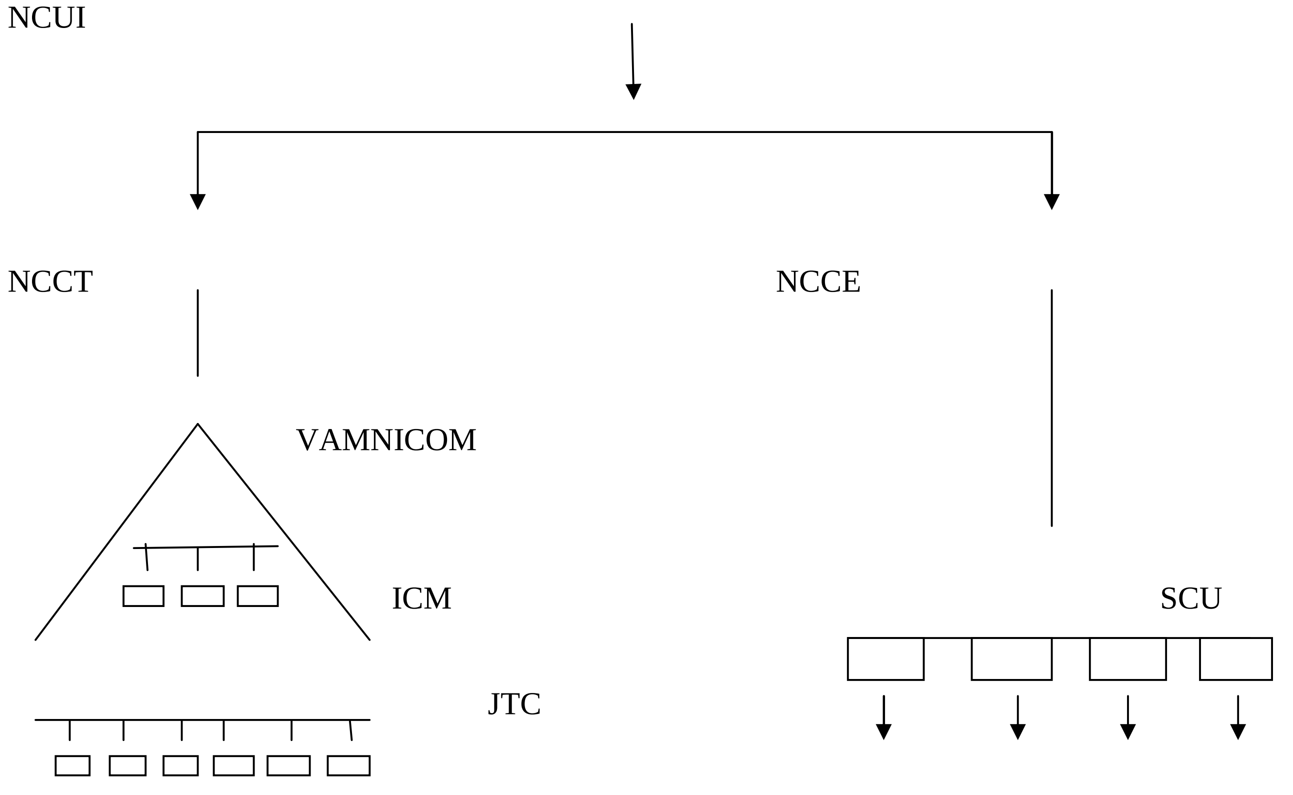
The origin of NCUI dates back to 1949 when a national conference of the Indian Cooperative Congress was held in Bangalore. This conference decided to have a national organisation especially in the non-official sector. The Government of India took steps for implementing this decision in consultation with RBI. Accordingly a national level cooperative union was organized in 1949 by amalgamating the All India Cooperative Institutes Association of 1928 and Indian Provincial Banks Association fo 1949. The Union was organized and registered as a cooperative society under the Multi Unit Cooperative Societies Act, 1945. The original name of this union was Indian Cooperative Union with its headquarters in New Delhi.

The name subsequently changed as All India Cooperative Union. After the Gorhan Committee Report the name was finally changed as National Cooperative Union of Indi.

The NCUI is now having the representation of more than 25 crores of ordinary members.

All the state cooperative unions, the state level and national level cooperative federations, the Government of India and the RBI are its members. The administration of NCUI is having a 3 tier system, comprising of General Body, Governing Council and Executive Committee. The President of NCUI will be the head of all these. NCUI is publishing two monthly magazines by name “The Cooperator” and “The Indian Cooperative Review”.

The NCUI is the national level apex body in the cooperative movement in India. All the training and educational programmes in cooperation are being guided and controlled by NCUI. The following diagram depicts the training and education set up for cooperation in India under NCUI.



KERALA STATE COOPERATIVE UNION

It was established as per S.89 of the KSC Act. It was a combination of three erstwhile cooperative institutes namely Cochin Cooperative Institute of 1930, North Malabar Cooperative Union of 1932 and Travancore Cooperative Institute of 1947. After the formation of State Cooperative Union in 1969 all the functions hitherto undertaken by 3 separate unions were transferred and carried out by the union.

In Kerala, State Cooperative Union is the state level apex body in the non official cooperative sector for the promotion of the cooperative movement in Kerala. What is NCUI to India is the Kerala State Cooperative Union to Kerala. It is considered as the sole agency for propagating principles and practice of cooperation, protecting the entire interest of cooperatives and there by cooperators in the state of Kerala. The healthy progress of cooperative movement in Kerala is the main lookout of the KSCU. It is the agency to undertake and implement all the training and educational programmes in world cooperative movement. The name of the magazine published by it is “The Cooperative Journal”.

The department of cooperation is also having a monthly publication by name “SahakaranaVeedhi”. The functions of the SCU also include conduct of seminars and conferences, leadership campaign etc, for the overall development in cooperative movement in the state.

SCU is conducting all these activities with the financial assistance received by it through Education Fund, which is created out of the net profit of the cooperatives. The fund of the state union also includes affiliation and renewal fee from the cooperatives and grant from State Govt, and donations from the cooperative institutions.

At present there exists a systematic arrangement for member education programme. The educational activities are monitored at the District level by a committee with the Joint Registrar (Audit) for the district as the convener; the President of DCB will be the Chairman of this committee.

TRAINING PROGRAMMES UNDERTAKEN BY KSCU

The Cooperative training programme under the overall guidance of NCCT is undertaken by KSCU through its cooperative training colleges and centres. At present there are seven cooperative colleges under the direct control of SCU and one oat Kottayam in the private sector run by the NSS. There are also nine cooperative training center for the junior diploma in cooperation run by the union.

The method o f study, types of syllabus, duration of courses and method of examination are decided by the union in accordance with the broad guidance provided by the NCFT under NCUI. Cooperative training colleges are providing higher diploma in cooperation with 11 months duration consisting of nine months of class room studies and two months of practical study. The first month of practical study centres round the functions of various types of cooperatives in Kerala with special references to the constitution. The second month of the training is expected to obtain a firsthand knowledge t\and information and practical application f the power of officers of the department of cooperation under the KSCU. The training provided by the JTC comprises of 8 months class room study and 2 months of practical training in the same pattern of the HDC course.

The examination of both these courses up to the publication of results and issue of diplomas are conducted by Central Board of Examination with the Registrar of the cooperatives as its

Chairman. The Secretary of the SCU will be the Secretary of the board also. Usually an additional registrar of cooperatives will be the Secretary of the SCU.

H.D.C. Course:

This is a Post Graduate Diploma Course of 11 months duration including two months practical training. The minimum qualification for education to the HDC course is a University Degree. The course is conducted at 8 Cooperative Training Colleges of which one is under the management of NSS at Kottayam. The admission of candidates is purely on merits of marks.

J.D.C. Course:

The course is of 10 months duration of which two months are devoted for practical training. There are 9 junior level training centers in the state out of which 5 are for the student under general sector and four are for SC/ST students. In addition to the SC/ST batches, one general both for the students selected in open merit is being conducted in the SC/ST centers except at Wayanad. 50% seats under general sector are reserved for Institutional and departmental candidates (i.e. 35+15) and the remaining 50% to the candidates selected from private sector.

Member Education Scheme:

The Kerala State Cooperative Union realized this and made extensive arrangements for conducting member education programme in the state. The staffing pattern discussed earlier has mentioned the position of Cooperative Education Instructors at the various Member Education Units. These Instructors carryout the member education programmes at the district level.

Member Education scheme sponsored by the National Cooperative Union of India was introduced in Kerala in 1957 as a pilot project and it is being implemented by the State Cooperative Union, Kerala as per the guidelines given by the NCUI from time to time. Cooperative Education programme is now being implemented by the State Cooperative Union as per the scheme for the utilization of Cooperative Education Fund approved by the Registrar of Cooperative Societies and as recommended by the Managing Committee of the State Cooperative Union every year. All expenses incurred for this scheme are met from the Cooperative Education fund remitted by the Cooperative Societies out of their net profit. Besides Government of Kerala provides Rs.20 lakhs for the above purpose.

The State of Kerala has 11690 Cooperatives spread over 14 districts. The total membership of these societies comes to 29486445 members. The major activity of the State Cooperative Union is educating the members, Managing Committee Members, prospective members, women and youth, public etc. In order to achieve this, the Union conducts a variety of programmes, such as Cooperative camps, rallies, seminars, conferences, attending general body meetings, conducting managing committee classes, arranging lectures in colleges and Schools on Cooperation, organizing debating and essay competitions, organizing special programmes for women, weaker sections etc.

MODULE –IV

ACCOUNTING & AUDITING OF CO-OPERATIVES

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

ACCOUNTING

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

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

BOOKS & REGISTERS MAINTAINED BY THE CO-OPERATIVES

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

1. Minutes book

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

2. Share Application Registrar

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

3. Admission Register

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

4. Nomination Register
5. Cash book, showing daily receipts and expenditure, and the balance at the end of each day.
6. Day Book
7. Receipt Book

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

8. Voucher File

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

9. Ledger of Borrowing

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

10. General Ledger

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

11. Register of Monthly Receipts and Disbursement
12. Register of Dividend
13. Suspense Account Register
14. Rectification Register

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

1. Loan Ledger

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

2. Liability Register

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

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

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

6. Land Register
7. Credit Limit Statement.

CLOSING OF ACCOUNTS

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

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

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

REGISTRAR MAY REQUIRE STATEMENTS AND RETURNS TO BE FURNISHED.

1. Every co-operative society shall prepare for each co-operative year.

   (a) a statement showing the receipts and disbursements for the year.

   (b) a profit and loss account

   (c) a balance-sheet and

   (d) such other statement or return as may be specified by the Registrar from time to time.

