GOVERNMENT OF TRIPURA
DEPARTMENT OF CO-OPERATION
CO-OPERATIVE
AUDIT MANUAL

CO-OPERATIVE
AUDIT MANUAL

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FOREWARD

The Co-Operative Societies today are playing vital role in strengthening the National economy. It is hardly to be emphasized that the importance of the Co-operative movement in our country has greatly increased in regard to the upliftment of the economic condition of the people in general and the weaker section of the society in particular. Their sphere of activities has by now widened to a great extent. Besides arranging for credit facilities for agricultural purposes they are catering to the other needs of the society as well. They are engaged in production, distribution, consumption, house, building, banking, export & import, transport, etc. many big industries including sugar factories in Co-operative sector are being run successfully. The societies have also grown in size and the Government has been trying to see them economically viable. The intelligentsia as also not so-literate and even illiterate persons are greatly associating themselves to improve their lot by means of self-help through mutual help. The economic programme, which alone is the panacea for economic emancipation of our poor people residing particularly in the villages, has been embraced by the Co-operative Societies and they are actively engaged in implementing them.

A great responsibility lies upon them for achievement of the goal. A good management and control of the societies in general is essential for their successful functioning and for that purpose the Government has been aiding them with trained and experienced personals and also with financial assistance. The management having no fear of evaluation of their works and checking of their accounts by some independent agencies might go reckless and the interest of the society might be affected adversely. With this objective in view audit of each Co-operative society at least once in each year has statutorily been provide. The importance of Co-operative audit is hardly to be over-emphasized in the present day society. It has assumed greater significance these days when corrupt practices have crept in every walk of our life. Greater responsibility has fallen on the shoulders of the Co-operative Auditors who are watchdog of the Co-operative movement. Success of the movement greatly depends upon the extent to which audit of societies has been able to bring improvement in their working and in curbing out the unfair means where they are found to have been adopted to the detriment of the societies. Co-operative audit has to be objective, suggestive and remedial outlook of the Cooperative Auditors has to be broad

based and they have to be sympathetic towards the ignorant, not-so-literate, untrained and inexperienced Office-bearers of the society. The audit should essentially be performance-audit and it should include an impartial just and honest evaluation of working of the societies. All technical aspects should be thoroughly examined. Looking to the above important duties and great responsibilities of the Co-operative Auditors it was quite essential to have a Co-operative Audit Manual for their necessary guidance. I am glad to see that Department of Co-operation is going to publish a Cooperative Audit Manual of its own. I hope this Co-operative Audit Manual would proved beneficial to not only the Cooperative Auditors but also to other Officers of the Co-operative Department of Govt. of Tripura, different Co-operative institutions and the Co-operators in general. I also do hope that it would bring improvement in the standard of audit and strengthening of the Cooperative movement.

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Audit of Co-operative Societies is an integral part of the supervisory system. So proper and timely audit is very essential. It gives not only financial assessment of the Cooperatives Society but also an assessment of the Management of that Society. The responsibility for conducting audit rests with the RCS of the State Government. Co-operative movement in Tripura started in 1949 and over the years there has been a gradual expansion in size, numbers and volume of operations of Co-operative Societies in the State. Now Co-operative Societies of diversified activities have come up and with the growth of the Co-operative movement its accounting system also gets complicated. Audit of Co-operatives has become a big job to complete it in time maintaining the quality and efficiency. With development in the Co-operative movement internal structures and procedures in some areas are required to be strengthened and audit of accounts is such an area. The existing instructions/guidelines issued time to time are not sufficient to meet up the requirements of audit of accounts in different Co-operative Societies including banks.

So, introduction of an audit manual was a felt need since long in Co-operative sector for the guidance of Officers, Auditors and employees concerned engaged for audit of Co-operatives. With a view to drafting an audit manual for the Co-operation Department a Committee consisting of 6 (six) members headed by Sri K. B. Choudhury, DRCS (TCS Gr. II) was formed. The committee studied the departmental circulars and other relevant instructions in connection with the audit of accounts of Co-operatives. Necessary papers, documents etc. regarding audit of accounts and audit manual of different States were collected and consulted by the Committee to give the present shape of the Co-operative Audit Manual. The Co-operative audit manual has been printed in one volume, which contains 12 Chapters and deals with the audit principles and practices. Different circulars of NABARD, RBI, provision of B.R. Act applicable to Co-operative Banks, etc. are also included in it. It has been designed to equip the Auditors with as much knowledge on all the topics as is desirable from the point of view of economic position of the Co-operatives.

I do hope that this manual will server a very useful purpose in increasing the efficiency in conduct of audit of Co-operatives and will be a useful guidebook for the persons engaged for audit. However, I feel deficiencies and errors are inevitable in this work and shall be thankful to those who point out such errors and deficiencies. I am thankful to Sri K. B. Choudhury, TCS Gr. II for his sincere all out efforts in preparing the draft manual and also to other members of the Committee for their help, Cooperation and suggestions in that regard. I am grateful to Sri J .K. Purakyastha, Joint Secretary, Law, Sri D. K. Choudhury, Sr. Audit Officer, O/O. the A.G., Tripura and Sri M.K. Sengupta, Law Officer-Cum-Draftsman, Office of the Registrar of Co-operative Societies, for their Co-operation and valuable suggestions.

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B. Bhaumik

CONTENTS
CHAPTER

2 CHAPTER

3 CHAPTER

CHAPTER – I
INTRODUCTION

BACKGROUND

1.1. A Co-operative Society is an association of persons united for fulfillment of certain common object. In a planned economy the role of cooperative as the principal basis of organization in many branches of economic life, especially in agricultural, small industry, processing, marketing, distribution and supplies is a settled is a fact. A progressive cooperative rural economy with a diversified occupational structure in which the weaker section of the community are brought specially to the level of the rest is a prerequisite of planned development. The Co-operative movement in Tripura started initially in a small manner to cater to the needs of a limited membership for settlement of refugees who came from erstwhile East Pakistan. Since its inception in 1949, the movement has expanded steadily in the State encompassing all most all branches of economic life. With this expansion has come a comparable growth in the size and activities of the co-operative societies in the State. This has inevitably led to the need for having a sound system of accounting for ascertaining the financial health of these cooperatives. The verification of the accounts of the societies and ascertaining their accuracy or otherwise is the purpose of audit. The audit of the accounts of the co-operative societies, therefore, becomes indispensable as an important instrument of faith to ensure that the authorities responsible for managing the cooperatives are discharging their functions properly according to the Rules, Acts & Byelaws in force and the objectives for which co-operative were formed are being fulfilled and to safeguard the financial discipline of such institution. Co-operative societies in Tripura generally have their accounts audited by the Officers of the Department of Cooperation working under the general guidance, superintendence and control of the Registrar of Cooperative Societies, Tripura. Chapter- VIII of the Tripura Cooperative Societies Act, 1974 governs the Audit of Cooperative Societies.

Hence, Audit of Cooperatives is a statutory responsibility of the Register of Cooperative Societies. With the growth and expansion of cooperative societies and the consequent separation of ownership and management, audit necessarily provides a check on the management and is instrumental in ascertaining on behalf of the owners i.e. shareholders of the society, whether the society is being managed on sound business principles or not and whether the societies activities are geared up to reach the decided goals. Auditors, therefore, act as custodian of the interests of each and all who have dealing with a co-operative society viz. Shareholders, members, non-members, financing banks, the general public and the Government.

Objectives of the Manual

1.3. Co-operation in the beginning was a central subject, subsequently on the recommendation of the Maclagon Committee on co-operation in 1915 co-operative became a State subject. It has always been the policy of the State Govt. to encourage cooperative to take up new and various activities. The State Govt. has also been granting them liberal financial assistance not only by granting them loans and subsidies but also by contributing towards Share capital. The State Govt. has become a business partner sharing their profits as well as losses. With the growth in the size and volume of operation of different types of cooperatives, various instruction have been issued by the Cooperative Department from time to time to ensure that the funds provided by the State are neither misappropriated nor misutilised. With responsibility of safeguarding the interest of the State, it is not ordinarily possible to remember all the instructions for effective conduct of audit. It is, therefore, absolutely necessary to codify and present them in the from of a comprehensive manual. Absence of such a manual was felt for a long time by the audit staff deployed for auditing the accounts of the societies.

1.4 The objective in the framing of the Manual basically stands to fulfill the long felt need as under:-

i) To serve as a ready handbook of practical guidance to the Officers undertaking audit of Co-operative Institutions in Tripura in attaining and developing their technical skill and job efficiency so as to maintain a high standard in performance of their statutory duties.

ii) To serve as a codified handbook of departmental instructions relating to Cooperative accounts and audit.

iii) To serve as ready reference book to auditors and also to those who are responsible for maintenance of accounts.

iv) Above all to help us improving the quality and standard of audit.

Scope of the Manual

1.5. This manual deals primarily with the general principles and practice of audit, the technique adopted by the auditors and the process and procedure followed during the course of audit of cooperative societies in particular with special reference to the circulars and instructions issued by the Register from time to time. General principles of audit have also been dealt with in the Manual. Special features of the audit of different type of societies have also been explained in detail. Necessary information regarding audit fees, examination of cash, trading transactions, verification and valuation of assets and liabilities, the methods to be adopted for reviewing operational efficiency, cooperative character, financial soundness etc. are also explained. Method of 3 preparation of audit report, filling in the schedule and other relevant details to be furnished along with audit report have also been reviewed.

1.6. It may not be possible to pin point all the possible situation and problems to be faced by auditors in course of audit of societies in the multi-diversified activities undertaken by societies. However, an attempt has been made to deal with major important problems of audit which will be required by a large number of Auditors undertaking audit of societies. In brief, it is hoped that this manual will provide necessary guidance to the Auditors and shall provide a workable guide to improve professional skill and knowledge for the performance of their duties. It may be added here that the instructions outlined in the manual is neither complete nor exhaustive on audit techniques and auditing but is limited to the providing of a workable guide to be modified with passage of time according to changing circumstance of each case while undertaking audit of particular types of society. In applying the guidelines given in the manual, the Auditors must apply his common sense and experience in dealing with a particular problem. Difficulties faced during actual field audit and experience gathered by Auditors in the conduct of audit will contribute to supplement this manual for ensuring effective audit.

CHAPTER – 2

2.1. MEANING AND SIGNIFICANCE OF AUDIT

Before going into details of Audit and its significance it is desirable to understand the purpose of accounts and accounting. 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.

2.2. 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 concern with the summarizes 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.

2.3. 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. 4 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.

2.4. 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.

2.5. 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 instruments 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.

2.6. 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.

2.7. GENERAL PRINCIPLES.

Some of the tested principles governing the procedures in Audit Engagement, which are considered worth following, are summarized thus:-

1. to ascertain the authority competent to sanction expenditure, to receive or pay money or to incur liabilities, on behalf of the concern.

2. to understand the system of account followed.

3. to check the accuracy of the original record, namely, the cashbook.

4. to see all transactions are in accordance with the minutes of the meetings of the Board of Directors or the orders of competent authority.

5. to investigate unusual financial transaction.

6. to check the accounts from the original records and to suggest corrections, if any, in the classification of transactions.
7. to review the procedure of stocktaking and of pricing of the goods in hand.
8. to check the financial results, that is the manufacturing, Trading and Profit and Loss accounts and the Balance Sheet, which will indicate accurately the progressive position of affairs.

2.8. COOPERATIVE AUDIT

Audit of a Cooperative Society is much more elaborate than Audit of a Commercial undertaking. Besides certifying the correctness of the Balance Sheet and the Profit & Loss 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.

CHAPTER-3

THE AUDITOR

3.1 A person qualified as a Chartered Accountant alone can practice as an Auditor in India. However, the Tripura Cooperative Societies Act, 1974 under Section 2 defines 'auditor' to include a person appointed by the Registrar to audit the accounts of a society. Section 79(1) of the Act empowers the Registrar to 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 each year. Besides the Departmental Auditors appointed by the Registrar, Rule 71 of the Tripura Cooperative Societies Rules provide that any society or class of society notified by the Registrar may get their accounts audited by an Auditor selected from the panel of certified auditors maintained by the Registrar. The statutory powers, duties and responsibilities and the liabilities given under the Act shall apply to any of the Auditor engaged in Audit of a Society.

DUTIES AND RESPONSIBILITIES

3.2. The Audit accounts of a society shall include:-
1. Examination of overdue debts, if any,
2. Verification of the cash balance & securities,
3. Valuation of the assets and liabilities of the society,
4. Examination of all transactions of the society,
5. Examination of the statement of accounts prepared by the committee. Thus, in addition to conducting audit according to the generally accepted principles, the Auditor has to attend to the above matters.

3.3. 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. 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.

3.4. 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. 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. An Auditor may go through beyond books and accounts and records, as he has to supplement information by calling for explanations and clarifications.

