

PRINCIPLES OF CO-OPERATIVE AUDIT

1. Role of Co-operatives

Co-operatives today, play a prominent role in our economy. From modest beginnings in the early part of this century they have grown into gigantic enterprises covering virtually all fields of activity in our everyday life, all over the country. Even though, co-operation is a voluntary movement of the public at large, there has been considerable state participation in the development of Co-operative movement in the post-independence period. Apart from forming part of national planning, the Co-operatives are today, taking an active and constructive role in the implementation of the 20-Point Program and in the upliftment of the weaker sections of the community and the Scheduled Castes and Scheduled Tribes. They cover such diverse areas as agricultural credit, marketing, processing, storage of agriculture produce, consumer goods, etc., The types of Co-operatives like Agricultural Credit Societies, Land Development Banks, Urban Banks, Marketing and Processing Societies, Sugar Factories, Spinning Mills, Milk supply Societies, Farming and Irrigation Societies, Weavers Societies, Industrial Societies, Consumers' Societies, Labor and Transport Societies, Electric Societies, Housing, Poultry and Printing etc, etc.

2. Historical Background

In its initial stages, Co-operation formed a Central subject. The first legislation on this subject was the Co-operative Credit Societies Act of 1904 based on the report submitted by Sir Fredrik Nicholson. This Act confined itself only to Primary Credit Societies. In order to bring the non-credit societies also within its ambit, the Co-operative Societies Act, 1912 was enacted. The Act of 1912 aimed at formation of Co-operative Societies for the promotion of thrift, self-help among agriculturist, artisans and persons of limited means. Consequent upon the recommendations of the Maclagon Committee on Co-operation in 1915, Co-operation became a transferred subject in 1919 and each state began to enact its own legislation for its co-operatives. In the post-independence period, in the light of the recommendations of the All India Rural Credit Survey Report in 1954, a special role was assigned by Government to the Co-operative movement in the process of national planning. In its enlarged role, the co-operative apart from its primary role of helping its members, also assumed a larger responsibility of developing national economy and promoting the objectives embodied in the Constitution. For this purpose the State accepted and the co-operators conceded the responsibility of imparting strength to Co-operatives wherever necessary by means of State Assistance and partnership, In 1959 Karnataka State passed a separate Act entitled "The Karnataka Co-operative Societies Act, 1959" (KCS Act, 1959). The basic principles, however, confirmed to the two parent Central Co-operative Societies Acts. The first of which was modeled after the Friendly Societies Act 1793 of England. The 1959 Act has been amended from time to time with a view to accommodating the needs of changing times and the aspirations of the people. **The Government of India has brought 97th amendment to the constitution to promote voluntary formation, autonomous functioning , democratic control and professional management of co-operative societies. Accordingly, State Government has brought amendment to Karnataka co-operative societies Act. As per the amendment, it is obligatory for all co-operative societies to get their accounts audited at least once in a year, before 1st of September following**

the close of the co-operative year, by an auditor or an auditing firm appointed by the general body, from the panel of auditors or auditing firms approved by the Director of co-operative audit.

3. Brief features of the Financial Provisions of the K.C.S. Act

A Co-operative Society which has for its objects the promotion of the economic interests or general welfare of its members, or of the public, in accordance with Co-operative Principles, or a Co-operative Society established with the object of facilitating the operations of such a society may be registered under KCS Act (Section 4). The aims of the society should not be inconsistent with the principles of social justice, and its bye-laws not contrary to the Provisions of the KCS Act and Rules. It should comply with the requirements of sound business and have reasonable chance of success before it could be considered for registration (Section 7). Thus a Co-operative Society is a business organization with a special mode of doing business, in a strictly business like manner tempered by a high moral purpose of encouraging in its members, habits of honesty, industry, thrift, prudence, punctuality and mutual help. The liability of a Co-operative Society may be limited or un limited subject to the provisions of Section 4 read with Section 5. The registration of a society shall render it a body corporate by the name under which it is registered having perpetual succession and a common seal and with power to hold property, enter into contracts, etc., (Sec.9).

As per the Act, the responsibility to get the accounts audited rests on the co-operative societies and also provides the Director of co-operative audit to maintain a panel of auditors or auditing firms (Sec. 63(1)). Under sub-section (7) of Section 63 of the Act the Board of every Co-operative Society shall ensure that, statements showing the receipts and payments or Income and expenditure ,Profit and Loss and the Balance Sheet along with such schedules and other statements as at the end of co-operative year ,are prepared and presented for audit before the auditor or auditing firm within thirty days of the close of the co-operative year. According to amended Rule 29 of KCS Rules every Society has to keep Books of Accounts and Registers in connection with the business of the society in such form as the Registrar of co-operative societies may from time to time require.