2. Every balance sheet of a co-operative society shall give a true and fair view of the state of affairs of the society as at the end of the Co-operative year. Every profit and loss account of the society shall give a true and fair view of the profit and loss of the society for the Co-operative year. Every Co-operative society shall submit to the Registrar annually within April each year a copy of each of the statements specified in the act.

   Explanation–For this purpose the balance sheet or profit and loss account, shall include any subsidiary statements or documents annexed thereto and any notes thereon.

3. Every consumers' society and every producers' society, any other society, if so, required by the Registrar by order shall submit to him annually within such time as may be specified in that order, a statement of verification of the stock at the close of the preceding co-operative year of articles in which the society transacts business.

4. In case of failure by any society to submit any statement or return specified, within the time specified therein, the Registrar may depute an officer to prepare the necessary statement or return. In such cases it shall be competent for the Registrar to determine with reference to the time involved in the work and the emoluments of the officer deputed to do so, the charges which the society concerned shall pay to the Government and to direct its recovery from the Society.

PREPARATION OF MANUFACTURING TRADING AND PROFIT AND LOSS ACCOUNT

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

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

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

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

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

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

General ledger or from one personal account to another are passed through the journal or through the Cash Book and that no posting into the ledger is made directly from the ledgers. The details furnished in the transfer vouchers (both credit and debit) should be verified carefully and ensured that the entry has been correctly passed.

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

6. Items coming under:

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

(1) The work in progress or value of unfinished goods at the beginning of the year.

(2) Raw materials used (ie. opening stock plus purchases minus closing stock)

(3) Fuel, Oil Electricity and other power charges.

(4) Store and spare parts consumed.

(5) Direct or indirect labour.

(6) Maintenance of factory, plant, machinery, tools, stores, etc.

(7) Insurance of Factory building, tools, machinery etc.

(8) Depreciation of plant, machinery, tools etc.

(9) Factory lighting, water charges etc.

(10) Rent, rates and taxes of the factory premises.

(11) Salaries of the technical staff and officers including works manager, factory Superintendent etc.

(12) General administrative expenses pertaining to the Factory.

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

(1) Opening stock (value of finished goods at the beginning of the year).

(2) Cost of goods purchased, which include expenses connected with purchases.

(3) All trading expenses.

On the credit side the following items are usually included :

(1) Net sale proceeds (ie. total sales minus sales returns)

(2) Value of closing stock.

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

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

(1) Interest paid and due.

(2) Establishment and contingent charges paid and due.

(3) Depreciation

(4) Assets written off as bad debts

(5) Reserves for overdue interest.

(6) Reserve for doubtful debts.

(7) Miscellaneous items.

(a)Provision for gratuity

(b) Provision for income tax

(c) Provision for other items (to be specified)

(8) Last year's loss.

(9) Net profit.

On the credit (profit) side:-

(i) Interest earned.

(ii) Miscellaneous income.

(iii) Commission etc.

(iv) Profit in non-credit business

(v) Reserve for interest of last year.

(vi) Other items

(vii) Net loss.

7. Other items:

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

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

(b) Interest receivable and payable :-Interest accrued upto the date of balance sheet should be worked out and brought into account. However, no credit should be taken of amounts, receipt of which is considered doubtful, unless adequate provision is made therefore. As regards out-standing interest on loans and advances this has been treated separately. Interest on bank loans and other borrowings is generally debited to the account of the Society. In the case of deposits and other temporary borrowings, interest accrued up to the date of the balance sheet should be calculated and provided for. Care should be taken to include interest accrued on fixed deposit between the dates of last payment of interest up to the date of balance sheet.

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

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

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

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

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

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

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

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

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

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

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

(2) There should be proper grouping and classification of items so as to present a clear picture of the current earnings.

(3) The whole account should be prepared, up on a consistent and uniform basis from year to year so as to facilitate useful comparison.

(4) Adequate provision should be made for depreciation, bad debt and other losses.

(5) Provisions of the bye-laws relating to creation of capital Redemption Fund, Sinking Fund, Guarantee Fund etc. should be strictly observed.

(6) Interest payable on deposits, loans, debentures and other borrowings should be calculated and included in the account.

(7) Transfers to profit and loss account from funds created out of past profits should be made.

PREPARATION OF BALANCE SHEET

A. Verification of Assets and Liabilities

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

"A Balance sheet is not a statement of assets and liabilities, as is commonly through, but merely a 'sheet' showing a classified summary of all the balances appearing in a set of books, after all the nominal accounts have been closed by transfer to the Profit and Loss Account-the balance sheet including in one form or another, the balance on the latter account". It shows, in a classified form, all the balances remaining in the books, after the nominal accounts are transferred to the Trading and Profit and Loss Account and the Corresponding accounts in the ledger are closed.

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

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

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

(i) The value may be the estimated amount that the assets would fetch, if sold or disposed of, i.e. the realizable value.

(ii) Value may mean the amount that is estimated to replace the asset i.e. the replacement value.

(iii) The amount that an asset costs, when purchased or acquired, less the provisions made for depreciation since its acquisition i.e. the written down value or going concern value.

(iv) The balance of revenue expenditure which is being written off over a period of years, i.e. 'Deferred revenue expenditure or 'prepaid expenses'.

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

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

No definite rule can be laid down as to the correct order in which the assets and liabilities shall appear in the Balance Sheet. Two methods of arrangement are employed. In the first, the assets are shown in the order of liquidity ie, cash and bank balances, which are most liquid appearing first followed by investments and other current assets, fixed assets and fictitious assets appearing last. The liabilities however, appear in the reverse order, viz, share capital and reserves appearing first and liabilities and provisions for credit balance of profit and loss account appearing last. The second method is in the reverse order of their realisability. That is, fixed assets are shown first, floating assets next and liquid assets like cash and bank balances in the last. On the liability side, liabilities are shown in the reverse order of repayment. Capital is shown first reserves next and credit balance of profit and loss account as last.

B. Verification of assets

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

(ii) Floating or current assets :- Floating assets are those assets which are acquired for resale or produced for the purpose of sale and consists of cash and such assets as are held for purpose of conversion into cash in the course of regular business. Current assets are ordinarily classified under the following main heads:-

(i) Interest accrued on investment and loans.

(ii) Stock in trade in case of trading concern.

(a) Stores and spare parts

(b) Loose Tools

(c) Semi-finished goods, work in progress and finished goods in case of manufacturing concerns.

(iii) Loans outstanding and sundry debtors.

(iv) Cash and bank balances etc.

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

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

2. Valuation of different types of assets

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

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

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

(iii) Trademarks :-Verification of trademarks can be made by inspection of the certificates of registration or of any assignment of the Trade Marks. Where the trade marks have been registered, the auditor must vouch the amounts treated as capital expenditure. Fees paid for renewal should be charged to revenue account. The entire amount shown under trademarks should be written off during the life time of the trade mark.

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

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

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

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

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

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

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

(vii) Motor Vehicles :-The auditor should verify the vehicles register or vehicles account. The auditor should also examine the registration book of each vehicle and satisfy himself whether the registration number and description recorded therein agree with the particulars shown in the vehicles register. If the Society has got a fleet of vehicles it will be necessary to keep separate account of each vehicle. The expenses under repairs etc. should be charged to revenue and only the cost of major repairs carried out be allowed to be carried over to for one or two years so as to spread over the benefit of the expenditure over the period for which it is availed of.

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

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

(ix) Library books :-Purchase of costly books especially reference books and technical books, may be capitalized and shown under the heading “Library books”. Library register should be maintained for all purchases under the item whether the expenditure is debited under revenue head or capital account. Periodical inspection and physical verification of books should be conducted. 10% depreciation per annum may be charged on Library books.

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

3. Verification and valuation of current assets:

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

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

Investments my be:-

(1) Registered debentures, stocks and shares, Government Securities.

(2) Inscribed stocks; and

(3) Bearer bonds and share warrants

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

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

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

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

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

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

4. Stock in trade:

(i) General :-As the correctness of the profit and loss account of a trading concern depends to a large extent on the accuracy of the valuation of the stock in trade at the date of the Balance sheet, the verification of this form of assets forms a very important part of the duty of the auditor. He has also to see that it is valued according to certain accepted principles of accountancy.

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

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

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

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

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

(2) The items of purchases which have reached the premises, but the corresponding invoices have not been passed through the books, should not be taken into stock. But it should be treated as stock in transit. If such items are taken into stock the cost of the same should be shown as purchases pending payment.

(3) Goods sold and treated as sales in the accounts but not yet delivered to the customers should be excluded from the stock list.

(4) Goods which are held on behalf of third parties, by way of consignment, or agency, should not be included in the list.

(5) Goods which have been sent out "On sale or Return" and as are not yet accepted or returned by the customers should be included in the stock.

(6) Stocks sent on consignment should be included.

(7) Unsold goods on consignment should be valued at cost price and not at selling price.

The stock sheet should contain the following columns.

(i) Serial No. and name of goods

(ii) Quantity actually verified.

(iii) Quantity as per the Stock Register.

(iv) Quantity excess or deficit.

(v) Quantity value excess or deficit.

(vi) Rate of value per unit.

(vii) The amount of value.

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

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

(i) Check the totals of the stock sheets.

(ii) Check calculations bearing in mind that items calculated as singles, may, in fact be doubles, dozens, or even grosses.

(iii) Compare stock sheets with those of the previous years, particularly as regards quantities and also ascertain whether any part of the stock has been held for a long time and obsolete.

(iv) Examine the Goods Inward Book for the last few weeks of the period and trace any large item into the stock and into the purchase Register.

(v) Trace any large scale sales towards the end of the period into the Goods Despatched Register and make sure that the goods if undelivered, have not been included in the stock.

(vi) Where quantities can be checked easily, this should be done by deducting the total sales from the total purchases plus opening stocks.

(vii) Enquire whether any goods belonging to the Society are in the hands of the consignees, selling agents, or distributors or lying in depots or warehouses.

(viii) While examining stock sheets, it should be seen that no plant, machinery, tools, furniture and similar other capital goods are not included in the stock.

(ix) After the Trading Account is drawn up and the amount of gross profit arrived at, compare the percentage of gross profit to sales with that of the previous. If there is any marked difference, the reasons for such short fall should be enquired into.

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

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

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

Maintenance of stock register and stocking of balances in it after issue at godowns is necessary, so that when a physical verification of stock is done, it can be compared with the stock register and reasons for difference, if any, investigated. The Auditor should watch whether goods received first are issued first.

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

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

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

(a) the purchase price of goods, stores and in the case of purchased stock, materials used in manufacture,

(b) direct expenditure incurred in bringing stock in trade to its existing condition and location and

(c) indirect or overhead expenditure incidental to the class of stock in trade concerned.