3.5. On certification of the accounts of a society the Auditors has to submit an audit memorandum to the Registrar. (This has been separately dealt with in Chapter – 10, Audit Report).

3.6. 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. (See Chapter – 4, period of Audit).

POWERS

3.7. 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 (section 79(2)).

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 (section 79(3)).

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 (Sec. 79(4)).

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 (Section 79(5)).

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(Section 89).

7. Any officer or member of a society who fails to furnish information/documents as per provision of Section 79(3) is an offender under Section 144 and punishable Section 145.

8. Any Officer, member, agent or servant of a society who fails to comply with the requirements of Sub-Section (4) of Section 79 is an offender under Section 144 and punishable under section 145.

9. Auditors appointed under Section 79(1) of the Act is public servant within the meaning of Section 21 of Indian Penal Code 1860 as per provision of Section 161 of the Act.

LIABILITIES

3.8. 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.

3.9. 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.

3.10. 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.

CHAPTER - 4

PLANNING THE AUDIT

4.1. 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 PROGRAMME

4.2. 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.

4.3. 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 he 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.

4.4. A model audit programme is given at the end of this chapter. This may be suitably amended according to the needs of a particular audit and the peculiarities of the activities undertaken by a society.

AUDIT NOTE BOOK

4.5. 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.

WORKING PAPERS

4.6. 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.

4.7. 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.

TECHNIQUES

4.8. Use of ticks or check marks: -- While carrying out the routine checking for the mechanical part of the audit, the Auditor is to make 'ticks' or 'check marks' for every entry in accounts book or registers examined by him and also initial them or cancel vouchers by means of a rubber stamp. These serve as an evidence of the correctness of the entry made in the books and passed as such in audit and also prevent its use once again in support of subsequent entry.

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

1. Posting ………………………… on the right hand side of the or /
figure close to the last digit.

2. Casting of totaling …………........... On the left hand side of the figure checked.

3. Carry forward ……….............. Same was above with an additional posting tick across the tick like.

4. Calling over or comparing …… At the bottom of the figure ^

5. Vouching ………………………. On the left side of the figure,
the horizontal line covering a part of the figure. Some times, the tick mark is put on either side of the figure.

6. Bank pass books ………………. The posting tick on the right hand or statements side un-ticked items, i.e. items appearing in reconciliation R would have the letter "R" placed on the right hand side.

7. Contras or transfers …………… on the right hand side. ∽

These ticks or check marks should also be distinctive and should be indicative of the particular process or procedure carried out or the test applied for.

Use of coloured pencils – For marking the ticks or check marks the Auditors are required to use coloured pencils. Auditors of the Cooperative Department are required to use green pencils and their clerks are required to use blue pencils. The staff of the society should be requested not to make use of this pencil of their internal checking.

4.10. Corrections and over writings in Account: In case of corrections made in the Accounts the original figure is to be scored out and the correct figure should be entered distinctly on the top of the original figure or along side and supported by initials of the person authorizing such correction. Scoring out figures should be discouraged and erasing totally avoided. Auditor should not make any corrections himself.

4.11. Period of Audit engagement

The Tripura cooperative Societies Act envisages that the accounts of every society shall be audited at least once in each year. The period up to which the audit engagement shall continue has not been specified. However, in light of the provision of the act the following procedure may be followed. Ÿ Appointment of Auditor, issue of appointment letter to Auditor and intimation of such appointment to the cooperative society shall be made not later than 30th day of June of each calendar year or such other day approved by the Registrar as the ending of the year of any cooperative society. Ÿ Each Auditor shall be allotted a specified no. of societies (to be determined by his controlling officer) for Audit for the entire year, along with monthly target of achievement. Ÿ While allotting no. of societies for audit, societies whose audit is pending for more than two years the normal volume of transaction of the society shall be taken into consideration. ŷ An Auditor appointed shall complete the audit of all the societies allotted to him not later than the period to be specified by the Department.

ŷ Irrespective of the above, an Auditor shall adhere to the monthly target of audit fixed for him and shall in every month submit a progress report of audit to his controlling officer.

ŷ If an Auditor fails to take up the audit of the society allotted to him within three months from the date of his appointment, his appointment shall stand cancelled and the controlling officer shall appoint another Auditor in his place. The Controlling Officer shall sue motto conduct an enquiry into the reasons for not taking up the audit and shall initiate disciplinary action, if necessary.

ŷ No Auditor shall be appointed to audit the accounts of the same cooperative society for three or more successive years. Provided that when the audit of accounts of the society is in arrear for three or more years, an Auditor may be appointed to audit the accounts for all such years.

Audit pending for long periods

4.12. There may be instance where Audit of a society is in arrear for long period. Rule 71(2) of the TCS rules, 1976 prescribes that the statutory audit under section 79 of the Act, shall in all cases extend 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 or when the Registrar so directs, such other date as may be specified by the Registrar. Coverage of the entire period in cases where audit is in arrear for long period (viz, 20 or 25 years) would be practically difficult. Hence, in such situations, the auditor may conduct a summary audit of the entire period on an "as is, where is basis". The Annual Returns of the society, if available may be scrutinized for reconstruction of records. The society may be asked to furnish a receipt and payment statement based on there existing records and a list of their present assets and liabilities. The Financial statement and the Audit report based on the summary audit shall be the basic document for conducting future annual audit of the society. The certificate of the Auditor can also point out that it is based on the summary audit. The chapter of summary audit may come into force as and when direction is issued by the competent authority to do so in this regard.

CHAPTER – 5

ROUTINE CHECKING AND VOUCHING

5.1. 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

5.2. 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.

5.3. 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.

5.4. 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.

5.5. 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

5.6. 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.

5.7. 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.

5.8. 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.

5.9. 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.

CHAPTER – 6

VOUCHING, CASH AND TRADING TRANSACTION:

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

- To ensure that all receipts are accounted for;
- To ensure that no fraudulent payment have been made;

 To ensure that all receipts and payments have been proper recorded;
 To verify the cash in hand and in bank.

VOUCHING DEBIT SIDE OF CASH BOOK

6.2 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, would be 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:

 Date of receipts;
 Name of the person paying in the amount and name of the person on whose behalf remittance is made;
 Amount received mentioned in both in words and figures;
 Mode of remittance i.e. by check, cash etc.
 Head to which credited.

6.3. 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

6.4. 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.

6.5. 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.

6.6. 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 in cure the expenditure or disburse amount up to 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.

6.7. 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.

6.8. 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:-

Ÿ Date of payment;

Ÿ Name of the payee;

Ÿ 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;

Ÿ 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;

Ÿ Amount paid should be mentioned both in figures and words;

Ÿ **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;

Ÿ **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.

6.9. 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.

6.10. Payment of dividend and bonous- 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 acquaintances 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 cash book.

6.11. 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.

6.12. 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 these goods. 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.

6.13. 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

6.14. 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.

6.15. 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.

6.16. 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.

CHAPTER - 7

VOUCHING LEDGERS

7.1. 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.

7.2. 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.

7.3. 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.

7.4. 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.

7.5. 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 dispatches 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.

7.6. 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.

7.7. 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.
7.8. 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, lectricity 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.
7.9. 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.
7.10. 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.

CHAPTER - 8

THE PROFIT AND LOSS ACCOUNT

8.1. At the end of the year every business must ascertain its net profit (or loss). This is usually done in two stages; by finding out the gross profit (or loss): The usual way to ascertain gross profit is by means of an account called the Trading Account. The net profit (or loss) is shown through the Profit & Loss Account. In the case of Cooperative bank and other institutions, the Profit & Loss account contains all the items relating to the income and expenditure of the institution. In case of Trading and Manufacturing societies the profit and loss account is divided into three sections viz. Manufacturing account, Trading Account and the Profit and Loss account.
8.2. Manufacturing Account: The object of the manufacturing account is to show the manufacturing cost of the goods produced. As such, the manufacturing or production account

will contain only items relating to the manufacturing operations of the society. The main heads under which the manufacturing expenses are shown are as under:-

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

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

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

(4) Stores and spare parts consumed.

(5) Direct or indirect labour.

(6) Maintenance of factory building, plants, tools and other equipments.

(7) Insurance of factory building, plant and machinery and tools, store, etc.

(8) Depreciation of factory building, plant, machinery, loose tools and other equipment.

(9) Factory heating, lighting and water charges.

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

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

(12) General administrative expenses strictly pertaining to the factory. From the total of these items, i.e. the total of works in progress or unfinished goods in the beginning of the year and manufacturing expenses incurred during the year, the value of the work in progress at the end of the period is deducted and the results give the manufacturing cost of the goods produced or processed during the period, which are available for sale. This figure is brought down to trading account.

8.3. Trading Account: in the trading account, the opening stock (value of finished goods at the beginning of the year) appears as the first item. The cost of goods purchased, which would also include all expenses connected with purchases, or manufactured, appears as the next item and thereafter all trading expenses are debited to this account. In case of a manufacturing business, the cost of goods manufactured brought down from the manufacturing account takes the place of purchases. This account is credited with the net sale proceeds received (total sales minus returns) and the value of closing stock. The difference between the two sides, viz. net sale proceeds received minus cost of goods sold which would included selling expenses, will show gross profit. This gross profit is brought down to the credit side of the profit and loss account. Whereas the object of manufacturing account is to show the manufacturing cost of goods produced during the year, which are available for sale, the object of the trading account is to determine the gross profit which is the difference between the sale proceeds received and the cost of goods sold. In the trading account of trading societies, in addition to the invoice price of the goods purchased, direct charges such as carriage and freight, insurance, godown rent and other expenses connected with the purchase and storage of goods are included. In some of the societies, particularly in consumers stores rent of shop premises and also salaries of salesman and other staff directly engaged for selling goods are also shown in the trading account. Adjustments, however, will have to be made for the value of opening and closing stocks before arriving at the figure of gross profit.

8.4. Profit and Loss Account: The third section of the profit and loss account is the profit and loss account proper. This account is credited with the gross profit brought down from the trading account together with any miscellaneous income such as cash discount, interest, rent, dividend, share transfer fees, commission, etc. On the debit side, the various items of expenditure are grouped usually under the following heads:-

(i) Selling and distribution expenses.

(ii) Administrative charges including audit fees, legal charges, etc.

(iii) Financial Charges.

(i) Selling expenses: - The selling and distribution expenses include cost of packages and packing materials used, labour employed for packing goods, carriage freight, insurance and other charges incurred for dispatch and delivery of goods to customers where these are not to be charged to the customer, home or godown delivery expenses (in case of consumers' societies) expenditure incurred over advertisement and publicity, cost of samples, printing charge of catalogues, price lists and other publicity material, salesmen's salaries and commission and their expenses, bad debts and sundry trade expenses are also shown under this heading.

(ii) Administrative expenses: - Administrative charges include overhead expenses such as –

1) Clerical and accountancy charges.

2) Printing and stationery.

3) Postage, telegrams and telephone charges.

4) Office rent, rates, insurance.

5) Office lighting and heating.

6) Director's sitting fees and expenses.

7) Managing Director, Manager's salary and cost of requisite and allowances.

8) Audit fees and legal charges and other general expenses'

(iii) Financial charges includei)

Cash discount.

ii) Interest on deposits, loans, bank overdraft and other borrowings.

iii) Bank charges including discount charged on bills collected or discounted.

iv) Provision made for payment of income tax is also sometimes included in the profit and loss account.

v) Depreciation on office furniture and equipment. Also depreciation on buildings, godowns, etc. Where these are owned by the society.

8.5. Revenue Account or Income and Expenditure Account:-

In case of non-trading societies, such as co-operative education Societies, hospitals, clubs and also federations, housing societies and similar other societies, which do not undertake trading activities, it is common to term the "Profit and Loss Account" as "Revenue Account" or the "Income and Expenditure Account". However, the principles for preparing the Revenue Account or the Income and Expenditure Account are the same, the object being to disclose the excess of income over expenditure or the deficit incurred during the period.

8.6. Following are the principles which govern preparation of the profit and loss account:-

(1) Adequate provision should be made for depreciation, bad debts and other losses.

(2) Stocks should be valued on a correct basis.

(3) Interest overdue should not be taken into account.

(4) Provisions of the byelaws relating to the creation of Capital Redemption Fund, Sinking Fund, Guarantee Fund and other funds should be duly observed.

(5) Conditions laid down by the Government and the financing agencies regarding creation and maintenance of these funds should be complied with.

(6) Interest payable on deposits, loans, debentures and other borrowings should be calculated and brought into account.

(7) Capital profits and other extraordinary receipts should not be taken to profits.

(8) All expenditure incurred, but not brought into account should be provided for.

(9) Transfer to profit and loss account from funds created out of past profits should not be made.

These matters require careful attention and the Auditor should look into above points before certifying the correctness of the profits and loss account.