4. Salient features concerning accounts

1. Restrictions on Loans

Under Section 60 of the K.C.S.Act a Co-operative Society shall not make a loan to any person other than a member. A co-operative society may make loans to another co-operative society.

2. Restrictions on Borrowings

According to Section 59 of the K.C.S.Act a co-operative society may accept loans and deposits only to such extent and under such conditions as specified in the bye-laws . **The general body of a co-operative society shall have power to permit the society to borrow from a credit agency subject to such conditions as may be stipulated in the resolution of the general body and such resolution is valid till the date of next annual general meeting.**

3. Investment of Funds

According to Section 58 of the K.C.S.Act a Co-operative society may invest or deposit its funds (a) in a Government Savings Bank or (b) in any of the securities specified in Section 20 of the Indian Trust Act, 1882

or (c) in the shares or securities of any other co-operative society or (d) with any Co-operative Bank or with any Scheduled Bank regulated by the Reserve Bank of India, **of its choice and approved by the general body of that society till the date of next annual general meeting. In case of co-operative Bank such investment shall be made in accordance with the instructions and directives issued by the Reserve bank from time to time.** With special sanction of the Registrar, a co-operative society may invest its Reserve Fund in its own business or in the construction or purchase of buildings or lands required for carrying on the objects of the society. (Rule 23)

4. Provident Fund

According to Section 62 of the K.C.S.Act a society may establish a Provident Fund for the benefit of its employees. such provident fund cannot be used in its business or for creating any assets for the society. The provident fund is also not liable for any attachment or be subject to any other process of any courts or other authority.

5. Definition of Audit

Audit or auditing is a critical and intelligent examination of the books of accounts and verification of correctness of accounts with relevant vouchers and documents in order to ensure that the entries in the books have been made correctly so as to constitute a true record of the transactions and that the Profit and Loss account and the Balance Sheet have been properly drawn up so as to exhibit a true and fair view of the state of affairs of the institution at the end of the year and the profit or loss for the financial year ended on that date. Such examination should not be confined to a mere arithmetical check of the books of accounts. It should go beyond the books of accounts to ensure that the transactions recorded therein are genuine, properly authorized and correctly entered.

6. Need for Co-operative Audit

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.

7. 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.

8. Statutory provisions relating to Co-operative Audit

Audit of Co-operatives is conducted as per provisions of Section 63 of the Karnataka Co-operative Societies Act, 1959.

According to section 63(1) " Every Co-operative society shall get its accounts audited at least once in each year by an auditor or an auditing firm appointed by the general body from the panel of auditors approved by the Director of Co-operative Audit and the Director of co-operative audit is the authority to prepare and maintain a panel of auditors or auditing firms." (sub Rule 6 ,8 and 9 of Rule 29B and sub Rule 12 of Rule 29B)

According to section 63(3) the manner of preparation of the list of auditors and auditing firms and the procedures to be followed by the co-operative society has been detailed in rule 29(A) and 29(B).

According to Section 63(4)- The audit under sub section1 of section 63 or under sec 98(U) or sec 98(V) shall include an

examination of overdue debts if any, the physical verification and valuation of assets and Liabilities, Verification of cash balance and securities, certification of the profits or losses, compliance with the transparency law and other laws applicable to the Co-operative societies including the instructions and directives of NABARD or RBI and an examination of the working and the other prescribed particulars of the society.

According to Section 63(5) – The auditor or auditing firms shall at all times have access to all the books , Accounts, Documents, Papers, Securities, Cash and other properties (Sub rule 1 of Rule 29) belonging to the society or in the custody of any member of the board or the office bearer or the chief executive or any other employee of the society and may summon any person in possession or responsible of the custody to produce the same at the Registered office of the society or at any branch thereof or at any public office at the head quarters of the society.

Section 63(7)- The board of every Co-operative society shall ensure that the annual financial statements like the Receipts and Payments or income and expenditure, profit and loss and the balance sheet along with such schedules and other statements are prepared and presented for the audit before the auditor and auditing firm within 30 days of the closure of that co-operative year (sub Rule 3 of Rule 29).