Whereas the cost of items (a) and (b) can be worked out with substantial accuracy, the cost towards item (c) ie, indirect or overhead expenditure can only be a matter of calculation. If indirect or overhead expenditure is expressed as a percentage of actual production the amount added to the stock valuation will fluctuate from one period to another according to the volume produced. To avoid distortion of revenue results, in some cases indirect or overhead expenditure is eliminated as an element of cost when valuing stock in trade or alternately, only that part which represents fixed annual charges is excluded. In other cases, an amount is included which is based on the normal production of the unit concerned.

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

- ***(a) Unit cost :-*** The total cost of stock is calculated by totalling the individual cost of each article, batch, parcel or other unit. But in some cases it is impossible to identify the stock on hand with the various consignments purchased and it will involve undue time and labour.
- ***(b) First in and first out :-*** This method is adopted on the assumption that the goods are consumed as and when they arrive and those on hand represents the latest purchase.
- ***(c) Average cost :-*** This basis entail averaging the book value of stock at the commencement of a period with the cost of goods added during the period after deducting consumption at the average price, the periodical tests for calculating the average being as frequent as possible having regard to the nature of the business.
- ***(d) Standard cost :-***This is a predetermined or budgeted cost per unit. It is coming more into use, particularly in manufacturing or processing industries where several operations are involved or where goods are produced on large scale.
- ***(e) Adjusted selling price :-***This method is used widely in retail business. The stock is valued at the first instance on the basis of selling price and deducting therefrom a certain percentage representing the gross profit.
- ***(f) Base stock :-***Under this method an agreed quantity of stock is valued at a fixed price each year, this price being below the original cost price of the “Base Stock”. The excess on this fixed quantity can be valued at cost price or market price whichever is less.

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

(x) Auditor’s duty with regard to stock in trade: - The accuracy of the balance sheet largely depends on the correct valuation of stock in trade. Since falsification of accounts is frequently effected by means of manipulation of the stock list, the auditor should be very careful in the verification and valuation of stock in trade. It is impracticable for the auditor to take, inspect or value the stock himself. He has to rely largely on the internal check in force and on the officials’ certificate. Therefore, the auditor should exercise reasonable care and skill with a view to satisfy himself as to the correctness of stock taking and valuation. The work of the auditor in most cases may be summarised as follows:-

(1) Casting and a proportion of the calculations of major item in the stock sheet should be checked.

(2) The quantities shown in the book should be compared with the actual stock verified. Differences, if any, should be enquired into.

(3) Where stock is held by agents or warehouses, their certificate should be obtained and compared.

(4) He should verify whether all goods included in the stock are also included in the purchases by examining the Goods Received Books, for the last few days of the period and testing invoices for the new period.

(5) The basis of valuation should be enquired into. It should be seen that the stock is valued at cost or market price whichever is lower on the date of the balance sheet and that the value of the finished goods is below the market price. The items of obsolete and defective stock should be valued at their respective realisable value.

(6) The percentage of gross profit on turn over should be compared with that of the previous period and the causes of marked fluctuation, if any, should be enquired into.

(7) It should be seen that the stock sheets have been properly certified by some responsible official, the parties concerned in the preparation having initiated them.

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

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

5. Valuation of different classes of stock:

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

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

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

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

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

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

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

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

(a) Stock in trade is a current asset held for realisation. In the balance sheet it is, therefore, usually shown at the lower cost or market value.

(b) Profit or loss on trading is the difference between the amount for which goods are sold and their cost, including the cost of selling and delivery. The ultimate profit or loss on unsold goods is dependent upon prices ruling on the date of their disposal, but it is essential that provision should be made to cover anticipated losses.

(c) Inconsistency in method may have a very material effect on the valuation of a business based on earning capacity, though not necessarily of importance in itself at any Balance Sheet date.”

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

(v) Goods on consignment: - In respect of goods sold on consignment basis, a certificate should be obtained from the consignee in respect of the stock on hand on the date of Balance Sheet. The unsold consignment of goods mentioned above should be valued at cost price plus proportionate expense etc. The auditor should be careful to see that any balance of stock of consignment inwards is not included in the stock last.

6. Sundry Debtors :

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

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

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

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

7. Loans outstanding:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) The age of the debt:-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The following are some of the important ratios,-

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

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

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

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

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

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

(iv) Capital employed ratio :-The ratio of capital to non-current or fixed assets is used to ascertain the extent to which the owners have invested their capital in fixed assets which constitute the maximum structure of the business.

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

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

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

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

using the method $\dfrac{\text{gross profit x 100}}{\text{Net Sales}}$

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

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

earned on sales. The ratio can be calculated by $\dfrac{\text{Net profit x 100}}{\text{Net sales.}}$

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

10. Verification of cash balance :-

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

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

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

(a) Specimen form of Summons:

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

Whereas I, Shri. .... have been appointed to audit the accounts of .... Society and whereas documents relating to the Society have to be scrutinised by me for the said purpose, I hereby require you, Shri. .... President/Secretary/Manager of the said .... Society to be present with the following at .... a.m./p.m. on. .... in the office of the Society or in the premises of ....

Given under ....my hand and seal this .... day of .... 19............

Signature ....

Designation ....

1. Cash balance of the Society.
2. Books ....do.
3. Records and documents of the Society.

To

Shri...

(Full address)

(b) Certificate of verification

FORM OF CERTIFICATE

'Cash balance of Rs............................/- (in words ....) was verified by me and found to agree with the day/cash book balance as at the beginning/close of ....".

Signature with date

Designation

(C) Auditor's responsibility for verifying cash on hand

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

"Certified that the cash balance mentioned in the balance sheet as at the 30th June 19...... represents cash on hand in the Head Office and all the branches, of the Society/Bank situated at different centres in the area of operation of the Society/Bank and custody certificates in respect of all these cash balance have been obtained from the Manager/Accountant/Cashier/Agent, etc. of the branches concerned. The above certificate has or be got signed by the Chairman/President and the managing Director or other principal Executive Officer of the society".

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

(iii) Counting of cash - Precautions :-The inspecting officers and auditors have to take certain precautions while verifying the cash balance. If different cash balances are maintained, such as cash with local branches and depots etc. all the cash balances have to be called for simultaneously and verified as there is always the danger of substitution/supplementing. When coins of different denominations are sorted out and kept in separate bags duly sealed, the bags are not to be opened except in the presence of responsible officers.

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

COMPUTERISED ACCOUNTING

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

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

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

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

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

Benefits of Computerized accounting systems are as follows:

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

MODULE – V

CO-OPERATIVE AUDIT

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

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

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

Audit is, therefore, an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the transactions to which they relate. Audit does not entail preparation of the accounts alone but deals with something more, namely the examination of a Balance Sheet and Profit and Loss Accounts prepared by others, together with the books of accounts and vouchers relating thereto in such a manner that the Auditor may be able to satisfy himself and can honestly report that, in his opinion, such balance sheet is properly drawn up and exhibits a true and correct scenario of the State of affairs of a particular concern. Audit is, thus, an instrument of financial control. It acts as a safeguard on behalf of the proprietor against extravagance, carelessness or fraud on the part of the agents and servants of the society in the realization and utilization of money or other assets. It also ensures to the Proprietor/Shareholders/others that the account has been maintained correctly and the expenditure has been incurred with financial regularity and propriety.

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

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

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

DEFINITION OF AUDITING:

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

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

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

STATUTORY AUDIT OF CO-OPERATIVE SOCIETIES

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

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

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

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

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

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

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

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

CO-OPERATIVE AUDIT SERVES THE FOLLOWING PURPOSES:-

(1) The members of the Society are to be satisfied that the affairs of the society are managed properly and on sound business principles. This is possible by the Co-operative Auditor undertaking a detailed check of the voluminous transactions taking place during the entire year and making a report of his findings as a result of this check, to the members.

(2) A large number of societies borrow funds from outside. The creditors would be keen to satisfy themselves of the financial soundness and credit worthiness of the society. For this purpose they would depend upon the Co-operative Auditor’s report.

(3) A large number of persons are employed by Co-operatives for managing their affairs. In order to ensure that there is proper check on efficiency and integrity of employees, the managements would require a systematic and thorough check of their accounts. This purpose is served by Co-operative Audit.

(4) Non-members who deposit their funds with the Co-operative Banks would like to satisfy themselves that their funds are safe with the Bank, This is possible by the Co-operative Auditor’s report.

SALIENT FEATURES OF CO-OPERATIVE AUDIT

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

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

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

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

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

Thus a Co-operative Auditor should not confine his enquiry to the books of accounts but should go beyond the books and make enquiries into the working and general functioning of the society. His enquiry according to the Maclagan Committee should embrace all circumstances which determine the general position of the society and should aim at seeing that the society is working on sound lines. The audit of Co-operative Society has to be conducted specially in the background of Co-operative Principles and guidance is to be given by the Co-operative Auditor for improvement of the Co-operative Institution in the light of this background.

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

MAIN FEATURES OF CO-OPERATIVE AUDIT

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

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

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

(1) Examination of overdue debts

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

(2) Adherence to Co-operative Principles

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

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

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

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

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

(5) Audit classification of Society

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

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

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

OBJECTS OF CO-OPERATIVE AUDIT

1. Verification of the accuracy of the books of accounts and ascertaining correctness of accounts.

2. Detection of clerical errors and errors of principles and prevention of such errors.

3. Detection and prevention of frauds.

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

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

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

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

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

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

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

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ADVANTAGES OF AUDIT :-

1. Apart from the detection of errors fraud, a regular audit would help to keep the books of accounts of a business concern up-to-date.
2. The fact that audit is being done at regular intervals will act as a moral check and prevent fraud and errors to a certain extent.
3. It also helps to provide an independent opinion to the members' general body about the management of their committee and the institution.
4. Audited accounts are usually relied up on for the purpose of assessing the income tax and sales tax and also for disbursement of Government assistance.
5. An efficient audit is a safe guard to the creditors whose investments enable the institutions to conduct its business.
6. The audit helps to ascertain the correct and true state of affairs of the business, which consequently enables the institution to secure necessary finance on the certificate of the audited balance sheet.

DUTIES RESPONSIBILITIES AND POWERS OF CO-OPERATIVE AUDITOR

The main duties and responsibilities are the following:

The Audit of accounts of a society shall include:-

1. Examination of overdue debts, if any: The examination of overdue debts has a special importance in case of Credit Cooperatives. Unless the overdue debts are examined thoroughly, no estimate of bad and doubtful debts is possible. So the auditor must pay special attention to the examination of all overdue debts.
2. Verification of the cash balance & securities:
3. Valuation of the assets and liabilities of the society: The valuation and verification of assets and liabilities are the important duties of an auditor because unless the assets and liabilities are determined correctly the real exchangeable value of assets of a cooperative society cannot be determined
4. Examination of all transactions of the society: The Cooperative Auditors has special responsibility to assess the losses, if any sustained by a society due to negligence misconduct on the part of the office bearers or an officer or member of a society whose action is detrimental to the interest of the society.
5. Examination of the statement of accounts prepared by the committee.: An Auditor may go through beyond books and accounts and records, as he has to supplement information by calling for explanations and clarifications.
6. The Auditor has also to see and comment whether prompt action is taken for recovery of current and overdue loans and that no unauthorized renewal, etc. has taken place.
7. On certification of the accounts of a society the Auditors has to submit an audit memorandum to the Registrar.
8. The Audit shall in all cases extend back to the last date covered previous audit and shall be carried out up to the last date of the cooperative year immediately preceding the audit or such other date as may be directed by the Registrar.