8.7. From of the Profit and Loss Account:-

The form of the profit and loss account is to be prescribed under the Rules and is required to be drawn up in form "Q", prescribe by the rule 64(1). In the case of marketing societies, consumers societies and other societies, which have undertaken trading activities, the profit and loss account is required to be divided into two part, showing separately the trading account and the profit and loss account proper. In case of producers societies, processing societies, forest laborers societies and other types of societies, which have under taken manufacturing activities, whether a separate manufacturing account or the trading account is to be prepared has not been prescribe. Hence, these accounts should be prepared in accordance with the generally accepted principles. As already stated, the profit and loss account should clearly disclose the results of the working of the society during the year. Every material feature and also transactions of exceptional nature are expected to be dealt with in the report of the committee. However, if this is not done, it is the responsibility of the Auditor to point out the same in his report. Figures for the previous year are require to be shown in the profit and loss account. These serve as guide for the general scrutiny of the current year's transactions. Enquiries should be made into the reasons for any material change and commented upon.

8.8. Form "Q" (ANEXURE – 'A' & A-1):-

In the form of profit and loss account prescribe under the Rules, all the usual items have been included and the major items have been grouped together under appropriate heads so as to give a fair idea about the expenditure incurred over various items.

Expenditure side of the Profit & Loss account:

(i) Interest payable – The amount to be debited to interest account will include interest actually paid as well as interest payable on deposit, loans and other borrowings. Interest payable has been specifically mentioned in order that the management may not fail to make adequate provision for interest payable on loans and deposits. The Auditor will have to checks all items of interest payable at the time of audit.

(ii) Bank charges – This are charges debited by Bank on account of exchange, commission, etc. charged for collection of cheques, remittance of funds, etc. cost of cheque books and pass books, postage and other charges for services rendered.

(iii) Contribution to staff provident fund – The Auditor will have to verify with reference to the Staff Provident Fund Rules that employer's contribution has been correctly made.

(iv) Salaries and allowance of the Managing Director – This point has been discussed elsewhere.

(v) Traveling expenses and sitting fees paid to Director/Managing Committee members – This has to be separately shown. The expenditure incurred under this head should include expenditure and allowance for journeys undertaken even outside the jurisdiction by the Directors/Managing Committee members for the purpose of the society. It should be seen that rates of traveling allowances, daily allowance, etc. paid to members of committees do not exceed the maximum rates as may be prescribe from time to time.

(vi) Traveling expenses of staff – All amounts payable need to be brought into account.

(vii) Rents, Rates and Taxes – These should not only include amount paid, but also the amount payable.

(viii) Postage, Telegrams and telephone charges.

(ix) Printing and stationary.

(x) Audit fees – Audit fees paid to Government for statutory audit as well as fees paid to certified Auditors should be included under this head.

(xi) Bad debts written off or provision made for bad debts – Bad debts actually written off during the year and also provisions required to be made for bad debts or the contributions to be made to the Bad Debts Funds should be shown under the heading.

However, if bad debts are actually written off against the Bad Debts Fund or the provision for bad debts, the amount written off should be shown as deduction from the find or the existing provisions and additional contributions made to the fund of provision made should be shown under this heading.

(xii) Depreciation on fixed assets – It is the duty of the Auditor to see that adequate depreciation is charged on all wasting assets. If he considers that the depreciation charged is inadequate, he should state so in his report.

(xiii) Land Income and Expenditure – If any agricultural land is held by the society, assessment and other expenses connected with the land should be shown under this heading. Expenditure incurred over other property such as building plots, buildings, etc., should be shown under the heading "property income and expenditure account" and not under this head.

(xiv) Other items – All other items, which are not cover by the various head shown above, should be shown under this heading. All unusual items, such as contribution to sinking fund, deprecation in the value of investments, provision made for redemption of Government share capital and such other items may be shown separately under the appropriate heading and not under this head.

8.9. Income side of the profit and loss account:-

(i) Interest received and receivable from loans and advances to members and interest received and receivable from investments. These are required to be shown separately. As regards interest receivable on loans, all interest accrued or accruing in amounts, which are over due, is required to be excluded while calculating net profits for the year. As such, it is the responsibility of the Auditor to see that where interest receivable is taken into account, adequate provision is made for overdue interest. Overdue interest may be shown either as a deduction from interest receivable, or shown under the separate heading of "provision for overdue interest" on the liability side. Either way, it has to be deducted from the total amount of interest received and receivable. If any portion of the overdue interest is realised during subsequent years, it may be included in the profits in that year.

(ii) Overdue interest. - Interest account appearing in the profit and loss account includes both interest received and receivable. Interest received means interest actually realized during the year irrespective of whether it has accrued during the year or in previous years. Hence, interest overdue, which was excluded from the profit of previous years, if realsied during the year may be included in the profits for the year, in which it has been realised. Interest receivable would include both interest accrued due and also interest accruing. Generally, recovery of interest is made along with the principal and as such, when the loan account is settled, full interest up to the date of repayment by the borrower as calculated and recovered along with the balance of principal outstanding. However, in the case of medium term and long term loans interest on the full amount has to be paid and may be recovered separately or along with the installment of principal. Thus, in a loan account, interest would have accrued and would be accruing even when the principal has not become due for repayment. Hence, unrealised interest on loans outstanding would consist of (a) interest, which has accrued and become due for payment and (b) interest, which has been accruing but has not become due for repayment. Where the date fixed for repayment of loan and interest extends beyond the date of balance sheet, the interest accrued during the period from the date on which interest has already been calculated to the date of the balance sheet, is termed as "interest accruing". Both interest accrued and accruing may be taken to the profit and loss account, provided the accounts to which they relate are not overdue. An account is said to be overdue when the principal outstanding or the installment due has not been paid on due date.

(iii) Interest on investments. - As regard interest earned on investments, ordinarily only interest actually received is taken to profit and loss account and further interest, receivable up to the date of the balance sheet is not calculated and brought into account. Where income tax is deducted from interest, only the net amount after deducting the tax should be shown. Societies, which are not liable to pay tax on their income should obtain exemption certificate from the income-tax authorities.

(iv) Dividend received on Shares. - Only dividend actually received should be shown. Dividend declared, but not actually received may also be shown. However, since dividend does not become due until it is declared, no credit can be taken for anticipated income by way of dividend.

(v) Commission. - Commission received on purchases and sales made on behalf of members, commission earned on insurance business and other commission may be shown
under this head.

(vi) Miscellaneous income. - Where the society has undertaken other activities, income received from these activities will be shown under appropriate heads. Thus, for example, if the society purchased and kept for hire costly agricultural machinery and equipments, such as oil engine, pumping sets tractors etc. hire charges received may be shown under this head. Similarly, rent received on property, refund of taxes and fees and other miscellaneous items may also be shown under this head.

(vii) Land income & expenditure account. - here the society has come into possession of agricultural lands belonging to defaulters during the process of recovery of its dues, as separate account styled 'Land income and expenditure account' has to be opened and all income received should be credited and all cultivation expenses including cost of seeds, fertilizers, etc., and also assessment, cess and other taxes and fees paid should be debited to this account. The net income received should be shown under this heading.

8.10. A copy of the profit & loss account from as prescribed by the Rules is annexed (Annexure-A & A1). It is to be noted that, while preparing the profit and loss account, the provision of the Rules as to Net Profit (Book profit & realized profit) etc. should be kept in mind.

CHAPTER - 9

THE BALANCE SHEET

9.1. All the balances appearing in the ledger accounts which have not been closed by transfer either to the Trading Account or to the Profit & Loss Account are summarized in a statement called the Balance Sheet.. The Balance Sheet summarizes on one side, i.e. the right hand side – the assets of the business and, on the left hand side, the liabilities of the business including what the business owns to the proprietors(Share Holders) viz. Capital invested by them. The balance sheet, thus, summarizes the financial position of a business on a given date. It is to be noted that the Balance Sheet is not a statement of assets and liabilities. It is merely a classified summary of the balances appearing in the books on given date.

Form of Balance Sheet:

9.2 The TCS Rules prescribes the form of Balance Sheet and the Profit & Loss Account. This ordinarily follows the horizontal 'T' Form of Balance Sheet- with 'Liabilities' on the left hand side and the 'Assets' of the society on the right hand side. A copy of the Form is annexed
(Annexure-'B'/B-1).

The term 'assets' and 'liabilities' are misleading in the context of the balance sheet, since it includes many items on both the sides which are strictly speaking neither assets nor liabilities. The company's Act. besides the above traditional horizontal form of balance sheet also prescribes a vertical form of Balance Sheet. The vertical form, grouping as it does all the items under two heads- Sources of fund and application of fund is easier to understand even by a layman. This Model strongly recommends for the use of the vertical form of Balance

Sheet by cooperative societies in the State. A specimen copy of the vertical form of Balance Sheet is annexed (Annexure- 'C').

9.3. 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.

9.4. 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.

9.5. 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.

9.6. 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.

9.7. 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 deprecation 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.

9.8. The following are the methods adopted for valuation of various types of assets:-

i) Trade marks: - 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 installments 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.

9.8. 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 obtained 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.

9.10. 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.

9.11. 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.

9.12. 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”.

a) 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.

9.13. 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.

9.14. Confirmation of Debit balance:-

The outstanding balance in **Sundry Debtors** accounts should be checked with whatever evidence is available, viz. statement of accounts, record of payments, confirmation letters issued, balance confirmation letters received etc. Confirmation of balance by direct communication with debtors will have to be carried out, where the number of debtors is small and the outstanding amounts are large. However, it may not 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.

9.15. 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 appearing in Chapter – II (Audit of Cooperative Banks). 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.

CHAPTER - 10

AUDIT REPORT

10.1. 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 as specified in chapter-4 of this Manual.

AUDIT

10.2. 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.

10.3. 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.

10.4. 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 eparately 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 byelaws, or the credit limits sanctioned in the normal credit statements as finally approved by the bank. Also, special loans for which approval of the Bank and/or 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 (ANNEXURE-D)

10.5. Under Sub-Rule (3) of the Rule 71, 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 TCS Act or Rules. This Manual prescribes the form to be used (Annexure). 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.

10.6. Schedules to contain in the Audit Memorandum – Sub-Rule (6) of Rule 71 lays down that the audit memorandum shall contain schedules containing full particulars of the following:-

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 byelaws 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. Clause (ii) of the Sub-Rule requires the Auditor 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 unauthorisedly allowed. Clauses (iii) requires the Auditor 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. Clause (iv) deals with the doubtful and bad debts of the society. Examination of overdue debts constitutes a special responsibility of the Auditor.

10.7. Certification of the Balance Sheet and the profit and loss account:

Sub-Rules (3) & (4) of Rule 71 of the Tripura Cooperative Societies Act, 1976, further requires the Auditor to furnish a certificate regarding the correctness of the balance sheet and the profit and loss account of the society examined by him. This certificate is required to be annexed below the balance sheet and the profit and loss account and appended to the audit memo. Sub-Rule (3) requires the Auditor specifically to 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. Sub-Rule (4) further requires the Auditor 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. Sub-Rule (5) 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.

10.8. 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, nonobservance 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 only such of the 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. Loyality 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.

iii) 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

An assessment of society may be made under the board heads mentioned below and marks given on the basis of specific norm indicated under the each head. The audit classification of society may, thereafter, be arrived at on the basis of aggregate marks secured by society as indicated below:

Marks – **100**

AGRI CREDIT/NON AGRI CREDIT EXCEPT BANK/OTHERS

1. Recovery of Loan/Advance/Bill etc. Marks (20)

(a) Recovery 100% to demand............................ 20

(b) Above 50%.. 12

(c) Above 40%.. 10

(d) Above 30%.. 07

(e) Below 30%.. 05

2. BUSINESS TURNOVER/INVESTMENT MARKS (30)

(a) Turn Over (Sales) over Rs. 10 lacks 18

(b) Turn Over (Loan) over Rs. 10 lacks 12

(c) Turn Over (Sales) below Rs. 10 lacks 09 (Maximum limit
but not below Rs. 5 lacks. prescribe for
accommodating
estt. cost.)

(d) Turn Over (Loan) below Rs. 10 lacks 08
but not below Rs. 6 lacks.

APEX LEVEL (A) PRY. LEVEL (P)

3. BUSINESS TURN OVER MARKS (50)

(a) Turn over (A) up to & above Rs. 20 Cores. 50
(Maximum limit

(b) Turn over (A) below Rs. 20 Cores 30 prescribe for
but not below Rs. 5 cores. accommodating
estt. cost.)

(c) Turn over (P) up to & above Rs. 10 lacks. 50

(d) Turn over (P) below Rs. 10 lacks. 30 -dobut
not below Rs. 5 lacks.

APEX LEVEL CREDIT EXCEPT BANKS

4. Recovery of Loan/Advances/Bill etc. Marks (30)

(a) Recovery 100% to demand............................ 30

(b) Above 85%.. 25

(c) Above 75%.. 20

(e) Above 65%.. 15

(d) Above 55%.. 10

(e) Below 55%.. 05

5. Investment etc. Marks (20)

(a) Turn Over (investment etc.) up to & 20
above Rs. 20 Cores.