Section 63(8) - The auditor or auditing firm shall conduct and complete the audit of accounts as provided for in this act or the Rules and send copies of audit report and communicate the results of audit to the co-operative society, the Registrar, The Director of co-operative audit and to the financing Bank or credit agency and if the society is affiliated to any other co-operative society , to such other co-operative society , as early as possible but within the 1st day of September every year (sub Rule 7 of Rule 29B).

Section 63(10)- If the result of the audit discloses any defects in the working of the society, the board shall take steps to rectify the defects and remedy the irregularities pointed out in the audit report and place the audit report along with the action taken report before the general meeting . The Board has to take steps for rectification of all the defects pointed out in the audit report till all the defects are rectified and irregularities are remedied (sub Rule 5 of Rule 29).

Section 63(11)- The Director of co-operative audit shall submit the audit reports of an Apex co-operative society to the State Government annually to be placed before the legislature (Rule 29B).

Section 63(12)- If it appears to the general body of a Co-operative society that there is a prima-facie case of fraud

or misappropriation or embezzlement of funds not detected or properly examined by the auditor , the general body may resolve to provide for a re-audit of any account of the society and the rules applicable to the audit applies to re-audit (Rule 29E).

Section 63(13) - If it appears to the State Government that there is a prima-facie case of fraud or misappropriation or embezzlement of funds not detected or properly examined by the auditor during regular audit or misclassification of accounts or for any other valid reasons, on an application by Co-operative Society or otherwise that it is necessary or expedient to re-audit the accounts of a society, it may order for re-audit of the accounts of the society (Rule 29F).

According to section 63(14) , the auditor has to inquire ,

- (a) Whether The loans and advances made by the co-operative society are properly secured and are not prejudicial to the interest of the co-operative society or its members.**
- (b) Whether The transactions of the co-operative society are not prejudicial to the interest of the co-operative society.**
- (c) Whether personal expenses have been charged to revenue account.**
- (d) Whether the position as stated in the account books and the balance sheet of the co-operative society is correct, regular and not misleading. And**
- (e) Whether any special issue referred for enquiry by Reserve bank or National Bank duly enquired into and reported to the concerned**

(sub Rule 11 of Rule 29B)

According to section 63(15) , the auditor shall make a report to the co-operative society on the accounts examined by him. The report shall state whether in his opinion and to the best of his information and according to the explanations given to him, the said accounts give the information required by this act, in the manner so required and give a true and fair view,

- (a) In case of Balance Sheet**
- (b) In case of Profit and Loss Account, the profit or loss of the year**

According to section 63(16) , the auditor's report shall also state

- (a) For the purpose of audit ,he has obtained all the necessary information and explanation to best of his knowledge and belief**
- (b) Whether in his opinion proper books of accounts have been maintained and proper returns have been received for the purpose of audit from the branches.**
- (c) How he has dealt with the audit report of branch office**

- audited by a person other than the auditor.
- (d) Whether the co-operative societies Balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns.

According to section 63(17) , the audit report shall have

- (a) All the particulars of the defects or the irregularities observed in the audit and in case of financial irregularities and misappropriation or embezzlement of funds or fraud, the auditor or the auditing firm shall investigate and report the modus operandi, the entrustment, amount involved and fix the responsibility for such act on the members of Board or the employees of the society or any other person as the case may be with all necessary evidence.
- (b) Accounting irregularities and their implications on the financial statement to be indicated in detail in the report with corresponding effects on profit and loss.(sub Rule 4 of Rule 29)
- (c) The functioning of the general body , board and sub committees to be checked and any irregularities or violations observed to be reported duly fixing the responsibilities for such acts.
- (d) All schedules and other statements as may be prescribed. (sub

According to section 63(18) ,whether any matter referred to in clauses (a) and (b) of sub-section 14 or clauses (a) and (b) of sub-section 15, clauses (a) to (d) of sub-section 16 is answered in the negative or with a qualifying observation, the auditor's report shall state the reason for the answer (Sub Rule 2 of rule 29).

According to section 63(19), the remuneration of the auditor or auditing firm of a co-operative society shall be borne by the society and shall be at such rates as may be fixed by general body of the society (Rule 30 and 30A).

According to section 63(20), the Director of co-operative audit shall maintain a list of co-operative societies district wise, the list of working societies , the list of societies whose accounts are audited, the list of societies whose accounts are not audited within the prescribed time and the reasons there for. He shall co-ordinate with the co-operative societies and auditors or auditing firms and ensure the completion of audit of accounts of all the co-operative societies in time every year.