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

POWERS OF AN AUDITOR

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

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

5. The Auditors shall have the right to received all notices and every communication relating to annual general meeting of the society and to attend such meeting and to be heard thereat, in respect of any part of the business with which he is concerned as Auditor.
6. The Auditor, if specifically authorized by the Registrar of Coo. Societies, shall have power to summon and enforce attendance of any person to give evidence and examine him on oath or affirmation or by affidavit or to compel the production of any document or other material object, by the same means and in the same manner as is provided in the case of a civil court under the code of civil procedure, 1908.
7. Any officer or member of a society who fails to furnish information/documents as per provision of this act is punishable.
8. Any Officer, member, agent or servant of a society who fails to comply with the requirements of this act is an offender under and punishable.
9. Auditors appointed under this Act is public servant within the meaning of Indian Penal Code 1860 as per provision of this Act.

LIABILITIES OF AN AUDITOR

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

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

a) Omission to count the cash in hand and verify the Govt. and other Securities by physical verification.

b) Failure to verify and evaluate the assets shown in the balance sheet after making due enquiries.

c) Failure to detect the frauds which have actually taken place during the period of audit.

RESPONSIBILITY FOR WORK DONE BY JUNIORS

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

PLANNING THE AUDIT

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

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

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

AUDIT NOTE BOOK

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

1. List of books of account maintained.
2. Names & designation of the members of the Committee and the Officials.
3. Points requiring further explanations and clarifications.
4. Particulars of missing vouchers, the duplicates of which have to be obtained.
5. Errors and frauds, if any discovered.
6. Totals or balances of books account, Bank reconciliation statement.
7. Dates of commencement and completion of audit.
8. Provisions in the Rules & Bye-law of the society effecting the accounts and audit.
9. Points which have to be incorporated in the audit report etc.

AUDIT PROGRAMS

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

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

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

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

In general, the audit programme should contain the following points:-

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

WORKING PAPERS

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

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

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

PURPOSE OF AUDIT PROGRAMS

1. A set of instructions to the audit team
2. Assist with planning and performance of the audit.

3. A means to control and record the proper execution of the audit work and also to review the audit work.
4. A record of the audit procedures to be adopted, the audit objectives, timing, sample size and basis of selection of each criteria.
5. Audit evidence to support the auditor opinion.

TYPES OF AUDIT PROGRAMS

1. **Standardized audit programs.**

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

2. **Tailored audit programs**

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

ISA 230 AUDIT DOCUMENTATION

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

WORKING PAPERS

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

TYPES OF WORKING PAPERS

Working papers are usually filed in 2 separate files:

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

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

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

CURRENT AUDIT FILE (Pertain to a particular financial year)

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

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

PURPOSE OF WORKING PAPERS

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

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

IMPORTANCE OF WORKING PAPERS.

Quality control purposes in respect of the audit.

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

Evidence: that effective audit has been carried out.

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

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

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

REVIEW OF WORKING PAPERS

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

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

Confidentiality of working papers

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

CONTENT

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

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

SOME CHARACTERISTICS OF A GOOD WORKING PAPER

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

CONCLUSION

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

VOUCHING

ROUTINE CHECKING AND VOUCHING

Audit work can be roughly divided into the following jobs:

i) A close and complete study of the system of internal checks followed by the society;

ii) Routine checking of all transactions;

iii) Review or higher audit i.e. the checking of the profit & loss account, Balance sheet, verification and valuation of assets & liabilities etc. In this chapter concept of internal checking, and vouching is discussed.

INTERNAL CHECK & CONTROL

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

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

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

A. **CASH TRANSACTIONS**

i) Cashier should not be allowed to records entries in the Ledger.

ii) All payments in excess of limit specified in bye-laws/decided by Boards shall be made by cheques, which should preferably be crossed.

iii) All receipts in cash or cheques etc. should be banked intact, daily after being entered into the Cash Book.

iv) Bank reconciliation statement should be prepared every month, and compared with the Cash Book by an authorized authority other than the Cashier.

v) Receipts through cash sales should be checked and their records periodically examined by a responsible officer.

vi) Receipts book should be of a special form and receipts must be issued for all remittances.

vii) All petty cash transaction should be handled by some-one, other than the cashier viz. petty cashier.

viii) Vouchers obtained for all payments and filing No. of each voucher should be recorded in the Cash Book.

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

SALES.

i) In case of a large retail store, a Cash Register should be maintained.

ii) Salesmen should be provided with sales Memo. Book with three sets of receipts consecutively numbered. Cashier should receive payment on sales made, on production of the receipted copy by the customer.

iii) The daily cash sales should be entered in the cash book only after comparing the cashier's receipts statement and the report of the salesmen.

PURCHASES

i) All sanction to purchase shall preferably be made by only one responsible officer.

ii) An order Book in printed & numbered forms should be maintained for effecting purchases. All orders for purchases should be made in Book.

iii) Goods Inward Register should be maintained for all goods received. No invoice should be passed for payments unless countersigned by the storekeeper or such other person responsible for receiving the goods. Above list is not exhaustive and should be accepted only as a general guideline to a system of internal check. The importance of an effective internal check system cannot be over emphasized. Besides, improving the accounting discipline of a concern greatly reduces the work of the Auditor.

ROUTINE CHECKING

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

i) Casts, Sub casts, carry forwards, extensions and other calculations in the books of original entry.

ii) Postings into the ledgers.

iii) Ledger accounts- to see their casts, balancing, carrying down of the balance and their transfer on to the Trial Balance.

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

PERCENTAGE OF CHECKING

Vouchers may be checked on the following basis.

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

VOUCHING

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

Vouching has the following main objects:-

i. Collection of vouchers and related evidence and their evaluation.
ii. Evaluation of the vouchers as evidence with regard to the correctness and authenticity of the transaction.
iii. Finding out whether entries have been properly made in the books of account or not.
iv. Finding out if there is any omission in any record.
v. It forms the basis for final conclusion to be drawn by the Auditor.

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

a. It is in the name of the client and its date relates to the period of audit.

b. Amount entered is the correct one.

c. Its particulars correspond to those of the records of transaction entered in the books.

d. It is properly stamped (if necessary) and is passed for payment by a responsible officer.

e. All vouchers are properly field and consecutively numbered.

f. All vouchers relating to particular book are produced at once and the same time.

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

VOUCHING, CASH AND TRADING TRANSACTION:

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

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

VOUCHING DEBIT SIDE OF CASH BOOK

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

1. Date of receipts;
2. Name of the person paying in the amount and name of the person on whose behalf remittance is made;
3. Amount received mentioned in both in words and figures;

4. Mode of remittance i.e. by check, cash etc.
5. Head to which credited.

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

1. Share and entrance fees: Printed receipts and counterfoils of certificates to be checked with entries in the Share Register, Share ledger, Member's register. If entrance fees and share money are collected prior to actual admission of a member, the amount thus collected should be credited to a suspense account first and subsequently adjusted to the share and entrance fee account.
2. Receipt of Government Share capital, loan, subsidy: Copy of order sanction loan or subsidy is to be inspected in order to verify whether the terms and conditions of the loan/subsidy have been complied with. The amount should have been properly utilized for the purpose for which it was sanctioned. Auditor may point out non-compliance of any of the conditions in his report.
3. Deposits: For fixed and call deposits, counterfoils of the receipts issued should be compared with the entries in the cashbook and deposit register.
4. Receipts of loans: Bank loans are to be checked with the advice of the bank and entry in the passbook crediting the proceeds of the loan. For repayment of loans by members counterfoils/copies of receipts issued should be checked with cashbook. Individual passbooks of borrowers may also be checked at random with the respective ledger account.
5. Capital receipts: Receipts through sale of fixed assets are to be verified with resolution of Board/Committee authorizing the sale. The amount received should also be reasonable. Auditor may also check that no officer of the society had any direct or indirect interest in any property sold or purchased by the Society.
6. Cash sales: Cash Memos should be checked and verified with entries in daily sales register.
7. Interest received: Interest received on amounts deposited with bank should be checked with entries in the passbook. Interest on fixed deposits with banks or other investments are to be verified by checking the calculations on the amount of deposit (rate recorded on deposit receipts) or the nominal value of securities. In case of dividend on shares, the counterfoils of the dividend warrants will have to be checked. If the number of investments is large, a separate Investment register/Ledger should be maintained. Interest received on loans and advances to members will be checked from the counterfoils of receipts issued. Interest calculations should be checked while checking the postings in the loan ledger.
8. Rent: Agreement executed by tenants should be seen. It should be ensure that all money received on account of rent has been duly accounted for. Enquiries should be made about arrear of rent and action taken for recovery, and if action taken appears to be inadequate, then to suggest step to be taken to gear up recovery.
9. Miscellaneous Receipts: Occasional receipts such as sale proceeds of fixed assets, scraps, unused stores and spare parts, discarded materials, waste papers etc. should be vouched from the receipts issued, correspondence, minutes and relevant documents.

VOUCHING CREDIT SIDE OF CASH BOOK

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

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

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

i) The voucher should have been addressed to the society itself and not in the individual name of the Managing Director, Chairman, Secretary or other officer. The nature of the transaction to which it relates should be one, which the society can be normally expected to carry on. For example, a society engaged in supplying seeds and matures is not expected to buy jewellery or cloth.

ii) Where it is known that official receipts i.e. printed receipts bearing the name of the payee are generally issued for acknowledging remittances, no other receipts or acknowledgement should be accepted as sufficient evidence of payment made.

iii) All vouchers should have been properly authenticated by the authorized officers of the society. This may be done by them by signing the original vouchers. This will ensure genuineness of the vouchers produced for audit.

iv) Where actual payment has been made to a person other then the payee himself, a letter of authority from the payee authorizing the person to received payment on his behalf has been obtained.

v) When payment has been made to a person in his official capacity, it should be seen that the rubber stamp of the institution showing the designation of the officer is dully affixed below the signature of the officer.

vi) If the signature of the payee is not in English or in a language not known to the Auditor, it should have been translated into English or language known to the Auditor. All thumb impressions should have been properly described and attested.

vii) Where the amount paid is in excess of Rs. 500/-, the voucher should be duly stamped.

viii) The vouchers should be properly checked as regards the arithmetical accuracy of the amount and the propriety of the payment by the Chief Accountant or other responsible officer of the society.

ix) All vouchers should be cancelled by the Auditor as soon as he checks them and passes the entries in his audit in order to prevent their production once again in support of a subsequent fraudulent or fictitious payment. Either a rubber stamp bearing his name should be used for the purpose or the voucher should be initialed by the Auditor in a prominent place, preferably in the middle.