(b) Turn Over (investment etc.) below 10 -do-
Rs. 20 cores but not below Rs. 5 Cores.

NON-AGRI NON-CREDIT

6. INCOME MARKS (50)

(a) Income is in excess of expenditure 50

(b) Income is equal to expenditure 40

(c) Expenditure is excess of income Nil

7. COOPERATIVE UNION WORKING MARKS (50)

(a) Up to above 75% of working days 50
of every year spent/utilised for training/
seminars/any other way for development
of cooperative movement.

(b) Up to & above 50% of working days of 40
every year spent/utilised for training/
seminars/any other way for development
of cooperative movement.

(c) Below 50% of working days of every year 10
spent/utilised for training/seminars/
any other way for development of
Cooperative movement.

The above specification of marks shall continue so long Union will not be able to meet up its expenditure out of its incomes.

**8. REPAYMENT OF LOAN TO GOVT. /
OTHER FINANCING INSTITUTIONS MARKS (05)**

(a) Full repayment as per agreement 05

(b) Partial repayment 03

9. OWN FUND MOBILISATION MARKS (05)

(a) If the business of the society is run by 05
its own fund to the extent of 50% of
its working capital.

(b) If the business of society is run by its 03
own fund less than 50% of its working
capital.

10. EARNING CAPACITY MARKS (15)
(a) If profit is earned after making provisions 15
for all the items and has contributed to
various reserves as per Act, Rules & Bye-laws
or otherwise as directed by the Registrar of Coop.
Societies, Govt. of Tripura and eligible to declare
dividend.
(b) As at above but not eligible to declare 13
dividend.
(c) Profit earned is adequate to make provisions. 11
(d) Society earns only operating profit (N.B. 09
operating means earning/incomes are
in excess of operation cost).
(e) Society does not earn any profit Nil
11. EFFICIENCY OF MANAGEMENT MARKS (25)
(a) Meeting held as per bye-laws… 03
(b) Internal control system, management
information system, house keeping,
maintenance of books of accounts,
reconciliation, if any, etc. and policy of
loans/advances/business as regard to
supervision/monitoring internal control 15
etc. over lending/recovery/strategy etc.
(c) Role of management regarding
Cooperative education/movement
viz. awareness programme/coop. 02
weeks/seminar.
(d) Compliance report of Audit/
inspections/submission of Annual 02
Return in time.
(e) Cost of management to working
fund/capital. 03
i) Preferably should be below 3%
of working fund or working capital.
12. EROSION OF SHARE CAPITAL MARKS (-45)
If society sustains/incurs net loss i.e. the amount of net
loss erodes share capital in the manner indicated below then the
aggregate marks obtained by society will be reduced/declined by
the following:-
Net loss affected by eroding share capital.
@ Rs. 1/10 or below……………………………………… -05
@ Rs. 2/10 or below……………………………………… -10
@ Rs. 3/10 or below……………………………………… -15
@ Rs. 4/10 or below……………………………………… -20
@ Rs. 5/10 or below……………………………………… -25
57
@ Rs. 6/10 or below……………………………………… -30
@ Rs. 7/10 or below……………………………………… -35
@ Rs. 8/10 or below……………………………………… -40
@ Rs. 9/10 or below……………………………………… -45

N.B. Share capital fully eroded RED

Standard norm for Audit classification of Cooperative Institution, which is, engaged neither in trading nor non-trading and so on at present.

Marks (or position thereof) as indicated against each of item below may be taken into consideration for awarding audit classification.

EFFICIENCY OF MANAGEMENT MARKS 100

1. Meeting held as per bye-laws………. 10

2. Maintenance of books of accounts & records… 20

3. Role of institution regarding cooperative 40
Education/movement viz. seminar, awareness
of Coop. Movement, Coo. week & election
in time.

4. Compliance report of audit/inspection/submission
of Annual Return in time. 10

5. Incomes/Earning as per provison of bye-law 10

6. Well trained up teaching personnel (s) in the
Field of coop. movement viz. accounts. Acct &
Rules, Coop. Philosophy, Indian constitution
and so on/management etc. 10

Depending upon the aggregate marks secured
by the society, Audit classification by the Auditor may be made
on the basis of the following norms.

Marks secured Audit Classification
65 and above A Excellent
50 to 64 B Good
40 to 49 C Poor
Below 40 D Very Poor

If the society is found non functioning the Audit Classification would be "E". Revised standards for Audit classification of Central Cooperative Banks. An assessment of the Central Cooperative Banks may be made under the 10 board heads mentioned below and marks given on the basis of specific norm indicated under each head. The audit classification of the bank may, thereafter, be arrived at on the basis of the aggregate marks secured by it as indicated below:-

1. Level of NPA (20)

Percentage of NPA to total loans & Marks
Advances outstanding
< 5% 20
6% to 10% 16
11% to 15% 12
16% to 20% 8
21% to 25% 4
>25% Nil

2. No. of defaulting societies (5)

Percentage of defaulting societies Marks
to total in debted societies.
Upto 20% 5
21% to 35% 3
36% to 50% 2
> 50% Nil

3. Observance of seasonality discipline (4)

NARBAD has stipulated that CCBs should recover a specified percentage of its demand in respect of Stationery Agricultural loans before the close of each agricultural season, viz. Kharif and Rabi and pass on the entire recoveries to the apex bank. Failure to comply with this discipline results in the bank not being able to make further drawals on the ST credit limits for SAO till the time the prescribe conditions are fulfilled. Observance of seasonality discipline Mark **i)** Complied with the prescribe seasonality 4 discipline as at the end of March & June.

ii) Complied with the discipline only in 2
respect of one reason.

iii) Not complied with the discipline. Nil

4. Minimum involvement (MI) (3)

NABARD has stipulated that CCBs should involve a specified percentage (40%) of their Internal Lendable Resource (ILR) for financing ST (SAO). Failure to comply with this discipline will result in non-observance of norms prescribed by NABARD for the purpose.

i) Compliance with MI discipline 3

ii) Non-compliance with MI discipline Nil

5. Non-overdue cover (NODC) (3)

NABARD refinance to SCB on behalf of CCBs is allowed for SAO financing against non-overdue loans under the purpose. If this condition is fulfilled full marks (3) may be allowed.

i) Compliance with NODC norm 3

ii) Non-compliance with NODC norm Nil

6. Capital Adequacy (5)

Capital adequacy norms have already been made applicable to commercial banks. Application of these norms to cooperative banks is under consideration of NABARD. Till these norms are made applicable, banks may be awarded full (5) marks. If the banks fail to comply with Section 11 of B.R. Act, 1949 (AACS), no marks may be awarded.

7. Maintenance of CRR/SLR (10)

a) Full marks may be allocated if required CRR/SLR maintained throughout the year.

b) No marks may be allocated if there are defaults in maintenance of CRR. However, if SLR defaults are not more than 28 days subject to the condition that default is not on a continuous basis for more than 14 days, this may not be treated as violation.

8. Deposit mobilization (10)

The marks under this head may be given, taking into account the extent of increase in deposits achieved by the bank over its previous years on the basis of the following norm.

Extent of increase Marks

40% and above 10
26% to 39% 08
16% to 25% 06
11% to 15% 03
10% to less Nil

9. Earning capacity (10)

The marks may be given under this head on the following basis:-

Extent of profits Marks

If profit is earned after making
provision for all the items and has
contributed to various reserves as 10
per bye-laws and eligible to declare
dividend.

As at above but not eligible to declare 08
dividend.

Profit earned is adequate to make 06
provisions.
Banks earning only operating profit. 04
Banks not earning profit. Nil

10. Efficiency of management (30)

Marks (or position thereof) as indicated against each of the item below may be given taking into account the interest evinced by its Board of Management in the affairs of the bank.

Aspects Marks

1. If meeting were held regularly
as per bye-law provisions of the Bank. 04
2. Professionalisation of management, 03
recruitment, training, rotation of staff, etc.
3. Formulation of appropriate policy
for mobilisation and deployment of 05
resources, loans and advances.
4. Internal control systems, management
information system, House-keeping,
maintenance of books of accounts, 04
reconciliation, etc.
5. Implementation of covenants of
DAP & MOU. 04
6. Leadership role played by higher
tier bank towards lower tier banks,
affiliated societies, like re-organisation
of societies, implementation of BDPs, etc. 02
7. Compliance on Audit and NABARD
inspection findings. 05
8. Cost of management to working funds/
capitali)
2.5% and below 03
ii) Above 2.5% Nil

Audit classification:

Depending upon the aggregate marks secured by the bank, audit classification by the Auditor may be made on the basis of the following norms.

Marks secured Audit classification

65 and above A
50 to 64 B
40 to 49 C
Below 40 D
The bank not satisfying provisions of the Section 11 (1) of the B.R. Act. 1949 (AACS)
may be classified may be classified as 'D' irrespective of the aggregate marks secured by it.

Revised Standards for Audit Classification of State Coop. Banks

An assessment of the State Cooperative-operative Banks may be under the 8 broad heads mentioned below and marks given below on the basis of specific norm indicated under each head. The Audit Classification of the bank may, thereafter, be arrived at on the basis of the aggregate marks secured by it as indicated below:-

1. Level of NPA (25)

Percentage of NPA to total loans & Marks
Advances outstanding
<5% 25

6% to 10% 20
11% to 15% 15
16% to 20% 10
21% to 25% 05
>25% Nil

2. Recovery performance (10)

Percentage of recoveries to demand Marks

> 90% 10
76% to 90% 06
50% to 75% 03
< 50 % Nil

3. Minimum involvement (MI) (5)

NABARD has stipulated that SCBs should involve a specified percentage (25%) of their internal lendable resources (ILR) for financing Stationery (SAO). Failure to comply with this discipline will result in non-observance of norms prescribe by NABARD for the purpose.

i) Compliance with MI discipline. 05
ii) Non-compliance with MI discipline Nil

4. Capital Adequacy (5)

Capital adequacy norms have already been made applicable to commercial banks. Application of these norms to cooperative banks is under consideration of NABARD. Till these norms are made applicable banks may be awarded full (5) marks. If the banks fails to comply with Section 11 (1) of B.R.Act, 1949 (AACS) or Section 42 (6) (a) (i) of RBI Act, 1934
(for scheduled Bank) no marks may be awarded.

5. Maintenance of CRR/SLR (10)

a) Full marks may be allocated if required CRR/SLR maintained throughout the year.
b) No marks may be allocated if there are defaults in maintained of CRR. However, if SI.R defaults are not more than 28 days subject to the condition that default is not a continuous basis for more than 14 days, this may not be treated as violation.

6. Deposit mobilization (10)

The marks under this head may be given, taking into account the extent of increase in deposits achieved by the bank over its previous years as also on the basis of the following norm.

Extent of increase Marks

40% and above 10
26 to 39 08
16 to 25 06
11 to 15 03
10 and less Nil

7. Earning capacity (10)

The marks may be given under this head on the following basis:-

Extent of profit Marks

If profit is earned after making 10
Provisions for all the items and
has contributed to various reserves
as per bye-laws eligible to declare dividend.
As at above but not eligible to declare 08
dividend.
Profit earned is adequate to make 06
provisions.

Banks earning only operating 04
profits.
Banks not earning profit. Nil

8. Efficiency of management (25)

Marks (or position thereof) as indicated against each of the items below may be given taking into account the interest evinced by its Board of Management in the affairs of the bank.

Aspects Marks

1. If meeting were held regularly as per 03
bye-law provisions of the bank.

2. Professionalisation of management 03
recruitment, training, rotation of staff etc.

3. Formulation of appropriate policy for
mobilisation and development of resources, 05
loans and advances, internal control systems,
management information system, Housekeeping,
maintenance of books of account,
reconciliation, etc.

4. Implementation of covenants of DAP & MOU 04

5. Leadership role played by higher tier bank
towards development of coop. Movement 02
in the State, monitoring of performance of
CCBs, assistance provided to weak CCBs,
Re-organisation of societies, implementation
of BDPs, etc.

6. Compliance on audit/NABARD's 05
Inspection reports.

7. Cost of management to working funds/
working capital:-

i) Upto 1% 05

i) Above 1% Nil

Audit classification:

Depending upon the aggregate marks secured by the bank, audit classification by the Auditor may be made on the basis of the following norms:

Marks secured Audit classification

65 and above A
50 to 64 B
40 to 49 C
Below 40 D

The Bank not satisfying provisions of the Section 11 (1) of the B.R. Act, 1949 (AACS) may be classified as 'D' irrespective of the aggregate marks secured by it.