9. 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;
- 9) Examination of the working and other prescribed particulars of the society.
- 10) **In addition to Financial audit, It also includes Propriety audit. And**

11) Examination of the transactions of the Board.

12) Certification of profit actually realized or loss actually incurred

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) 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.,

(2) 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. As per Section 57(2A) of the KCS Act and Rule 22(2) of the KCS Rules, the maximum dividend a society can pay to a share holder is 25 percent.

(3) 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.

(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 Auditor with the management before finalizing the Audit Report should discuss the draft audit report. If the management desires. Detailed instructions have been issued in this regard in the Audit Instructions.

10. 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.

11. Main Aspects of Co-operative Audit

Co-operative Audit is an audit conducted under the statute and therefore, it is statutory in character .

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 **General Body of the Co-operative Society**. This statutory requirement ensures proper management of Co-operatives which are public organizations.

The Director of Co-operative Audit is the authority to maintain list of eligible auditors and has to maintain a list of co-operative societies district wise.

12. Duties Responsibilities and Powers of Co-operative Auditor

Duties and Responsibilities

The main duties and responsibilities are the following:

It is the duty of the auditor to verify

(1) the cash balance and securities, examine the overdue debts, if any, value assets and liabilities of the society, verify balances at the credit of the depositors and creditors and the amount due by the society's debtors (Section 63(4),(5),(6) (14),(15), (16),(17),(18) of the KCS Act read with rule 29(2), (3), (4), (5) of the KCS Rules).

(2) The Auditor should satisfy himself that the Co-operative Society has kept all account books and registers in connection with the business of the society as required by the **Registrar of Co-operative Societies, Reserve bank or National Bank** as the case may be, properly and up-to-date (**Sec 63(14)(15) read with rule 29** of the KCS Rules).

(3) The accounts **and the financial statements along with the schedules have been prepared and presented before the auditor** by the Co-operative Society for each separate year in such form as specified. **Section 63(7) read with rule Rule 29(3) of the KCS Rules**).

(4) Verify whether the provisions of all the bye-laws have been strictly observed and the bye-laws are in accordance with the provisions of the Act and Rules framed there under.

(5) Among other things he should verify for example:

(i) In respect of Credit Societies and Banks, whether loans have been sanctioned for proper objects and periods and on adequate security as per conditions applicable to grant of such loans to proper persons. He has also to examine the repayments in order to ascertain book adjustments, improper renewals etc., and examine whether prompt action has been taken for recovery of dues and over dues.

(ii) In respect of marketing societies whether the society has undertaken pooling and grading before sale of produce of members etc., and –

(iii) In respect of other societies whether the business of the society has been conducted according to the Co-operative principles and sound business practices.

(6) Verify genuineness and adequacy of securities, mortgage and other bonds, adequacy of provision made for depreciation of assets and other items of expenses including interest payable on borrowings and deposits.

(7) (a) Conduct personal verification of members accounts and examination of their pass books with a view to preventing manipulation of accounts by dishonest employees and office bearers.

(b) Verify whether investments of funds made are in accordance with provisions Of section 58 of K.C.S. Act read with Rule 23 of K.C.S. Rules and borrowings made are as laid down in Section 59 of the Act read with Rule 25 of the Rules, and loans made are in accordance with Section 60 of the Act.

Verify whether net profit arrived at is in accordance with the provisions of Rule 22 of K.C.S., Rules and appropriations made out of net profits are in accordance with Section 57 of the K.C.S. Act.

1) Analyze the reasons for losses incurred by the society and assess after careful examination, deficiency or loss, if any, arising out of negligence or misconduct on the part of any employee or member of the committee, or of the society and after giving due opportunity to the persons whose actions are likely to be adversely commented upon in the Audit Report to explain why responsibility should not be fixed on them for the said deficiency or loss.

(2) Certify the balance sheet subject to qualifications if any indicating the state of-

Accounts and Affairs of the society and award audit classification to the societies on the basis of instructions issued by the Director of Co-operative Audit and by other competitive authority from time to time. **Section 63(4),(14),(15) &(17) and Rule 29(2).**

(3) Government have been relying on the Co-operative Sector to a great extent in the implementation of their schemes for the upliftment of the weaker sections of society. The schemes include provision of cheap houses, providing credit to farmers, encouragement to small scale and cottage industry, reduction in and easy availability of essential consumer goods etc., Audit has a positive role to play in the implementation of these schemes, by ensuring that the interests of the weaker sections of the society are taken care of by the management. During audit it should be seen, for example, that loans are given in right amounts, at right time and for right purposes, increased profits reach the masses in the form of reduced prices etc.,

The above constitute some of the important duties/ responsibilities of the Auditor and are, as such not exhaustive. In general the Auditor's

examination of accounts and affairs of the society should be such as to enable him to certify that the balance sheet of the society exhibits a true and fair view of the affairs of the society at the end of the year and the profit or loss for the financial year ended on that date. The auditor should always be kind and courteous in his relations with both officials and non-officials. His reports should be in polite, courteous and clear language. He should act without fear or favor.