SANCTION FOR PAYMENT:

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

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

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

PAYMENT OF ADVANCES:

There is no objection for payments of advances provided the purpose is genuine, and payments of advances are necessary in the normal course of business of the society. The reasons for the payment of advances or the purpose, for which the advance is being paid, should be specifically mentioned in the body of the voucher and the advances should be adjusted within a reasonable time. Where advances are made against supplies to be received or services to be rendered or against running bills, these should be adjusted in the invoices or final bills. However, where advances have been given for no specific purpose or consideration, they should be objected to and where such advances are subsequently credited back in cash after some time, it should be noted that this would amount to misapplication of funds of the society. All such misuse of the funds of the society by its office-bearers by taking unauthorized advances themselves or giving advances to other persons, should be pointed out by the Auditors.

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

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

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

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

UNUSUAL AND IRREGULAR ITEMS-

While checking vouchers, careful notes should be taken of all unusual items or items requiring further clarification or explanation and also items which call for addition information or authority or where further evidence, such as inspection of the minutes, contracts, lease-deeds agreements, orders, etc. is necessary. Notes should also be taken of all payments, which require to be apportioned or adjusted. A list of all missing vouchers should be drawn up and explanation as to the circumstances of their loss or non-availability of reasons for failure to obtain regular vouchers at the time of making payments should be ascertained. All subsidiary evidence in support of the payment, such as entry in the statement of accounts confirmed by the party, reference in correspondence etc. should be seen with a view to be satisfied about its genuineness and correctness. In a number of cases, it will be noticed that only the debit slips have been kept on record without the payment having been actually acknowledge by the payee. Sometimes, it might be explained that the amounts have been merely adjusted or credited to the payee’s account and, hence, no regular voucher was necessary. The Auditor should carefully examine all such contra entries and insist that in all cases, payee’s acknowledgements should be obtained.

PAYMENT OF DIVIDEND AND BONUS

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

REPAYMENT OF BANK LOAN, CASH CREDIT AND OVERDRAFT

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

Some cash credit and overdraft accounts are operated by cheques. Repayment of cash credit, overdraft and other advances obtained from bank would be checked with the counterfoils of the paying-in-slips issued by the bank and entries in the passbook or the statement of accounts.

STATIONERY AND PRINTING CHARGES

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

EXPENSES WHICH SHOULD BE OBJECTED TO IN AUDIT

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

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

Detailed notes of all expenses objected to should be taken. These should be discussed with the management and suggestions made to recover the amount involved from the persons responsible. If no action is taken, specific mention thereof should be made in the audit report. A list of all expenses, which have been objected to and which in the opinion of the Auditor should not have been paid from out of the funds of the society, should be contained in the schedules to be attached to the audit memo.

VOUCHING TRADING TRANSACTIONS

Purchase procedures:

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

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

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

Cash Sales

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

Checking of cash memos and Daily Sales Register

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

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

VOUCHING LEDGERS

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

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

The entries in the general ledger will all come from a book of prime entry, viz. the cash books or Journal. In most societies, which do not maintain a separate journal, the cash book is generally called the Day Book. The total of all subsidiary books, viz. purchase journal, Sales Register and other subsidiary cash book are first entered in the Day Book and posted into the general ledger from the Day Book, although in some societies, postings from the subsidiary books are directly made into the general ledger. However, it is more useful to analyse the transactions recorded in the subsidiary books according to their classes and post the total into the Day Book under heads so classified and then post them into the general ledger. In such cases, viz. where totals amounts have been analysed and classified under various heads, the Auditor should check the analysis, reconcile the total amount and trace the individual items comprising into the general ledger.

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

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

After the whole of the posting into the ledger have been checked, the Auditor should examine each account in the ledger in order to ensure that every item has been ticked. All the accounts in the ledgers should be scanned for un-ticked items and should there be any un- ticked item, it should be traced in the cash book. The cash book and the journal should also be scanned for the same purpose. Thereafter, totals of both sides of the ledger account should be checked and it should be seen that the closing balances have been correctly extracted. Opening balances in the ledgers should be called over from the previous year's ledgers. Since closing balances of all nominal accounts are transferred to the trading and profit and loss account and the accounts are closed at the close of the accounting period, there would be no balances of nominal accounts in the general ledger. However, there would be certain accounts relating to expenses and losses, which might not have been completely written off.

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

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

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

Adjustment of outstanding expenses: As regards outstanding payments, the Auditor should examine the “Goods Inward Book” or the “Invoice Register” for the last few weeks of the period and satisfy himself that all purchase made and included into stock have been duly brought into account and the amount of the unpaid invoices credited to the respective accounts of the suppliers of the goods. In addition to purchases not paid for, expenses incurred but not paid, are also required to be brought into account. In most of the societies, salaries and wages for March may not have been paid before the close of the year. All these items will have to be brought out as the outstanding expenses.

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

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

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

Outstanding expenses: All nominal accounts in the impersonal ledger should be examined to see that all expenses and charges pertaining to the period under review have been included. There may be, for example, outstanding bills for repairs, fuel charges, electricity charges, water charges, and also transport charges, godown rents, subscriptions, advertisement etc. The Auditor should further inspect the ledger account, demand notes, receipts etc. noting the period covered by each payment and seeing that any accrued and unpaid proportion from the date of last memo to the date of the balance sheet noticed during the inspection of these documents is provided for. The amount paid under these heading should be compared with those appearing in the corresponding nominal accounts for the previous year so as to ensure that all rents, rates, taxes, etc. payable have been duly provided for.

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

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

VERIFICATION & VALUATION OF ASSETS& LIABILITIES

VALUATION

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

The term ‘valuation’ in connection with the Balance Sheet can be differently interpreted as under:-

i) The value may be the estimated amount that the assets would realize, if sold or disposed off, in other words, realizable value.
ii) Value may mean the amount that is estimated the assets would cost to replace, in other words, the replacement value.
iii) The amount that an assets costs when purchased or acquired, less the provisions made for depreciation, since its acquisition. In other words, written down value or going concern value.

iv) The balance of revenue expenditure, which is being written off over a period of years. This item will be shown under the heading “deferred revenue expenditure” or “prepaid expenses”.

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

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

For purpose of valuation, all assets are broadly classified into fixed assets and current assets. There is also a third type of assets known as fictitious assets, i.e. assets which are not represented by any tangible assets, such as goodwill, deferred revenue expenditure, preliminary expenses, discount on issue of shares and debentures, etc. Current assets are those assets which are produced or acquired by a business in the course of or for the purpose of its trading and consist of cash, goods and such other assets as are held with a view to conversion into cash in the regular course of business. Examples of current assets are stock in trade, work in progress, debtors and other receivables, temporary investments and bank balance.

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

CLASSIFICATION OF CURRENT ASSETS:-

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

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

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

DEPRECIATION

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

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

For calculating deprecation the basic factors are:-

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

No such deprecation has to be provided as will reduce the value of the asset to its scrap value of the end of its estimated life. Deprecation of current assets is taken care of by valuing them for Balance sheet purposes of cost or market price whichever is less. Deprecation of fixed assets is generally provided for by various methods viz. fixed percentage/straight line method, reducing instalment method, revaluation method, insurance policy method etc. It is not the intention of this manual to explain these in details. Readers are advised to refer to academic books on Accountancy/Auditing for a detailed treatment. Whatever method is adopted, Auditor should ensure that adequate deprecation has been charged. Thus, fixed assets would appear in the Balance Sheet at their historical cost less deprecation to date. For Cooperative Societies charging 10% deprecation annually over the written down cost of the asset is recommended.

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

i) **Trademarks**: - Verification of trademarks can be made by inspection of certificates of registration and/or of any assignment of the trade marks.

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

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

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

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

iii) **Plant & machinery**: - Purchase of new plants and machinery will be vouched during the course of audit. In addition to invoices and receipts the correspondence regarding the purchase and also contracts with machinery manufactures and engineer's certificates will have to be seen. As regards physical verification where there are only a few machines inspected and identified personal by the Auditor. However, where the number of machines is large and also where it is not possible to identify individuals items of machinery. Auditor should obtain a schedule of plant and machinery. A certificate of their existence and efficient working should also be obtained from responsible officer. The mode of valuation should be the original cost less deprecation. Where the machinery or other equipment is purchased under a higher purchase agreement or an agreement to pay by instalments (deferred payment system) the deprecation should be calculated on the full price of the machinery and not the amount of instalments paid to date.

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

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

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

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

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

VERIFICATION AND VALUATION OF CURRENT ASSETS:-

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

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

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

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

STOCK IN TRADE:

The correctness of the profit and loss account of a concern depends, to a great extent, upon the correctness of the value of the stock of goods in hand at the close of the period. In case of consumer stores, marketing and processing societies, and manufacturing societies, and manufacturing societies, the verification of the physical existence and valuation of trading stocks, stocks in hand of raw materials, stores, party finished goods or goods under process, works in progress and finished goods are of considerable importance, in as much as, unless they are correctly shown, the balance sheet will not show the true and fair view of the financial position of the society and the profit and loss account will not give the correct results of the working of the society.

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

VALUATION OF STOCK-IN-TRADE

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

a) **Raw materials**. - Such materials must be valued at the net invoice price i.e. the cost price plus a reasonable proportion of freight duty etc. in connection therewith.

b) **Semi manufactured goods**. - They are valued at cost price of the raw materials used, plus a proportionate amount of wages and a percentage to cover establishment charges relating to manufacture.

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

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

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

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

OUTSTANDING ADVANCES.

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

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

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

LOANS OUTSTANDING:-

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

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

i) Amount outstanding. - The outstanding balances in any account should not exceed the maximum limits for individual loans, if any, prescribed for different types of loans in the byelaws. Where special loans or loans excess of the prescribed limits have been sanctioned to any individual or institution, authority for the same should be seen.

ii) The period for which the balance has been outstanding. – If the loan has become overdue, whether extensions have been granted properly. If the period of payment has not been extended, how long the loan has been overdue and what steps have been taken for its recovery. Whether notices have been promptly issued and legal proceedings instituted.

iii) The make-up of the balance. - It will have to be seen whether the balance consists of only advances made or also includes interest capitalized and amounts debited to the party on account of charges and expenses incurred, such as godown rent, insurance charges, etc. Legal expenses incurred for recovery, such as notice fees, court fees, Lawyer’s fees, arbitration fees and expenses etc. will have also to be debited and included in the balances.

iv) Security for the loan. - The nature of the security and whether it is adequate and easily realizable are to be seen. If the loan has been sanctioned against personal security, whether sureties are alive and good for the amount, if secured by other security, whether the value of the security adequately covers the outstanding balances and also interest accrued and accruing, whether it can be easily realized should occasion arise, it should also be seen that condition is incorporated in the agreement where under the borrower undertakes to make up the margin in case the security becomes inadequate owing to price fluctuations.

v) Whether there are any other circumstances, which indicate the debts becoming irrecoverable, such as death or resignation or removal from service of the borrower or his sureties, insolvency of the borrower, attachment of his property or salary under an order or decree of civil court.