Standards for Audit
Classification of SCARDBS

The assessment of the State Coop. Agricultural and Rural Development Banks may be made under the board mentioned below and marks given on the basis of specific norms indicated under each head. The Audit classification of the bank thereafter can be arrived on the basis aggregate marks secured by it as indicated below:-

1. Level of NPA (20)

% of NPA to total loans
and advances outstanding Marks

Less than 5% 20
6% to 10% 16
11% to 15% 12
16% to 20% 08
21% to 25% 04
Above 25% Nil

2. Diversification of loans & advances (10)

Marks may be awarded against each of the item taking into account the efforts made by the bank in diversification of business.

Aspect Marks

1. Diversification of loans and advances portfolio of Farm, Non-Farm & allied 10 sectors, Extension of loan against pledge of jewels. Extension of loans for composite purposes etc.

2. Extension of loans for all purposes as 08 indicated above, except jewel loans.

3. Extension of loans as indicated at 1 above 06 except jewel loans and composite loans

4. Extension of loans only for Farm Sectors 04 and allied activities.

5. Extension of agricultural term loans, for 02 MI & LD, against mortgage of loan.

Note: - While evaluating the performance of the bank it to be kept in view that the bank aintains proper mix of different purposes. Undue concentration of loans and advances in one or two purposes is risky and may be viewed negatively.

3. Capital Erosion (5)

Capital adequacy norms have already been made applicable to Commercial Banks. Application of these norms to SCARDBs is under consideration of NABARD. Till that time, if the bank's net worth is positive, full marks (i.e. 5) may be awarded. If net worth is negative, no marks may be awarded.

4. Deposit mobilisation (5)

The marks under this head may be given taking into accounts efforts made by the bank in mobilisation of deposits and percentage of deposits to advances.

% of deposits to advances Marks

Above 20% 05
Between 11% to 19% 04
Between 6% to 10% 03
Upto 5% 02
No efforts for mobilisation Nil

5. Repayment to higher financing institutions (5)

Full marks under this head may be awarded if the bank was prompt in meeting its repayment obligations to the higher financing institutions/payments to debenture holders in time. i) Repayment of all dues to State Govt... higher financing agencies, debenture 05 holders (both principle & interest)

ii) Repayment of all current interest dues 02 only.

iii) Repayment of all obligation not honoured 00 by the bank.

6. Adequate cover for debentures (10)

Full marks under this head may be awarded to the bank if its total outstanding advances are adequate to cover the debenture to obligations separately in respect of ordinary/special development debentures. In case of ordinary debentures, value of sinking fund investment will be added to the amount of normal loans to find out the adequacy of cover. In the absence of overall adequate cover, no marks will allotted. Where, however, the overall cover is provided but against a particular category – ordinary or special – debenture cover is inadequate and only 5 marks will be allotted.

7. Earning capacity (10)

The marks may be given under this head on the following basis.

Extent of profit Marks

If profit is earned after making provisions
for all the items and bank has contributed
to various reserve as per bye-laws and is 10
eligible to declare dividend.
As at above but not eligible to declare 08
dividend.
Profit earned is adequate to make provisions. 06
Banks earning only operating profit. 04
Banks not earning profit. Nil

8. Funds Management (5)

Full marks may be allowed if the bank ensured that there were no idle funds, no avoidable borrowings, prompt remittances to PLDBs/branches for loaning and vice – versa to HO for recoveries during the year. In case of bank's functioning suffering from one or more such defects, marks ranging between 0 to 5 may be awarded.

9. Maturity mismatch (5)

The bank may be awarded full 5 marks, if its debentures/honouring obligations are fully matched by the year-wise maturity of advances and investments. In case the bank is not likely to honour its obligations due to mismatch in its asset pattern no marks may be allotted. This exercise may be seen on the basis of maturity patterns of both liabilities and assets over a period of 7 years.

10. Efficiency of management (25)

Marks (or position thereof) as indicated against each of the parameters given below may be awarded taking into account the interest evinced by the board of management in the affairs of the bank.

Aspect Marks

1. If meeting were held regularly as per bye-laws provisions of the bank. 03
2. Professionalisation of management, recruitment, training, rotation of staff, etc. 02
3. Formulation of appropriate policy for mobilisation and deployment of resources, 03
loans and advances, etc.
4. Internal control system, Management Information system, House-keeping, Maintenance of books of account, 04
Reconciliation etc.
5. Implementation of covenants of DAP & MOU. 03
6. Compliance on audit and NABARD Inspection findings. 05
7. Cost of management to working funds –
a) Upto 1.5% 05
b) Above 1.5% upto 2.5% 03
c) Above 2.5% Nil

Audit Classification

Depending upon the aggregate marks secured by the bank, audit classification may be made on the basis of the following standards.

Marks secured Audit Classification
65 and above A
50 to 64 B
40 to 49 C
Below 40 D
REVISED NORMS FOR AUDIT CLASSIFICATION FOR COOP. URBAN BANK.
SR. No. Particulars Marks allotted
1) (2) (3)
1. Achievement of viability norms 10 Marks
(A) Share Capital: 5 Marks
i) 100% of norms i.e. fixed for RBI. 5 marks
ii) Below 100% & upto 75% 3 marks
iii) Less than 75% & upto 50% 2 marks
iv) Less than 50% Nil
(B) Reserves 5 Marks
i) 100% of the norms i.e. fixed by RBI 5 marks
ii) Below 100% & upto 75% 3 marks
iii) Below 75% & upto 50% 2 marks
iv) Less than 50% Nil
II. Level of non-performing Assets (NPAS) 15 Marks
i) NPAS upto 5% 15 marks
ii) Above 5% & upto 10% 10 marks
iii) Above 10% & below 15% 05 marks
iv) Above 15% Nil
III. Provisioning towards NPAs 15 Marks
i) 100% 15 marks
ii) Below 100% & upto 75% 10 marks
iii) Below 75% & upto 50% 05 marks
iv) Less than 50% Nil
IV. Working results 10 Marks
i) Bank has earned Net Profit 5 marks
a) Upto 0.5% of Net Working Capital 2 marks
b) 0.5% to 1% of Net Working Capital 3 marks
c) Above 1% of Net Working Capital 5 marks
ii) Appropriation of profit to reserves 2 marks
as per State Coop. Societies Act
iii) Cost of Management not more than 3 marks
20% of Net Working Capital or 20%
of gross profit whichever is less
V. Loans and advances. 10 Marks
The Auditor should examine than loan policy and procedure, system of credit appraisal, post-credit supervision, documentation, concen- -tration of loans and advances, advances to directors & their relatives and depending upon the seriousness of deficiencies, marks should be awarded.
VI. Management of funds/investments 10 Marks
Auditors should examine the following aspects:

i) Whether the investments in Government and other approved securities are as per R. B. I. guidelines. 3 marks
ii) Whether the investments in PSU bonds are as per RBI guidelines. 3 marks
iii) Maintenance of CRR/SLR- Are deficits, 4 marks if any, sporadic or continuously for long periods (for no default), and whether any penal interest has been levied/ 2 marks paid to RBI. (for defaults up to 10 occasions) NIL (for defaults of more than 10 occasions and less than 30 occasions)
iv) Proper deployment of funds over
and above the CRR/SLR funds to be
maintained. 3 marks
Depending upon the deficiencies, the
Auditor should award marks under this item.
VII) Deposits Growth 5 Marks
i) 20% or more 5 marks
ii) Between 15% & 20% 4 marks
iii) Between 10% & 15% 3 marks
iv) Less than 10% Nil
VIII) Lending to priority Sector. 5 Marks
i) Above 60% 5 marks
ii) Below 60% & less than 50% 3 marks
iii) Below 50% & upto 40% 2 marks
iv) Less than 40% Nil
IX) Managerial/Administrative aspects
(A) Internal Control System **10 Marks**
i) Branch control mechanism/
Internal inspection machinery 2 marks
ii) Maintenance of books of account 2 marks
and their balancing.
iii) Reconciliation of inter-branch 2 marks
accounts & bank accounts.
iv) Extent of expenditure 2 marks
v) Submission of periodical Returns/ 2 marks statements to RBI/RCS. Serious lacunae in the system should be taken into account while awarding marks.
(B) Management 10 Marks
Marks may be given on the following basis:-
i) Cohesion in functioning of management, formulation of policies for credit, investments, recruitment of staff & training, compliance 3 marks with RBI Inspection Report/audit Report.
ii) Compliance with R.B.I. guidelines on Do's and Don'ts 3 marks
iii) Compliance with provisions of State Coop. Societies Act/Bye-laws. 4 marks Auditor should make an objective assessment of the role of the Board of Management in running the affairs of the bank and awards.
(X) Audit Classification
Marks secured Audit classification
70 & above "A"
55 & above but less than 70 "B"
40 & above but less than 55 "C"
Less than 40 "D"
NOTE: 1. Any serious irregularities in the working of the bank which would have an overall impact on the bank's financial position of the bank, possible losses/erosion in assets and

frauds/misappropriations which come to light during the course of audit should be taken into account while awarding marks and making audit classification.
2. Auditor may award negative marks subject to maximum of 10 marks (i.e. -2 marks each) in respect of following parameters:
i) Defaults CRR/SLR for more than 30 occasions during the Upto period of audit (12 months) - 2 marks
ii) Level of NPAs exceeding 25% - 2 marks
iii) Non-achievement of viability norms (less than 50%) even beyond - 2 marks the prescribe period.
iv) Provisioning towards NPAs less than 50% of the required amount - 2 marks
v) Serious violations of provisions of Banking Regulation Act, 1949 (As applicable to Coop. Societies)/State - 2 marks Coop. Societies Act/Rules.

CHAPTER - II

Audit of Cooperative bank

11.1. The Cooperative Societies Act define a Cooperative Bank as a society registered under the Act and doing the business of banking as defined in Clause (b) of Sub-Section (1) 5 of the Banking Regulation Act,1949.
The Cooperative Banks are governed by certain provisions of the Banking Regulation Act, 1974 (as applicable to Cooperative Societies) Annexure- 'E' (The Reserve Bank of India Act) besides the State Cooperative Act. The audit of Cooperative Bank is a much more detailed affair than a audit of a commercial bank because the internal check system is not likely to be very efficient in case of the Cooperative Banks.

Provisions of the TCS Act, 1974 affecting Bank audit

11.2. In addition to the provisions of the Act dealt with elsewhere in the Manual, the following is specially related to Cooperative Bank.
1. The Tripura State Cooperative Bank shall not incur liabilities exceeding in total fifteen times the amount of its paid up Share Capital and all reserves minus accumulated losses, actual bad debts, if any and overdue interest without the previous sanction of the Registrar. However, the bank may incur liabilities in excess of the above limits by receiving deposits on borrowing loans. In such cases, the amount so received shall not be utilised in the business of the bank, but invested in Government securities and deposited with Reserve Bank of India (Rule-36).
2. Land Development Bank, now as Cooperative Agricultural & Rural Development Bank shall incur liabilities exceeding in total twenty times the total amount of their Paid Up Share Capital, accumulated reserve and building funds minus accumulated losses (Rule-37).
3. Maintenance of Reserve Fund under Section – 58 of the TCS Act, 1974 is also obligatory for Cooperative Banks. However, in case of State Cooperative Banks, the Registrar may authorise such Bank to invest 50 percent of its Reserve Fund in its business.
4. A Cooperative Bank with a working capital more than Rs. 50,000/- shall submit to the Register a quarterly principal statement in the form specified for the quarter ending 31st December not later than 15th April, 15th July, 15th October, 15th January respectively.
11.3. The provisions of the Banking Regulation Act, 1949 (AACS) appear as Appendix to this Chapter. These are to be scrupulously followed by the Cooperative Banks in addition to the requirements under the Cooperative Societies Act & Rules. Thus, the Balance Sheet and Profit & Loss Account are to be drawn up according to Form 'A' and 'B' (the third schedule)

given under Section-29 of B.R. Act, or as near there to as possible unless the Registrar of Coop. Societies prescribes another Form-'A'. Copy of the Forms is annexed to this chapter.

Types of Bank Audit and their coverage

11.4. Besides the statutory audit, Cooperative banks are required to undertake other audit viz. concurrent audit, Test audit etc. Though these are not practiced in Tripura now, however, in anticipation of their future introduction these have been explained here.

CONCURRENT AUDIT

Concurrent Audit is the concurrent examination of transaction on its occurrence or on a date as near thereto as possible. This audit is essentially a process integral to the establishment of sound internal control system to preclude the incidence and serious errors and FR fraudulent manipulations. Concurrent auditor should not sit in judgement on the decision taken by a Branch Manager or an authorised Official. The role of the concurrent Auditor is to supplement the efforts of the Bank in carrying out simultaneous check of transactions and other verifications and compliance with laid down procedures. The coverage by this audit is as under.

a) Coverage of branches/departments –

The Departments/Divisions at HQ dealing with the investments, funds manage including inter-bank borrowing.

b) Coverage of activity –

i) Cash.

Daily transactions, inward and outward remittances, expenses involving sizeable amounts.

ii) Investments.