13. powers

Sub sections (5), (6) and (9) of Section 63 of the K.C.S. Act contain provisions relating to the powers of auditors.

Under Section 63(5) – The auditor or auditing firms shall at all times have access to all the books , Accounts, Documents, Papers, Securities, Cash and other properties (Sub rule 1 of Rule 29) belonging to the society or in the custody of any member of the board or the office bearer or the chief executive or any other employee of the society and may summon any person in possession or responsible of the custody to produce the same at the Registered office of the society or at any branch thereof or at any public office at the head quarters of the society.

Under Section 63(6) of the K.C.S. Act, every person who is or has at any time been an officer or employee of the society and every member and past member of the society shall furnish, such information in regard to the transactions and working of the society as the **Auditor or Auditing Firms approved by the Director of Co-operative Audit** may require. Failure of an officer/employee/member of a Co-operative Society in possession of any information, books or records to furnish such information or produce such books or records or to give assistance to the person authorized to audit the accounts of the society under section 63 of the Act is an offence and is punishable under Section 109 of the Act.

Under Section 66 of the K.C.S. Act, if any officer or person conducting audit under Section 63 of the K.C.S. Act , has reason to believe that any books or other property of the society have been tampered with or are likely to be tampered with, if left with the society with a view to eliminate or efface or change or manipulate any evidence which may be deemed necessary by such officer or person in connection with the proof of any defect or irregularities noticed by him during the course of audit, he shall have the power to seize and impound such books or property in such manner and for such period as may be prescribed. The manner for seizure and the period for which they could be impounded are laid down in Rule 53 A of the K.C.S. Rules.

14. Different Types of Audit:

There are four types of audit. They are:

- (1) Concurrent Audit
- (2) Interim Audit
- (3) Test Audit
- (4) Final Audit

(1) Concurrent Audit:

Under concurrent audit, audit is concurrent with the period of maintenance of accounts and the auditor engaged on audit continuously throughout the year. This type of audit is generally adopted in big institutions, State Level and Apex Bodies, District Co-operatives Central Banks, Central Stores, Sugar Mills, Spinning Mills etc., having large volume of business and huge daily transactions. Concurrent audit is conducted by Departmental Auditors and the cost thereof is borne by the societies concerned. Auditors conducting concurrent audit have to furnish Concurrent Audit Report to the Societies concerned periodically in the manner prescribed by the Director of Co-operative Audit so as to facilitate the management to rectify the defects well before the issue of final audit report

(2) Interim Audit:

Interim Audit is conducted before Final Audit. It facilitates early completion of Final Audit. It also helps the staff to rectify the irregularities mentioned in the interim audit report. It ensure prompt action on the part of the management for rectification of errors pointed out in the interim audit report. Interim Audit Report has to be submitted for the period concerned with the summary of defects, if any.

(3) Test Audit

Test Audit is conducted with a view to testing the correctness of Final Audit done by an Auditor. All the societies are not test audited during the year. Only a certain percentage is taken up for test audit. The objective of Test Audit is to check the efficiency of audit staff, to find out the mistakes committed by them and to ensure correct and efficient audit. Test audit is conducted by the superior officers in the presence of the Auditor who has conducted test Audit.

Test Audit is conducted in order to ascertain whether the auditor has done the audit correctly or not. While selecting societies for test audit care should be taken to select only those with considerable transactions. In the case of societies with heavy transactions it is sufficient if one month's transactions are test-audited. The effectiveness of Test Audit depends, to a good extent, on careful selection of societies

If test audit of a society discloses serious defects, the work of the concerned auditor should be examined in-depth by test auditing more societies audited by such auditors.

4) Final audit:

Final Audit is the statutory annual audit. It is taken up after the end of the financial or trading period, after the accounts are closed and are prepared. It includes a complete examination of all books of accounts, verification of cash and bank balances and securities, verification of assets and liabilities and examination of overdue debts. Final Audit brings to light the extent to which the society has been able to improve the economic conditions of its members. Apart from assessing the financial position of the society, final audit should aim at finding out the extent to which the society has been able to achieve its specified goals.