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

CONFIRMATION OF DEBIT BALANCE:-

a) The outstanding balance in Sundry Debtors accounts should be checked with whatever evidence available, viz. statement of accounts, record of payments, isconfirmationletters 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 possible where the number of debtors is very large. In such cases direct communication with selected debtors with balances exceeding a specified amount (as per Bye-laws) will have to be made.

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

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

c) Verification of Member’s Passbooks: - In agricultural credit societies and other rural societies and also the smaller urban societies, outstanding balances should be verified with the member’s passbook. This is necessary since members of these societies are illiterate and rustic people and have fully faith in the honesty and integrity of the Secretary and other office bears. They do not always try to check whether their transactions with the society have been correctly recorded or not. During the course of audit of these societies, the Auditor should try to conduct as many members as possible and check their passbooks.

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

VERIFICATION OF LIABILITIES

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

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

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

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

BAD DEBTS:

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

Having ascertained the extent of the debts and the amount of the provision considered necessary, the Auditor should checks the provision for bad debts accounts or bad debts fund account in the general ledger and see that the required entries have been made therein.

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

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

AUDIT REPORT

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

AUDIT

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

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

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

1. Unattested corrections, unsigned documents, in complete documents and statement.
2. Mistake in calculations, extensions and totals, wrong calculation of interest, dividend, rebate etc. incorrect receipts or payments resulting from application of wrong rates, incorrect calculations, extensions or totals.
3. Cancelled receipts or cheques.
4. Remittances received for which for official receipts from the printed receipt books or other official acknowledgement have not been made.
5. Payments for which vouchers are not available. List of missing voucher should be separately prepared giving full particulars of the payments for which supporting vouchers have not been obtained.
6. Defective vouchers such as (a) vouchers in full particulars are not mentioned, (b) payment made to a person other than the payee without written authority of the payee, (c) payments for which supporting documents or sub-vouchers have not been attached to the voucher, (d) vouchers which are not stamped, (e) vouchers which are not in proper form or are not in the name of the society, but are addressed to the Chairman, Managing Director, Directors, Manager or the Secretary (by personal name with or without mentioning designation) individually.
7. Receipts or vouchers which do not agree with the entries in the cash book in some material respects, such as date, amount, name of payee, head of account to which credited or debited, etc. receipts or vouchers in which the amount in words and figures does not agree.
8. Missing loan bonds and other documents, such as promissory notes, applications, agreements, etc. Defective loan bonds, agreements, promissory notes, etc. Also incomplete documents and statements i.e. documents in which spaces have been left blank, unsigned or unattested documents and statements
9. Objectionable expenses. They include:-
   a) Expenses which are not incidental to the business of the society or do not seem to have been incurred for the purposes of the society.
   b) Expenses considered heavy or abnormal considering the size of the institution, the nature of its business and importance of the occasion.
   c) In fractious expenses, i.e. expenditure which bring no return or other wasteful expenditure.
   d) Other irregular expenses such as personal expenditure of the directors or officers paid by the society.
   e) Expenses, which are not properly sanctioned.
10. Irregular loans and advances such as:-
    a) Loans made to non-members or on the surety-ship of non-members.
    b) In agricultural credit societies, loans made without obtaining declarations creating charge on the lands of the borrowers.
    c) Unauthorized loans to members of the committee, Secretary or other Officers.
    d) Loans, the amounts of which exceed the individual limits mentioned in the bye- laws, or the credit limits sanctioned in the normal credit statements as finally approved by the bank. Also, special loans for which approval of the Bank and/or Registrar, has not been obtained

e) Loans, which are against the provision of the Act, Rules, bye-laws or directions issued by the Registrar or the Bank.

f) Benami loans, i.e. loans the amount of which are utilized by persons other than borrowers.

g) Imprudent advances, such as loans, which are not properly, secured loans to minors, loans sanctioned for purposes not permitted by the bye-laws, etc.

h) Sales made on credit where no provision for credit sales exists in the bye-laws. Also, credit sales in excess of credit limit sanctioned.

11. Investment or employment of funds in a manner not permitted under the Act, the rules or bye-laws of the society or against the directions of the Registrar.

12. Other transactions, which involve breach of the provisions of the Act, Rules or the bye-laws of the society.

AUDIT MEMORANDUM

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

SCHEDULES TO CONTAIN IN THE AUDIT MEMORANDUM

i) all transactions, which appear to be contrary to the provision of the Act, the rules and bye-laws of the society.
ii) all sums which ought to have been but not been brought into account.
iii) any material impropriety or irregularity in the expenditure or in the realisation of moneys due to the society.
iv) any money or property belonging to the society which appears to the auditor to be bad or doubtful debts; and
v) any other matter specified by the Register in this behalf.

It would, thus, be seen that the Auditor is required firstly to mention in his report all cases of breaches of the provisions of the Act, the Rules and the bye-laws of the society. However, there might be cases infringement of the provisions of the Act, the Rules and bye- laws of the society which may not have any financial implications, as for example, failure to call the annual general meeting in time, non-submission of returns prescribed by the Registrar, failure to maintain adequate fluid resources, etc. Since such cases do not find a place in the schedule; they will to be separately commented upon in the audit memorandum.

The Auditor has to furnish in his audit memo, full particulars of all sums, which ought to have been but have not been brought into account. This is a very important matter and in order to comply with the requirements of this clauses, it would be necessary for the Auditor not only to vouch all receipts and check, ledger accounts, statements, balance confirmation letters etc. but also to examine the minutes agreements and other records of the society and also to go behind the books of the society and make personal inquiries in order to ascertain whether there are any amounts received or receivable by society, but have not been brought into account and whether any remissions, relaxations or concessions have been unauthorizedly allowed.

The Auditor has to report all cases of improper or irregular payments and irregularities in the realization of moneys due to the society. A cooperative society being a business concern is required to duly observe all accepted canons of financial property in making payments and in collecting amounts due to it.

CERTIFICATION OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT:

The Auditor has to furnish a certificate regarding the correctness of the balance sheet and the profit and loss account of the society examined by him. This certificate is required to be annexed below the balance sheet and the profit and loss account and appended to the audit memo. The Auditor has to specifically state whether in his opinion and to the best of his information and according to the explanation give to him, the accounts examined by him give all the information required by the Act in the manner so required and give a true and fair view:-

(i) in the case of the balance sheet, of the state of the society's affairs as at the end of the financial year or any subsequent date upto which the accounts are made up and examined by him; and
(ii) in the case of the profit and loss account, of the profit and loss for the financial year or for the period covered by the audit as the case may be.

Further the Auditor has to state:-

i) whether he has obtained all the information and explanation, which to the best of his knowledge and belief were necessary for his audit.

ii) whether in his opinion proper books of accounts are required by the Act, the Rules and bye-laws of the society have been kept by the society; and

iii) whether the balance sheet and the profit and the profit and loss account examined by him are in agreement with the books of accounts and returns of the society.

The Act further lays down that where any of the above matters are answered in the negative or with a qualification, the Audit Memorandum should state the reasons for the answer.

The Auditor's report on the Balance Sheet and profit and Loss accounts, which is sometimes referred to as the Auditor's certificate, is thus required to be quite specific. This report, which may more appropriately be called the Auditor's certificate should be distinguished from the detailed report containing the general remarks or observations of the Auditor, accompanying the audit memorandum, and will have to be annexed to the balance sheet itself where the Auditor proposes to qualify his report, reasons for the same should be stated in the audit certificate itself for attention drawn to the special paragraph in the general remarks in which the matter is discussed.

Auditor's Report: - The Auditor's Report or the "general remarks" as they are referred to should contain the general observations of the Auditor regarding the affairs of the society, the accounts of which he has audited, the irregularities noticed by him and his suggestions for improvement. The general remarks of the Auditor should be concise and to the point.

The report should be divided into two parts; Part –I – dealing with such matters as financial stability, loan policy, progress of recoveries and position regarding over dues, mode of conducting business, deficiencies in the arrangements for internal check, infringement of the provisions of the Act, Rules, bye-laws and circular instructions of the Registrar, the general progress of the society, its achievements and the degree of interest taken by the Office-bearers and ordinary members of the society in its affairs and Part-II dealing with the account irregularities and suggestions of the Auditor.

It is also necessary that the audit report of the general remarks should be dividend into several paragraphs consecutively numbered, with a clear-cut heading for each paragraph.

All important aspects of the working of the society are required to be carefully examined and brought out in the audit memo. The points to be referred to in the audit memoranda of different types of societies will be different according to the nature of their operations and the business methods adopted by them. In case of most of the societies, the following should form the subject matter of separate paragraphs.

1. Points in the last audit memo, not attended to by the society.
2. Review of progress briefly indicating its achievement and its present position.
3. Deficiencies and defects in the arrangements for internal control and suggestions for their improvement.
4. Management-loan policy, mode of conducting business, employment of funds, overtrading, if noticed etc.
5. Financial position, distribution of assets, adequacy of working capital, proportion of owned funds to borrowed funds, maintenance of adequate fluid resources.
6. Breaches of the provision of the Act, Rules and bye-laws of the society, non- observance of the business rules and instructions issued by the Registrar.
7. Correctness or otherwise of the Balance Sheet and the profit and loss account. Brief comments or explanatory notes on such items of assets and liabilities, which call for specific mention, should be given.
8. Disagreement of bank balances, differences in the agreement of personal ledger balances, stock accounts, etc. Where these are noticed, the audit certificate should be properly qualified.
9. Regularity of the meetings held and procedure followed. Resolutions passed or decisions taken which may not be in the interest of the society or of the members in general.
10. Loyalty of members and efficiency of management, operational efficiency of the various activities undertaken by the society in the particular, working of sales depots, processing units, etc. according to norms or standard laid down.
11. Cases involving misapplication or misappropriation of the funds of the society, frauds, etc.
12. Proper maintenance and use of vehicles, telephones and other moveable and immovable of the society.
13. Proper safeguarding and insurance of all property held by the society. The summary of the audit memo, prepared by the Auditor is required to be read out in the general meeting. It will, therefore, be necessary for the Auditor to prepare a brief resume of the more importance points contained in his report for being read out in the Annual General Meeting. This summary should contain all the important points omitting the descriptive portions. It is not necessary to repeat the entire list of irregularities, but the more serious and important ones may be mentioned inviting reference to the respective paragraphs in the general remarks. The summary of the audit memo along with the explanation of the management should be placed before the Annual General Meeting for its consideration.