Purchases and sale of securities, physical verification of securities, compliance to guidelines issued by the RBI/NB/HO etc.

iii) Receipt and Withdrawals –

Random check of interest paid on the deposits and calculation of interest on large deposits, new accounts opened, particularly current accounts operation in new accounts etc.

iv) Advances –

Scrutiny of sanctions, securities and documents, post disbursement supervision, letters of credit issued, guarantees, overdue bills of exchange, classification of advance etc.

v) House-Keeping –

Maintenance of balancing ledgers, registers and cash books, reconciliation of entries outstanding in inter-branch/bank accounts, suspense accounts etc. random check of calculation of interest, discount, commission and exchange, etc. transaction of staff accounts, clearing house transactions, cheques, bills, returns, inward and outward remittances etc.

vi) Other items – Compliance given by the Branch/Department to the Inspection/Audit Report, dealing with customers complaints, verification of statements, HO returns, statutory returns etc.

B. STATUTORY AUDIT

The Statutory Audit of Cooperative Banks is conducted by the Auditors of the Department on an annual basis as per the provisions of The Tripura Cooperative Societies Act. In terms of Section-31 of B.R. Act, 1949 (AACS), audit report of the Coop. Banks is required to be submitted to RBI/NABARD within 6(six) months from the date of close of accounting year (i.e. 31st March).

a) Objective.

The main purpose of statutory audit is to ensure that banks balance sheet and profit and loss account reflect a true and fair view of the state of its affairs and profit or loss for the period.

b) Coverage.
The areas to be covered by the statutory audit are as under;
i) Statements of accounts, Trial balance, P.L. Accounts, Balance Sheet and other financial statements.
ii) Balancing of books.
76
iii) Inter Branch and inter-bank reconciliation.
iv) Bills payable.
v) Revenue expenditure audit.
vi) Investment operations.
vii) Lending and borrowings.
viii) CRR/SLR compliance and correction & compilation of DTL (Demand & Timer liabilities) for statutory purposes.
ix) Monitoring of large advances.
(No advances should normally be sanctioned beyond the discretionary powers of the Officer concerned viz. Branch Manager. C.E.O., other Executives and Chairman and also without proper credit appraisal of the proposal. Board of Directors of Banks should fix limit to sanction of advances by the Officers of the Bank).
x) Observances of income recognition, asset classification and provisioning norms.
xi) Documentations.
xii) Frauds, misappropriation, embezzlement, follow up advances in litigation.
xiii) Profitability, loss incurring branches.
xiv) Accuracy and timeliness in compilation of returns submitted to RBI, NABARD and Govt. directives/instructions.

C. TEST AUDIT

The objective of Test Audit (on re-audit) is to check the efficiency of the audit staff to find out the mistakes committed by them and to ensure correct and efficient audit. Test audit is to be conducted by the superior officers of the department in presence of the Auditor who has conducted the final audit.

D. Supervisory Audit

The main feature of Supervisory audit is that the work done by the Statutory Auditor and the audit report prepared by them are scrutinized before issue of the final Audit report. The areas to be covered are –
a) Checking of arithmetical accuracy of final accounts.
b) Revival of action taken by the institution audited to rectify the deficiency and omissions reported in previous audit reports.
c) Examine whether the Auditor has verified investments & securities.
d) Examine whether the Auditor has checked the adequacy of deprecation provided and valued the assets proper.
e) Examine of estimation of bad and doubtful debts and provisions made therefore.
f) Necessary corrections to be made to draft audit reports based on examination of above points.
g) Presentation and language of the final report to be reviewed.

11.5. Special features of a Bank Audit

Before actually starting the audit of bank accounts the Auditor should enquire about the internal check system prevailing therein. He has to depend upon it to a great extent since it is impossible to carry on a detailed audit checking all transactions, considering the numerous transactions handled by a bank. The scope of audit is determined on the efficacy of the internal check system. Auditor should pay particular attention to the following.

Ÿ See that restrictions on borrowing and lending imposed by the Tripura Coop.

Societies Act are followed.

- ÿ See that members do not hold more than ten percent of the capital.
- ÿ Vouch the receipt of cash on account of deposits with the cash book, counter foils of the receipt book and compare them with the relative accounts.
- ÿ Vouch the money borrowed from the Central Coop. Bank NABARD/Other agencies with the cashbook, correspondences and resolution passed by the Managing Committee.
- ÿ Interest received from borrowers or return of loan should be vouched with the agreements entered into; Counterfoils of the receipts book, cashbook etc.
- ÿ Loans to members should be vouched with the agreement, regulations and the resolution passed by the Managing Committee, the scheme/programmes under which such loans etc. made viz. Short term, Medium term loan etc., Receipt issued, cash book etc.
- ÿ An examination of the overdue debts, if any.
- ÿ Vouch the expenses as usual.
- ÿ To check whether the first 25% of the profits have been carried to the Reserve Fund or not.

11.6. WRITING OFF BAD DEBTS/LOSSES

The TCS Act and Rules framed there-under contain provisions governing write off of bad debts and other losses as also the procedure to be followed in that respect. The Reserve Bank of India has issued the following guidelines for dealing with Write-Off of bad debts etc. the Banks are required to take into account, the following factors before approving write-off.

a) The authority approving the write-off proposal did not sanction the advance in question in his individual capacity.

b) That the sanctioning authority in the case of advances had exercised his powers judiciously and adhered to the guidelines issued by the Bank/RBI/Govt. in the matter of grant of advances and that normal terms and conditions were stipulate.

c) That there was no laxity in the conduct and past disbursement supervision of advances.

d) That there was no act commission or omission on the part of the staff leading to the debt proving irrecoverable.

e) All possible steps to recover the loss were taken and there were no further prospects of recovering the debt and writing-off was in the larger interest of the bank. Departmental Auditors & empanelled Chartered Accountants are required to examine the write-offs and compromise proposals entered into by banks during the course of audit. It is to be noted that the above guidelines are in addition to the provisions of the Act & Rules.

Prudential Norms for (Annexure-'F')

11.7. Income recognition, Assets classification & Provisioning.

If a Balance Sheet is to reflect a bank's actual financial health, proper system for recognition of income, classification of assets and provisioning for bad debts on a prudential basis is necessary. These Prudential Norms as recommended by the committee on Financial system (Narashimham Committee) have been made applicable to all Commercial Banks and the Cooperative Banks by the Reserve Bank of India.

11.8. In brief, the Prudential Norms classify assets of a Bank into performing Assets (PA) and Non-performing Assets (NPA). An asset/account becomes non-performing when it ceases to generate income for a bank. Thus, income from a non-performing assets (NPA) is not to be recognized on accrual basis but should be booked as income only when it is actually received. The norms prescribed adequate provisioning for this NPA. Assets are thus classified into four categories for the purpose of provisioning. These are standard assets (PA), sub-standard, doubtful and loss of assets. Except the first i.e. standard asset, the rest are non-performing assets. The manner in which these norms have to be applied in accounting as well in drawing up the Balance Sheet and Profit & Loss Account have been codified by the Reserve Bank of

India. These instructions appear as appendix to this chapter and Auditors are required to ensure that these are followed while finalizing the accounts.

11.9. AUDIT REPORT

Under Section-29 of the B.R. Act (AACS) every Cooperative Bank is required to prepare its balance sheet and profit & loss account in the form set out in the third schedule to the Act. These are required to be signed by the Manager and at least Three Directors. The reports of the Auditor should be to the effect that the accounts prepared by them represents a fair and true view of the state of affairs of the Bank concerned and should generally be on the lines of the Auditors Report of banking companies. A specimen of the report is given below:

Ÿ Vouching Cash in hand by actual counting and comparing with the cashbook.

Ÿ Verify investments by inspecting and comparing them with the investment account in the ledger. To see that investments are according to Rules.

Ÿ See that Cash Reserve is according to Section 18 of the B.R. Act, 1949 (AACS).

Ÿ See that Balance Sheet and the Profit & Loss Account are drawn up according to Forms-'A' and 'B' given under Section- 29 (Third schedule)
of the B.R. Act. Ÿ Furniture and stationery should be physically verified and compared with the Stock Register.

Ÿ To see that accounts are maintained on prudent basis with due adherence to the norms of asset classification, income recognition and provisioning.

Ÿ To see accounting of accrued interest is done as per RBI guidelines.

AUDITORS REPORT

I/We, the undersigned, Auditor(s) of the ______________________________________
Bank Ltd. Report on the Balance Sheet and accounts of the Bank as at 31st March, ________
I/We have examined the foregoing Balance Sheet of the ________________________
________________ Bank Ltd. As at 31st March, __________ and the profit and Loss Account
for the period ended up on that date with the accounts relating thereto of Head of Office and with the returns submitted and certified by the Branch Manager, which returns have been incorporated in the foregoing Balance Sheet and Accounts.

I/We report that:-

i) In my/our opinion, the Balance Sheet is a full and fair one, containing all the necessary particulars and is properly drawn up so as to exhibit a true and correct view of the affairs of the Bank, according to the best of me/us and as shown by the books of the Bank;

ii) where I/we have called for any explanation or information, such explanation and information has been given to me/us and have been found satisfactory;

iii) the transactions of the Bank, which have come to my/our notice, have been within the competence of the Bank;

iv) the Returns received from the Branches of the Bank have been found to adequate for the purpose of my/our audit;

v) the Profit & Loss Account shows a true balance of profit for the year covered by such account;

vi) in my/our opinion, the Balance-sheet and the Profit & Loss Account are draw up in conformity with the law, and

vii) in my/our opinion, books of account have been kept by the Bank as required by law.

Place:
Date :
Sd/-
Dept. Auditor/Chartered Accountant.

11.10. Auditors of Cooperative Banks are required to submit their Audit Report in long Form (Annexure-G). The long Form Audit Report shall be in addition to their main report as indicated above. A specimen copy of the Long Form Audit Report is circulated by NABARD is annexed to this chapter.

AUDIT CLASSIFICATION

11.11. The norms for Audit Classification of Cooperative Banks are different from other Cooperative Societies. These have been circulated by the RBI and NABARD. These instructions are to be strictly followed while awarding Audit Classification. These instructions appear as appendix to this chapter.

CHAPTER – 12

SPECIAL POINTS IN DIFFERENT CLASSES OF AUDIT

MILK PRODUCERS' SOCIETIES

1. Printed receipts showing quantity of milk received and its fat content are issued to the members from whom milk is received. Milk Collection Register should be checked with reference to counter foils of receipts issued to the members.

2. To see that payment of milk received is made as per the rates fixed by the committee based on the quality of milk (Fat content). Milk collection Centers' statement should be included in the Milk Collection Register. Chances of adulteration of milk in transit are very likely. Suitable arrangements should have been made for its prevention. The Auditors should ascertain that it has been ensured by the society.

3. To verify adjustment in accounts for less fat content, cost of cattle feed supplied by the society, deduction of instalment of Govt. or bank loans granted to members. The Auditors should see that proper deductions have been made there-from. Recoveries, if any, not made should be commented upon. Also, recoveries of Govt. /Bank loans have promptly been deposited into Govt. or Bank.

4. Societies generally supply milk collected by them to the Milk Union to which they are affiliated. An agreement should be made in between Milk Union and affiliated societies for daily supply of a fixed quantity of milk. The copy of agreement should be placed before the Auditor for examination that there have been no deviations resulting in any loss to society. If any loss to society has occurred, it should be enquired into and responsibility fixed for such loss.

5. All losses on account of curdling shortage etc. should be approved by the committee. The method adopted for fixation of price of milk should be ascertained. Depending upon the activities engaged in by a society, an Auditor may pay special attention to the following:-

Transport cost from the society to Unions Officer or collection center should be compared with the transport charges received or receivable from the Union or Govt. scheme as per agreement entered into and losses, if any, should be commented upon.

6. Where milk animals are owned by the society, the following points should be examined in audit:-

1. Live stock Register/Milk Yield Register.

2. Live stock has been adequately insured.

3. Arrangement for regular inspection by Vetenary Surgeons.

a) Charging adequate/deprecation/appreciations. In case of claves/ heifers it should be noted that their value increases as they become old. They should be valued each year for the purpose of balance sheet. Deprecation in case of old animals should be examined. Method of charging deprecation may also be noted. The increase, if any, in the value of livestock on account of valuation of claves and heifers may be credited to profit and loss account. Losses on account of sale or death of animals should be enquired into. In case of premature death, it should be seen that the claim has been made with the Insurance Company in time and the amount collected. Account of purchases and consumption of fodder and cattle feed should be examined.

7. Supply of cattle feeds

Purchase in accordance with requirements of members, heavy stock should be commented.

To examine whether cattle feeds have been purchased from Govt. / Semi-Govt. agencies or private agencies and comments thereon. Internal control on purchase and sales should be examined. The stock register should be checked and compared with physical verification report. Shortage, if any, should be worked out and if they are in excess of the permissible limits,recovery should be recommended. Agreement of lease for granting grazing cattle of members as fixed by the committee

should be examined.