The audit report should indicate, **inter alia**, the details of assets and

liabilities, over dues, bad and doubtful debts, confirmations received from creditors and debtors and details of suspense account. A defects sheet enumerating the various defects relating to contravention of the Act, Rules and Bye-laws, misappropriation, un-authorized payments etc., should accompany the audit report. The auditor should also furnish a certificate in the prescribed form indicating the state of accounts and affairs of the society.

15 Supervision of Audit

Special feature of supervision of Audit is that the work done by the Auditors and the Audit Report prepared by him are being scrutinized by visiting to the society before the Audit Report is issued. Main features thereof and are indicated below.

The supervising officer should verify the draft audit report and financial statements with reference to the relevant records maintained in the society in order to ensure the correctness of the draft audit report. Any modifications if required, to be informed in writing to the concerned auditor. apart from this, He should also see the following:

(1) Supervising Officer should review the action taken by the Institution to rectify the mistakes and omissions pointed out in previous audit reports and make a comment if the action taken has not been satisfactory.

(2) He should see whether the Auditor has verified the investments and securities and sought confirmation letters from various Debtor and Banker of the society / Institutions and conducted personal verification of loans.

(3) He should see whether the Auditor has verified the adequate provisioning of depreciation at prescribed rate, and valued the closing stock correctly.

(4) In respect of Banking Institutions the Fluid resources should be examined by supervising officer with reference to the provisions of the KCS Rules as well as rate fixed under the B.R. Act.

(5) Proper classification of assets and provisioning thereon as IRAC Norms. In respect of societies other than these provisions made for bad debts should be examined.

(6) The supervising officer should go through the draft audit report and make necessary corrections. and get the draft signed by the Secretary or the Managing Director in token of his having seen it at draft stage. In case the Managing Director or Secretary wishes to his own version regarding any particular transaction that may be incorporated in the audit report together with the Auditor's comment thereon.

(7) In respect of audits which can not be supervised locally by the supervising officer, a general scrutiny will be exercised by the audit report releasing authority, when audit reports are received from the Auditors concerned.

(8) On receipt of the audit reports relating to audits which are not

supervised on the spot the releasing authority will exercise the following checks in addition to the checks stipulated in Head Office Circular No. ADT/2/78-79, dated: 18th May 1978.

(i) Whether the Auditor has furnished as many details as necessary regarding shortages or misappropriations if any, and explained them clearly.

(ii) Whether the language of the report is impersonal and objective.

(iii) Whether the Auditor has given opportunity to the persons concerned to furnish their versions regarding transactions which are adversely commented upon in the audit report and their comments regarding assessments made against them.

(iv) Whether necessary schedules and statements have been attached to the final accounts.

(v) Whether there is any apparent omission on the part of the Auditor to look into any aspects of the working of society, as can be gathered by a perusal of the final accounts and his report.

(vi) The arithmetical accuracy of the final accounts should be got checked in the Assistant Director's Office.

(9) The sub divisional Assistant Director of Co-operative Audit, and the Deputy Director of Co-operative Audit are required to supervise certain audits conducted by the Auditors. For the purpose they have to select for every month, a prescribed number of societies whose audit is in the final stage of completion. The societies selected should generally be important institutions. They should visit the institution at the end of the audit. So that the draft audit report is available for its perusal. During the course of their supervision they should look into the following points apart from perusing the draft audit report prepared by the auditor.

(1) Whether the Auditor has seen that the society has fulfilled the objectives for which it was set up.

(2) If there are shortages or misappropriations whether the Auditor has furnished as many details as necessary and whether he has avoided vague statements and explained the shortages and misappropriation clearly. (Note: Supervising officer should also look into the relevant documents wherever he suspects shortages or misappropriations)

(3) Whether the Auditor has used impersonal and objective language in his report without mentioning individuals by name except while reporting shortages or misappropriations or dues outstanding against individuals.

(4) Whether it is evident that the Auditor has seen all the receipts vouchers and challans, all books of accounts and all the statements or the final accounts and whether there is any apparent omission on the part of the Auditor to look into any aspect of the working of the society as can be gathered by a perusal of the final accounts and his report.

(5) Whether the Auditor has given opportunity to the persons concerned to furnish their versions regarding transactions which are adversely commented upon in the audit report and obtained their comments regarding assessments made against them.