As regards drafting of Part-II of the audit report, it may be noted that it is the duty of the Auditor to discuss the audit objections with the Office Bearers and to see that as many irregularities as possible are set right on the spot. It is only these irregularities that cannot be remedied during the progress of the audit that should find a place in Part-II. Part-II should also be divided into separate paragraphs with the various items grouped under suitable heads as shown below:-

i) List of missing vouchers and loan bonds.

ii) List of vouchers on which payee's acknowledgement is wanting.

ii) List of defective vouchers and loan bonds.

iv) List of payments, which are not supported by documents such as bills or invoices, etc. or for which sub-vouchers are wanting.

v) List of payments which are not properly authorized.

vi) List of items where delegated authority has been exceeded.

vii) List of remittance for which official receipts are not issued.

viii) Mistakes in interest calculations.

ix) Other irregularities to be specified.

x) Suggestions for improvement of the accounting system.

The procedure described above would be applicable mostly to Cooperative Banks, Marketing and Processing Societies, and other Societies having voluminous transactions. In case of agricultural credit societies and other small societies, only a few heading would generally suffice.

AUDIT CLASSIFICATION

On completion of audit of a society, the auditor should classify it in accordance with the instructions issued by Registrar from time to time. Classification of a society is an important duty vested with the auditor and therefore it should be done most carefully and intelligently. The Auditor has to note that wrong classification into the low orders may weaken the enthusiasm of the office bearers to the society. At the same time he should not given any higher classification than that is actually eligible to the society.

The classification is hereby based on two distinct tests viz.,

(i) The financial stability, economic viability, soundness etc., and

(ii) The administrative efficiency, general performance etc. of the Society.

Registrar's conference in 1976 laid down certain standards which were adopted by the States with modification to suit local conditions. The Rural credit Survey Committee also stressed that these should be uniform standards of audit classification on an All India basis in respect of different types of Co-operative since the "existing standards are so varying as to cause a great deal of confusion". Accordingly the Agricultural Credit Department of Reserve Bank has, in conjunction with the standing Advisory Committee on Agricultural Credit, evolved certain standards, to be followed by the States in classifying the Societies in audit.

Broad principles of classification: - The following general standards have been laid down for classifying agricultural credit societies and Rural Banks:-

(1) Capital structure :- The progress made in strengthening the capital structure, own funds etc. and in tapping more deposits when compared with the previous years.

(2) Credit and Financial stability, economic viability etc.

(3) Management efficiency, maintenance of accounts etc.

(4) Undertaking of subsidiary activities.

(5) General working.

(a) Credit Societies

Particulars	**Maximum Marks Allotted**	**Marks awarded by auditor**
1. Capital Structure (20) The sum total of share capital and deposits at the end of the year should be compared with the loans outstanding against members at the end of the year. If the proportion is 10% and less no marks will be awarded. One mark will be awarded for each 10% of increase over 10.	20	
2. Credit (Loans to members) (30) (a) Work out of the percentage of the total volume of loans issued during the year to the total amount of loans required by members as part normal credit limit. Statements or proportion of the avearage loan issued per member to individual credit limit. Award one mark for each 5%.	6	
(b) There should be a timelag of at least a fortnight between the date of repayment of a loan by a member and the issue of the fresh loan. Marks will have to be awarded on the basis of the usual time lag noticed. (10 marks)	4	
(c) Percentage of overdues to demand under principal for the year. (If the percentage of overdues to demand is 30, no marks. If it is less than 30, one mark for each 3% reduction. If the percentage is more than 30, minus one mark for each 6% increase up to a maximum of 5 marks).	10	
(d) Percentage of overdues to demand under interest. (If the percentage of overdues to demand is 20, no marks. If it is less than 20, one mark for each 4% decrease. If the percentage is more than 20, minus 1 mark for each 8% increase upto a maximum of 5 marks).	5	
(e) Percentage of number of defaulters to total number of borrowers. (If the percentage of defaulters to total number of borrowers is 20 or more, no marks. If the percentage is less than 20, one mark for each 4% reduction).	5	
(f) Financial stability cover for bad and doubtful debts. The total of the reserve fund and bad debts reserve should completely cover 100% of the Bad debts plus 50% of the doubtful debts. Work out the percentage of the former to the latter and award marks at the rate of 1 mark for each 6%.	10	

3. Management (15) (a) Rectification of defects pointed out in audit and inspection progress.	4	
(b) Effective action against defaulting members (including legal steps).	3	
(c) Holding of meetings-once a month at least to discuss ways and means to develop the business of the Society.	4	
(d) Maintenance of accounts (ledgers should be properly posted up to date and correct monthly and quarterly statements of receipts and payments should be prepared promptly and placed before the Board either by the Secretary or by full-time or part-time clerks).	4	
4. General working of the Society including supply, marketing and processing functions trained office bearers or employees, committee members and educational activities. Marks to be awarded in the assessment made by the auditor.	25	
Total	100	
Classification proposed for the year.		

In the case of other Societies except those noted above and except District/Central Co-operative Banks, the classification is done on the following basis.

Class A :- The Society which requires no help from official and non-official staff for its working (excepting annual audit) comes under ‘A’ Class. An ‘A’ class Society does not want any supervision from the Union or Central Banks. Overdues of loans with members should not be more than 10% of the total outstanding with members. The Society maintains its own paid and qualified staff. It must also be working at profit.

Class B :- The overdues in a ‘B’ Class Society should not be alone 25%. Its accounts may not be entirely faultless. The general co-operative vitality of the Society must be reasonably high. Its management should be one that taken keen interest in remedying its defects.

Class C :- A Society which does not fall under A, B and D classes is to be classified as ‘C’. Its overdues should not be above 40%. Its financial position should be ultimately sound.

Class D :- Societies the overdues of which exceed 40% and which are moribund are to be classified as ‘D’. No Society should be classified as ‘D’ so long as it is considered it to receive loans on any terms whatever from the financing institutions. If a Society remains in ‘D’ Class for 2 or three years continuously it will have to be liquidated.

The above are the standards generally adopted to classify credit Societies.

NON-CREDIT SOCIETIES

There are many types of non-credit societies, but separate standard for each type is not indicated here. But from the principles narrated above; the auditor can find out which type of measuring rod should be applied to a particular type of society. Among non-credit societies, audit classification of consumer and industrial societies are discussed here.

(i) **Consumer Societies** :- The main object of a consumer society is the distribution of consumer goods to its members. The auditor has to verify the loyalty of members to the society by verifying whether or not the members are purchasing all their requirements from the Society if the society is ready to meet their demands. Efficient and economic management of the Society, adequacy of working capital, proportion of owned capital to borrowed capital, supervision exercised by the Committee over the employees, gross income and net income, proportion of establishment and contingent charges to gross income, purchase policy, rotation of funds, service to the customers, maintenance of registers and records etc., are some of the factors to be considered by the auditor in deciding the audit classification. Dependence on owned funds and deposits, if any, from members, insistence on cash sales, system of internal check are still other important points to be borne in mind by the auditor in awarding the classification.

Consumer Societies must be subjected to the above tests and those societies which possess a very high standard and come out successfully in all the tests can be classified under 'A', if no serious defects are noticed in their working. Class B can be given to the societies who are when applied with the above tests keeping less standards, than that of A in making steady profits whose owned capital is not less than 50% of the working, capital, and where more than 40% of the members purchase their requirements from the society and where the overdues on credit sales to members do not exceed 20%. Societies which are incurring loss either due to bad management or lack of sufficient volume of business and where not less than 25% of the members are purchasing their requirements from the Society and where the overdues on credit sales do not exceed 40% can be classified as 'C'. All other societies which do not fall on the above classes will be classified under 'D'.

The auditor may remember that these are only indications and broad directions to arrive at the proper classifications.

(ii) **Industrial Societies** :- Over and above the general principles already enunciated the following points are also to be considered in awarding audit classification to Industrial Societies.

Industrial Societies are generally producers' Societies. So there must be adequate arrangements to purchase economically the raw material required by the producers. The Society should be in a position to purchase and sell the finished products of its members, on agency basis. There must be a good system to check the quality of finished gods. The Society must have adopted sufficient safeguards to effect compulsory savings for its producer members. Industrial Societies are given substantial financial assistance from Government, and therefore proper utilisation of such assistance has to be verified by the auditor. The books of accounts of the Society should be maintained correctly and promptly. The members of the staff must be trained and qualified. Loans, if any, advanced to the members should have been utilised properly. The overdues should not exceed 10% of the outstandings.

A Society fulfilling the above conditions and in which no serious defect are seen can be classified under 'A'. A Society can be classified under 'B', where 50% of the members take part in the production activities of the Society and where the overdue do not exceed 20% of the outstanding.

A Society which is financially weak, where the overdues exceed 20% of outstandings, and where not more than 25% of the members are engaged in production activities, is to be classified under 'C'.

All other societies come under 'D'.

The auditor has to award suitable marks in the audit more in accordance with the above broad norms and to submit the name to the Deputy Registrar/Assistant Registrar along with the audit certificate. While checking the audit note and connected records the Deputy Registrar/

Assistant Registrar has also to check the reason behind the marks awarded by the auditor before approving the audit certificate. The audit classification should be indicated in the audit certificate at the time of issue.

AUDIT CLASSIFICATION OF NON-CREDIT SOCIETIES

Sl. No.		Maximum marks allotted	Marks awarded by auditor
1	Capital structure	10	
2	Enrolment of members	5	
3	Extent of business done	25	
4	Subsidiary activities	10	
5	Provision for bad and doubtful assets	10	
6	Maintenance of accounts	10	
7	Rectification of audit and inspection defects	10	
8	Holding of committee and General Body meetings.	5	
9	General working including working results, service to members, trained office bearers or employees, committee members Educational activities etc.	15	

		100	
		=====	

(c) Co-operative Central Banks

The Reserve Bank of India provides financial accommodation to the agricultural credit Societies, through the Kerala State Co-operative Bank, who route them through the District Co-operative Banks. Under Section 17 of the Reserve Bank of India Act, District/Central Co-operative Banks, to become eligible for the assistance should conform to certain well defined standards. One of the norms fixed is that Central Co-operative Banks falling under A and B classes alone are eligible for Reserve Bank of India assistance on the security of two signatories. The following norms are adopted for the audit classification of the District/Central Co-operative Banks.

‘A’ Class Central Banks :

(1) The arrears under principal should not exceed 20% of demand and arrears under interest should not exceed 5% of the demand.