WEAVERS SOCIETIES

1. Purchase of raw materials related papers i.e. bills/invoices/cash memos etc. should be examined. Purchase should be in accordance with requirements of members. There may be excess purchase when it is not readily available in the markets or when supplies have been obtained under permits or licenses granted by the Govt. Abnormal stock in hand is not desirable and attempt to be avoided. **2.** Arrangements made for storage of goods should be seen. All stock should be insured and proper control should be exercised over the receipts and issues of stock. The stock in hand should be verified by the Auditor during the course of audit.

3. Payment of wages to producer-members should be examined that excess of wages over permissible limit has been adjusted from wages of concerned members wage Register. But where there is a system of issuing raw materials on cost price and purchasing the finished products at pre-determined price rather than paying fixed wages, it should be seen that the finished goods delivered by members are properly inspected and their prices determined according to standards laid down by the committee.

4. Borrowings should be taken into consideration by audit. Retail trade should be examined carefully. Some items are allowed for retail sale and others for wholesale. The relevant supply of the concerned agency is to be checked.

SERICULTURES

To examine the purchase & sale of silk cotton & yarn with the relevant Registers and papers/cash memos etc. To examine the system of borrowing and advance loan to members against pledge of their produce. To examine the system of purchase of implements and tools as required by members. To check the system of purchase of essential commodities for members and grading standerlisation where necessary. To examine the system of purchase of looms, accessories, tools as required by the members.

TEA PLANTATION

To examine whether the system of keeping records is considered sufficient to reflect the activities of the society.

To examine the procedure of purchase of Tea Plant & sale of green leaf and made tea.

To check the producer of plucking of green leaf with Registers of wages etc.

To examine the system of purchase of Tea Sale and Sale of seed/Tea plants etc.

To examine the mode of Ration of labours.

To examine the Nursery system with relevant books and records.

To certify the actual profit or loss.

LAMPS & PACS

1. All reserves/funds are to be created out of actual profit not on book profit. Audit may ensure that this has been done properly.
2. Existence of well laid down system of appraisal of loan/credit proposals, including adequacy of information for appraising the credit worthiness of the applicant and adherence thereto. Whether provisions of Cooperative Societies Act are violated etc. to be examined.
3. Sanctioning/Disbursement systems should be examined. Documentation should be checked and commented upon. To examine review monitoring/supervision. Comments on adverse features considered significant and which need Management's attention.
4. Profitability
Analysis of income & expenditure. Ascertain realised profit, actual loss.
To examine the system of purchase and sale of articles/goods undertaken.
To examine the producer of assistance by way of providing agri-machinery like tractor, power-tiller, sprayer or spray machine and pump set etc. with views.
To certify the relasied profit or actual loss sustained by the institutions. Checking the final accounts.

CLUSTER SOCIETIES

On the Debit side Manufacturing a/c. On the credit side

1. Work in progress at the Work in progress at beginning of the year. the close of the year.
2. Opening stock of raw Closing stock of raw materials. Materials.
3. Raw materials purchased. Loss of production shall be transferred to trading account.
4. Fuel, oil, electricity & other power charges.
5. Stores & spare parts consumed.
6. Direct labour.
7. Maintenance of factory building, Plants, tools etc
8. Insurance of factory building, plants, Tools, stores etc.
9. Deprecation of factory building, plants, Machinery, loose tools & other equipments.
10. Factory heating & water charges.
11. Rent, Rates & taxes of factory premises.
12. Salary of technical staff & Officer.
13. General administrative expenses strictly pertaining to the factory.

CLUSTER SOCIETIES

Incase of societies engaged in manufacturing/producing goods on manufacturing account beside the profit & loss account is to be prepared. This may contain the above items.

APEX MARKETING SOCIETIES

1. Out right purchase: - To see purchase has not exceeded the limit fixed in the bye-laws and resolution of Board/Committee. Out right purchases that have made in the name of the society are genuine and do not reflect the unwise or unprofitable dealings of unscrupulous Office Bearers or employees who are in charges of the business or their nominee. rrangements made for proper storage of the goods pending their resale should be ascertained. All goods belonging to the society should have been insured. Auditor should examine the market rate register or daily price bulletins and ascertain that purchases at higher price have not been made. There may be damage in stocking of commodities during the period they are kept in godown. The percentage of damage should be calculated and it should be seen that the percentage is not abnormal. If the percentage is found to be abnormal and there has been no loss on account of natural calamities, the loss beyond the permissible limit should be brought under surcharge proposal. Loss due to untimely disposal of commodities should also be surcharged.

2. Linking up of credit with marketing: - Considerable importance is now being given to this aspect of functioning of marketing societies. This system has get twin objectives of security for the loans advanced to members and ensuring better price to the loanee farmers for their agricultural produces.

a) The list of the borrowing member and amounts due from them received from the credit societies should be referred to.

b) The written authority given by the borrowers to the marketing society authorizing it to deduct the amount of dues of credit societies from the sale proceeds should be verified.

c) Sale of commodities stored by Apex.

d) Storage charge and other commission, if any, recoverable from the concerned borrowers should be deducted from the sale proceeds and only the net amount paid to them. If entire the sale proceeds have been paid but dues on account of storage charges etc. are still being shown recoverable in the records, net dues should be included in the surcharge proposal. **e)** If there is any dispute in between society/in respect of borrower and Apex regarding the shortage in stock of stored commodities, it should be thoroughly enquired into and brought to the Audit Report.

f) Physical verification of stock should be conducted.

3. Pledging of goods

The members (individuals) may require loan for agricultural, Consumption or social purposes. They do not sell their agri-produce because of unremunerative prices. So they likely to pledge their produces to obtain loan against agri-produces. Auditor should check up the following points in this connection:-

a) The commodities pledge should not deteriorate in quality and quantity or otherwise than loan granted to members may turn out to be in secured. Motives behind it may be attributed. The weighment chart should be checked.

b) The valuation of commodities pledge should be checked with the then prevailing market price as per market rate Register and it should be checked that loan 70% of the value of goods pledge has not been granted.

c) If the market rate Register indicate fall in the price of commodities pledge at any time, the Apex must call for additional stock to be pledge by the memberborrower society to cover the deficit in the percentage noted above.

d) The release of commodities after payment of loans should of course be proportionate.

e) Storage charge, interest, insurance and other costs due from concerned members should be recovered at the time of part and full values of pledge commodities. Any dues remain to be recovered should be brought into report.

f) Sometimes it may be happened that without having any goods pledge the society makes advance. Such transactions are nothing but misappropriation of fund of the society and they should be strictly dealt with in audit.

g) The stock of pledges goods should be physically verified during the course of audit.

h) The society/member/borrower may not be instructed in getting release of the pledged goods due to certain reasons including the fall in price. If after a reasonable period the release is not sought for and the commodities are deteriorating resulting in further losses, necessary formalities should be observed before the some are auctioned or sold. The Auditor should check up that the formalities have been observed and their disposal made before it was too late. Irregularities in the connection, if any, should be noted in the Report/audit Report.

4. Business of controlled articles:-

Required licenses for the articles are considered essential.

5. Agency of fertilizer, if any, should be seen at the time of audit,

a) Terms of agency.

b) Stock Register in the connection is maintained by the society.

c) Purchase as per bill is properly recorded in books of society.
d) sale/supply etc. of fertilizer.
e) Stock Register with Sale Register/Supply Register etc. should be placed before audit and their accuracy ascertained by audit.
f) Stock of empty gunny bags.
g) Valuation of closing stock.
h) Economy of the business should be examined and if there is loss, the reasons, thereof should be found and communicated suitably.

6. Audit of Accounts:-

a) Complete checking of entries in the cashbook with papers and Registers.
b) Checking up cashbook, Receipts & Expenditure statement for the year.
c) Checking of Stock Book, with sales book, purchase book quality-wise, quantity wise or as the case deems fit for the purpose.
d) Expenditure met by sub-office/sub-branch/branch, if any.
e) Weight and quantity of any consignment of articles/goods dispatched and received in between inter branch or head office.
f) Receipt & Issue statement of each commodity etc.
g) Statement of remittance should be checked & reconciled with Head Office.
h) Checking of final accounts.
i) Yearly accounts with Pry. Marketing Societies should checked & comments on the issue.

Checking of financial Accounts

1. Final Accounts **2.** Checking of general ledger **3.** Adjusting entries **4.** Closing entries **5.** Constifuents of final accounts **6.** Trial balance or Receipts & Expenditure statement **7.** Manufacturing accounts (not applicable) **8.** Trading accounts **9.** Profit & Loss Accounts **10.** Profit & Loss appropriation Account & Balance Sheet.

APPENDIX

STATUTORY PROVISIONS EFFECTING AUDIT COOPERATIVE SOCIETIES

A through understanding of the different Acts & Rules effecting audit of cooperative societies is indispensable for the conduct of audit. Since the Cooperative Societies in Tripura are governed by The Tripura Cooperative Societies Act, 1974 and The Tripura Cooperative Societies Rules, 1976 and their amendments, Auditor will have to study carefully the entire provisions of these statues. Some of the provisions are discussed below. These are not meant to interpret or supplement the Act and Rule and the readers are advised to refer to the original Act and Rules in case of doubt. The figures in brackets indicate the relevant Section and Rule.

THE TRIPURA COOPERATIVE SOCIETIES ACT, 1974 & RULES, 1976

Chapter II and Chapter III of the TCS Act. relates to Registration and Membership. These should be thoroughly studied. Registration certificate may be seen as evidence of Registration of the Society. It is to be noted that all amendments to Bye-laws of the society are also required to be registered. Qualifications specified in the Bye-laws for membership of the society are to be seen.

Restriction on Societies

1. Shares:-

a) No member other than Govt. or other society shall hold shares exceeding 1/10 of the total share capital or Rs. 5000/- (Section-28).
b) Payment required to be made for purchases of a share shall not exceeded the face value of the share. This shall hold good in case of transfer of shares also. On cessation of membership,

sum to be paid to the former member or his nominee, heir shall in case of a society with limited liability shall be the actual amount received by the society and in case of a society with unlimited liability shall be the actual amount received by the society and in case of a society with unlimited liability shall be the amount based on the last audited Balance sheet, but in no case shall exceed the actual amount. (Rule 23)

c) A transfer of share shall not be valid unless it is made to a member or would be member; approved by the committee of the society and held by the member transferring for a minimum period of six months.

In case of resignation, expulsion or disqualification of a member his share or interest in the society may be acquired by the society as payment, however such purchases shall not exceed ten percent of the paid up share capital of the society as determined in the last day of the preceding financial year. These restrictions will not apply to the Govt. if it is a share holder. (Section 24)

d) A society has charge on the share, interest on deposit held by a member and also on any bonus, dividend on profit payable to him and may set off any sum payable as a debt to the society by the member. (Section 48)

2. Borrowings

A society may borrow if permitted by its bye-laws by way of receiving deposits, issuing debentures and raising loans from its members and other persons subject to certain conditions.

a) In case of society with limited liability, these shall not exceed ten times of the total amount of its paid up share capital, accumulated Reserve Fund and Building fund minus accumulated losses. In case of Urban Banks and Producers society the limit would be fifteen times the total paid up share capital, accumulated Reserve fund and Building fund minus accumulated losses. A society may borrow in excess of the limits prescribed only if the amount received as deposits or loans is not utilized in its business but invested in Govt. securities.

b) A society with unlimited liability shall from time to time fix in a general meeting the maximum amount which it may borrow as deposit and loans from non members. This shall be subject to the sanction of the Registrar.

c) Society which are authorised by their bye-laws to raise funds by issue of debentures and bonds shall frame regulations therein for issue, however the total liability incurred by the society shall not exceed the limits stated. (Section 45, Rules 35, 38, 39) The above restrictions on borrowings do not apply to credits from a financing bank. Registrar may impose additional conditions on the borrowings of the society, including maintenance of liquid resource and utilisation of portion of its working capital in lending business and in the distribution of its assets. (Section 40, 41)

3. Loans

a) A Society may advance loans on the conditions specified in its bye-laws only to its members. The security pledged for the loan should not be of its own shares or of any nonmembers.

However, loans may be given to a depositor on the security of his deposits.

b) Non society whose objects do not include grant of loan etc. shall sanction credit to any members without the approval of the Registrar. However, societies engaged in production and consumer societies may supply or sell goods, services on credit against sufficient security or upto the extent of deposits received by them.

c) Members of a society seeking loans are required to create a charge on them land or interest in any land held by them by making a declaration in Form 'O' of The TCS Rules. (Section 50)

They may not alternate such property until the amount borrowed with interest in repaid in full. A member can also execute an agreement in favour of the society for making deduction from his salary to meet the society's claim.

d) A lending society may grant loans against security of movable or immovable property after maintaining such margin as directed by the Registrar. A society may grant loans without any security if the purpose for which the loan is given is considered production worthy or credit worthy and it is expected that the loan shall be repaid.

e) No member shall borrow from more than one society unless permitted by the society or the Registrar.

f) A society may recall the entire loan amount granted to a member if it is satisfied that the loan was not applied for the purpose for which it was given.