(2) The total of the entire bad debts and 50% of the doubtful debts should not exceed the Bad debts Reserve of the Bank.

(3) The short term liabilities of the Bank should not exceed the short term investments exclusive of overdues.

(4) The Bank should have maintained the required standard of fluid resources through the year in accordance with the rules in force in the State concerned.

(5) At least 50% of the loans issued during the year should be for short term purposes.

(6) Not more than 35% of the Societies indebted to the Bank should be defaulters.

(7) The Bank should have worked at profit.

(8) The management of the Bank should be efficient and the staff duly qualified.

‘B’ Class Central Banks :

These Banks must satisfy item Nos. 3, 4, 7 and 8 of the standards prescribed for ‘A’ Class Banks and must in addition satisfy the following standards.

(1) The arrears under principal may exceed 20% but should not exceed 40% of the demand. There may be interest overdues but it should not exceed 10% of the demand.

(2) The total of Bad and doubtful debts should not exceed the Bad debt Reserve and Reserve Fund of the Bank.

(3) Not less than 40% of the loans issued to Societies during the year should be for short term purposes.

(4) Not more than 50% of the Societies indebted to the Bank should be defaulters.

‘D’ Class Central Banks :

(1) The overdues under principal exceed 60% of the demand and under interest exceed 15% of the demand.

(2) The Bad and doubtful debts exceed the owned capital ie. the Reserve Fund, the Bad Debts Reserve and paid up share capital.

(3) The required standard of fluid resources is not maintained on several days during the year.

(4) The long term and medium term loans issued during the year exceed 75% of the loans issued to Societies.

(5) More than 60% of the Societies indebted are defaulters.

(6) The Bank has worked at loss.

(7) The management of the staff is not satisfactory.

‘C’ Class Central Banks :

The Banks which do not fall under A, B or D Class

[Revised standards for audit clarification of Central Banks are appended (Appendix II 5)]

3. Classification on the basis of marks obtained:

When audit classification has to be made based on the marks obtained, the auditor has to prepare a statement showing the marks allotted under each head and sub head, to determine in what audit class the Society has to be placed. Where a system of awarding marks has been prescribed, the auditor should use his discretion as to the extent of fulfillment of the various conditions/criteria and award marks. Based on the total marks obtained the societies may be classified as under:

Societies getting 60% and above and working on profit will be classified under ‘A’. Those getting more than 50% but less than 60% under ‘B’, those getting more than 35% but below 50% under ‘C’ and those getting less than 35% will be classified under ‘D’.

(a) No Society shall be classified as ‘A’ whose overdues to demand under principal exceed 20% (Here specify the percentage).

(b) No Society shall be classified as ‘B’ whose overdues to demand under principal exceed 25% (Specify the percentage).

(c) In the case of service societies, suitable marks for non credit activities should be allotted out of the marks assigned for general working. (Under item 4 above).

(d) New Societies will not be classified for the first 2 years and they will be shown as “unclassified”.

4. Submission of Special Reports :

The defects, if any, noticed by the auditor are to be listed in a classified and consolidated form on separate sheets, which will be called “Schedules of audit defects” or summary of defects. In case any defect is of very serious nature and requires special attention of appropriate authorities, the auditor should submit a separate special (confidential) report in the matter immediately on detection of the defect.

The Special report should immediately be submitted to the Deputy Registrar of Co-operative Societies (Audit), concerned, or to the concerned superior officer in the following cases also.

(a) Misappropriation of funds or other properties of the Society (Including temporary misappropriation).

(b) Imprudent or irregular advances of loans and cash credits, benami loans, loan against inadequate or non-existing security or disproportionate loans to the members of the Committee, to their relatives, close associates etc.

(c) Non production of cash balance even after the service of summons, by the auditor, destruction of records, disappearance of a responsible officer of the Society etc.

(d) Expenditure which are objectionable and are disproportionate to the financial position or economic viability of the Society.

(e) Cases in which important provisions of the Act, Rules or byelaws of the Society have been infringed, such as failure to hold timely annual general meeting, non conducting of election, continuance of an invalid or disqualified Committee, failure to hold committee meetings regularly etc.

(f) Cases in which office bearers involved in the transactions and which have brought avoidable losses to the Society due to their negligence or due to their willful action to bring benefit to themselves by such deeds.

(g) Any other serious irregularity warranting immediate action.

While preparing special report the auditor has to bear in mind certain vital principles. Firstly, he should satisfy himself that circumstances exist which warrant the submission of a special report. Such special reports should therefore, be restricted to important maters on which some immediate administrative action is called for. Secondly, the auditor should have conducted through investigation into the mater and gathered sufficient materials for launching, both Civil and Criminal action against the delinquents after satisfying himself of the serious defect, Mere mention of susplinous circumstances without adequate proof will not be sufficient. In case the auditor is unable to carry out a complete inestigation by himself, he may the suggest for a statutory enquiry by the Administrative Department for a detailed investigation into the matter. But before he suggests for an enquiry attempts should be made to investigate the matter and collect all available evidences.

ASSESSMENT AND LEVY OF AUDIT FEES

Procedure for levy of audit fees - Statutory provision :- Audit of Co-operative Societies is the statutory responsibility vested on the Registrar. In order to carry out this responsibility effectively, the Registrar has to maintain sufficient number of staff, indifferent categories, the cost of which is met from out of Public revenue.

Every Co-operative Society whose accounts are audited by the Department, is required to pay to the Government audit fees according to the scale fixed under the provisions of the Co-operative Societies Act and Rules. The audit fees payable by a Society is calculated soon after the audit is over, and the amount payable is to be specified in the audit certificate. The basis of levy of audit fee is different for different types of societies.

Rule 65 of the Kerala Co-operative Societies Rules 1969 governs the payment of audit fees for the different types of societies, which are as follows:

(1) Every Co-operative Society shall pay to Government within one month of receipt of the annual audit certificate an audit fee calculated on the working capital as on the last day of the co-operative year to which the audit relates or on the total sales during the year or on the gross income during the year, as the case may be, as shown below.

(i) Credit Societies (excepting primary Land Mortgage Banks Housing Societies and House Mortgage (Banks) on the working capital.

(ii) Primary Land Mortgage Banks, House Mortgage Banks, Housing Societies: - on the aggregate of loans issued and that recovered during the year under audit.

(iii) Societies having credit and non credit activities :- On working capital or on sale proceeds of goods whichever is higher.

(iv) Societies dealing in goods (excepting Coir Societies) :- On sale proceeds.

(v) Coir Co-operative Societies: - On proceeds of Coir sold as owner as well as on the commission realized on goods sold as agents.

(vi) Transport Societies: - On hire charges collected and sale proceeds of articles.

(vii) Other Societies: - On gross income.

Audit fees will be calculated at the rate of 30 Paise for every one hundred Rupees or part thereof on the working capital, the value of sales or gross income, as the case may be up to Rs. 5 lakhs and thereafter at the rate of 20 Paise for every next one hundred rupees or part thereof. The maximum audit fees payable by a Society should not exceed Rs. 3000

Exemption from payment of audit fees: - The following classes of Societies are exempted from the payment of audit fees.

(a) All Co-operative Societies of which all or a majority of the members are Harijans.

(b) All farming societies

(c) All social welfare societies.

(d) Any society or group of societies which has its accounts audited at its own expense by an officer of the Co-operative Department, as per provisions contained in Sub rule (2) of Rule 65 of the Kerala Co-operative Societies Rules or under an agreement approved by the Registrar to audit the accounts of such Society.

(e) Any weavers' Society or coir co-operative Society, or housing society or primary society formed for the benefit of Fishermen until it has completed the sixth co-operative year after commencing business.

(f) Any Society for the first year of audit, irrespective of the date of commencement of business.

(g) Any credit society the working capital of which does not exceed Rs. 2,000 and any other society the sales or gross income of which does not exceed Rs. 10,000.

Audit fees payable by a Society is to be remitted into the Government Treasuries under the proper head and the receipted chalan issued by the Treasury Officer, should be sent to the Assistant Registrar (General) Deputy Registrar, concerned, who will watch the proper collection of audit fees.

REFERENCE BOOKS

1. ILO: Co-operative management & Administration
2. Goel .B.D: Cooperative management and Administration Deep& Deep Publications, New Delhi
3. Nakkiran.S: A Treatise on cooperative management, Rainbow Publications Coimbatore
4. Dubashi P.R.: Principles and Philosophy of co-operation
5. Sinha and Sahaya .R. Management of Cooperative Enterprises, National Council for Cooperative Training, New Delhi
6. ICA: Readings in Co-operative Management
7. KrishnaswamyO.R.:Co-operative Account Keeping
8. Manikkavasakam: A Treatise on Co-operative Account Keeping
9. Samiuddin: Co-operative Accounting & Auditing
10. Krishna Swamy: Co-operative Audit
11. K. Manoharan Nair, Cooperative Management and Administration
12. http://sahakaranam.blogspot.in/2011/01/kerala-cooperative-audit-manuel
13. wikipedia and other web pages

SYLLABUS

CO-OPERATIVE MANAGEMENT AND ADMINISTRATION

Lecture Hours per week: 5 **Credits: 4**

Objectives:

- . To enable the students to acquire knowledge about the co-operative management and administration
- To familiarize the students with accounting and auditing of co-operatives

MODULE - I

Co-operative management - concept, meaning, definition - unique features. Structure of co-operative organisation and management - Essential management functions, planning, Organizing, directing and controlling – its applicability to cooperatives - democracy- direct vs. indirect democracy – decision making in co-operatives - types of decisions - steps in decision making.

15 Hours

MODULE - II

Management structure – role & responsibilities of general body – role of board of directors – role of president - Chief executive officer – Secretary - functions and duties

10 Hours

MODULE - III

Administration of co-operatives – Departmental setup at the state – district and taluk level - Co-operative education & training – Identification of training needs – institutional arrangement for co-operative training & development – role of circle co-operative unions – SCUs, NCUI, NCCT & NCCE.

10 Hours

MODULE - IV

Accounting & Auditing of co-operatives: Nature and scope of co-operative accounting – accounting principles, concepts & conventions in co-operatives features of co-operative accounting- co-operative accounting vs. double entry & single entry accounting system - Books & registers maintained by the co-operatives – statutory requirements – Daybook and subsidiary day book – triple column cash book – rough cash chitta – R&D statements – final accounts – manufacturing, trading P&L A/c – P&L appropriation account – balance sheet - computerized accounting system

25 Hours

MODULE - V

Co-operative audit – feature – difference between co-operative audit and general audit, financial audit and administrative audit, auditor – duties, rights responsibilities. Stages of audit work – preparation of audit programs, vouching. Verification & valuation of assets & liabilities – auditing of reserves & provisions, audit memorandum, audit classification, audit certificate, audit fees.

15 Hours

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