4. PROFITS

a) A society +may appropriate its net profits only among its member by way of dividend, bonus or otherwise. No other fund of a society is available for appropriation.

b) Calculation of net profits.

Net profits are calculated by deducting from the gross profits for the year.

i) All interest accrued and accruing in overdue accounts,

ii) Establishment charges,

iii) Interest payable on loans and deposits,

iv) Audit fees,

v) Working expenses including repairs,

vi) Rent and taxes,

vii) Deprecation,

viii) Provisioning for bad debts and written off bad debts and losses not adjusted against any fund created out of profits.

ix) Contributions to any sinking fund or guarantee fund constituted for ensuring due fulfillment of guarantee given by the Govt. in respect of loans raised by the society,

x) Provision for deprecation in the value of any security, bonds or shares held by the society,

xi) Provision for the redemption and share capitals contributed by Govt. or by a federal society. The net profits as calculated above together with the interest with the interest realized during the year (though accruing in the preceding years) and the balance profits brought forward from the previous year shall be available for appropriation after declaration in the Annual General Meeting. (Section 56, 57; Rule 50, 51 & 52)

5. Appropriation of Net Profits:

i) No other fund except the Net Profits declared is available for appropriation. Profits may be appropriated to the Reserve Fund or any other Fund; to payment of dividend to members; to contribution to education fund; to the payment of bonus; honorarium or to other purposes as per the bye-laws and Rule (Rule.50 (1). However, in such cases, the expenditure is not exceed 10 percent of the Net Profits.

ii) Dividends: Dividend has been defined as the amount paid, out of the profit of a society to a member in proportion to the shares held by them. Societies may not declare a dividend at a rate exceeding that recommended by its committee and exceeding 9 percent per annum. No bonus on shares can be given over and above the dividend.

iii) Bonus: Bonus means payment in cash or kind out of the profits to a member or a non-member on the basis of his contribution to the business of the society (as labour or service) and in case of farming societies also on the value or income of lands brought under joint cultivation by the society. Bonus of such kind may be given over and above the dividend.

6. The following fund may be created by a society out of its net Profits.

i) Reserve Fund: This is a statutory requirement for all societies who earned or can earned a net profit. Twenty-five percent of the net profits in year is to be carried to the Reserve Fund. Amount carried to the Reserve Fund cannot be utilised for any purpose without the

Registrars' approval, but may be invested or deposited as provided under Section 62 (Investment of funds). If the Reserve funds is equal to or more than the paid up share capital of the society, it may utilise a portion or the excess in its business with the approval of the Registrar. Also, the Reserve Fund invested separately cannot be utilized without the Registrars' permission. However, Housing Societies and Processing Societies may utilise the fund for maintenance, repair, renewal of buildings acquisition, purchase or construction of land & buildings (Section 58; Rule 54).

ii) Educational Fund: Societies declaring a dividend to its members at a rate of 4 percent or more are required to contribute to the Educational Fund to State Federal Society as notified by the Government. (Section 60; Rule 53)

iii) Bonus Equalization Fund: Created for the expenses purpose of payment of bonus to non-members who are not in the societies employment. (Rule 52)

92

iv) Dividend Equalization Fund: Created for drawal in future to maintain a uniform rate of dividend, if unable to do so out of the annual profits. This fund can only be created upto 2 percent of the paid up Share Capital in a year subject to a total limit of 9 percent of the paid up Share Capital. (Rule 52)

v) Investment Fluctuation Fund: Statutory Fund to be created by a society which investment more than 10 percent of its working capital in securities. This fund is utilised to cover anticipated losses rising out of the disposal of securities. (Rule 55)

vi) Bad Debt Fund: All loans found irrecoverable and certified as bad debts in Audit, are to be first written off against this fund. (Rule 49) Besides the above funds, a society may create any other fund in conformity with the Act, Rules & Bye-laws of the society. The employees' Provident Fund established under Section 63 and Rule 56 is created out of the contributions of the employees and is invested as prescribed. The amount so invested does not form part of the assets of a society nor can it be utilised in the business of the society.

7. Investments

Society may invest or deposit its fund in any of the following:

a) State Cooperative Bank or State Bank of India;

b) In securities specified under Section 20 of the Indian Trust Act, 1982.

c) In Shares, Securities Bonds, Debentures issued by any other society with limited liability;

d) In any Banking Company approved by the Registrar;

e) In Postal Savings Bank;

f) In any other mode permitted by the Government.

Besides the above, the Register can direct a society to invest its fund in a particular manner or impose conditions regarding the mode of investment. (Section 62)

8. Accounts of Societies

a) Every society is required to keep the following accounts and Books:- (Rule 67)

i) Register of member in Form **'L'**;

ii) Register of Shares;

iii) Register of debentures & bonds, if any;

iv) Minute book of General Meeting;

v) Minute book of Committee Meeting;

vi) Cash Book;

vii) General Ledger & Personal Ledger;

viii) Stock Register;

ix) Property Register;

x) Register of Audit Objections & Rectification;

xi) Other accounts and books specified by the Registrar from time to time.

b) Committee of every society shall prepare annual statement of accounts within thirty days of the close of the cooperative year.
This shall contain:-
i) Receipts & disbursement during the previous cooperative year;
ii) The Profit & Loss Account and in case of nontrading societies the income and expenditure account for the year; and
iii) The Balance Sheet as at the close of the year. The Balance sheet and the Profit & Loss account shall ordinarily be in form **'Q'** or in any other form as permitted by the Registrar.
The society is required to submit within 15 days from the date of preparation of the accounts a copy to the Auditor appointed for the audit of the society and to the Cooperative Inspector exercising jurisdiction over the society.
c) The annual statement of accounts thus prepared shall be placed in a Annual General Meeting of the society along with details of loans (if any) given to any members of the committee during the last preceding years and committees report with respect to:-
i) State of Societies affairs;
ii) Amount earmarked for carrying the Reserve fund;
iii) Amount recommended to be paid as dividend, bonus or honorarium;
iv) Changes, which have occurred during the year in the societies business. The statement of accounts and the report of the committee shall be adopted in the Annual General Meeting. (Section 63, 64, 65)
8. Other provisions.
i) Every society shall, unless remitted by the Registrar, pay to the Govt. a fee for statutory audit of its account for each cooperative year as per the scale provided in Rule 76. (Section 79 (7)).
ii) Writing off bad debts and losses: Auditors shall certify all irrecoverable loans (including interest & recovery charges) as bad debts of a society. This shall be written off first against the 'Bad-Debts Fund' and the balance, if any, are to be written off against the Reserve Fund and the Share Capital. Other irrecoverable dues & accumulated losses or any other loss, certified as bad debts by the Auditor are to be written off against the Reserve Fund or Share capital. Bad debts are to be written off only with the approval of the General Body, the affiliated bank, if any, and the Registrar. (Rule 49)
iii) Net worth: Net worth of a society is calculated by adding the following:-
1. Fixed assets minus deprecation;
2. Reserve Funds, if any;
3. Cash in hand and at Bank;
4. Investments (in Govt. securities);
5. Other investments (in undertaking; Coop. societies);
6. Advances to contractors/suppliers under written agreements;
7. Other current assets.
Registrar may remove the committee of a society whose over due loans exceeds the amount of net worth as calculated above and appoint an Administrator in its place. Registrar can take similar action if the cumulative net loss exceeds the paid up Share Capital of a society (Section 74).
N.B. The specific provisions relating to Cooperative Banks and audit/Auditor has been incorporated elsewhere in the Manual. Income Tax Act applicable to Cooperative Societies as per **ANNEXURE-'H'.**
****

ANNUXURE – 'A'
FORM – Q REF. **CHAPTER – 8.8**
TRADING ACCOUNT.

DR. CR.
Rs. P. Rs. P.
TO
1. Stock held as owners at
the beginning of the year.
2. Purchase made
a). Cash –
b). Credit –
3. Carriage inward
4. Other (specify)
6. Gross profit to
'Profit & Loss Account '
TOTAL:
BY
1. Value of goods sold
a). Cash –
b). Credit –
2. Other (Specify)
3. Value of stock held as owner
i). Agri. Produce
ii). Consumers goods
iii). Agri. requisites
iv) Other (Specify)
4. Gross loss to 'Profit & Loss
Account'
TOTAL:
PROFIT & LOSS ACCOUNT.
TOTAL TOTAL
DR. CR.
LOSS. Rs. P. Rs. P.
To
1. Interest paid and due
i). Interest paid –
iii). Interest due
PROFIT.
By gross profit as per trading
account.
1. Interest earned
i) Interest realised
ii) Add interest accrued but not
overdue at the end of year
iii) Total **iii)** Total
iv) Deduct accrued interest but
not overdue at the end previous
year
2. Govt. aid received
a) For managerial expenses
b) For other purpose
(specify)
iv) Deduct interest accrued and
due at the end of previous year-
2. Establishment and contingent

charge paid due-
3. Commission paid
4. Deprecation
a) Furniture
b) Land & Buildings
c) Machinery
d) Other (specify)
5. Debts Written Off
6. Reserve for bed & doubtful
Debts
7. Other item (specify)
8. Net profit (+)
3. Commission earned on agency
sale
4. Income from investments
5. Dividend on Shares
6. Entrance fees
7. Miscellancious fees
8. Other items (specify)
9. Net loss (-)

ANNEXURE – 'A – I'

FORM – B

Form of Profit and Loss Account of a Cooperative Bank
Profit and Loss Account for the Year ended…………………………

EXPENDITURE INCOME

1. Interest on deposits,
borrowings etc.
2. Salaries and allowances and
provident fund.
3. Directors' and local committee
members' fees and allowances.
4. Rent, taxes, insurance, lighting
etc.
5. Law charges.
6. Postage, telegrams and
telephone charges.
7. Auditors' fees.
8. Deprecation on and repairs to
property.
9. Stationery, Printing and
advertisement etc.
10. Loss from sale of or dealing
with non-banking assets.
11. Other expenditure.
12. Balance of Profit.
Rs P. **1.** Interest and discount.
2. Commission exchange and
brokerage.
3. Subsidies and donations.
4. Income from non-banking assets
and profit from sale of or dealing
with such assets.
5. Other receipts.
6. Loss (if any)

Rs. P.
TOTAL TOTAL
General Instructions – The corresponding figures (to the nearest rupee, if so desired) for the year immediately preceding the year to which the profits and loss account relates should be shown in separate columns.
FORM – Q See rule 64 (1) ANNEXURE – B
Ref: - Chapter 9.2 Statement of ASSETS & LIABILITIES as on ………..
LIABILITIES ASSETS
1. Paid up Share Capital Rs. P. Rs. P. Rs. P. Rs. P.
a) Government
b) Primary Societies
c) Individuals
2. Deposit held:
a) Societies
i) Temporary
ii) Savings
iii) Fixed
b) Members
i) Temporary
ii) Savings
iii) Fixed
c) Non-members
Against
trustee
securities
All other
securities
3. Borrowings:
a) State
Cooperative
Bank
i) Short term
ii) Medium term
iii) Cash credit &
overdrafts
b) Government
(specify) deptt.
Etc
i) For
construction of
godown
ii) For
installation of
plant and
machinery
1. Cash balance
a) On hand
b) With Banks
c) Postal Savings Bank
Account
2. Reserve Fund Invested:
(specify nature of
investment)
investment in-
3. Loans outstanding:
a) Short-term
b) Medium-term
c) Total
d) Of which overdue
i) Short-term
ii) Medium-term
iii) Total
e) Of which bad
f) Of which doubtful
4. Interest recoverable:
a) Accrued and not

overdue
b) Overdue
5. Value of stock held as owner:
a) Agri Produce
b) Consumer goods
Rs. P. Rs. P. Rs. P. Rs. P.
iii) Other perpose (specify)
4. Interest pending payment :
5. Cost of management due
6. * Profits previous years
a) Bed debt reserve
b) Common good fund
c) Dividend
d) Others fund
7. Reserve fund:
a) Invested
b) Yet to be invested
8. Subsidy Obtained from Government for:
a) Construction of godown
b) Installation of plant and machinery
c) Working Capital
d) Others (specify)
9. Adjustment account
10. Value of bills recoverable
11. Advance (Specify source)
Grand Total
c) Agri requists
d) Other (specify)
7. Adjustment account
8. Value of
a) Building
b) Godown
c) Plant and machinery
d) Land
e) Furniture
f) Others (specify)
9. Value of bills recoverable
10. Advance
11. Others (specify)
(+) Difference between assets and liabilities (-)
Grand Total

*how they were distributed

THE THIRD-SCHEDULE

ANNEXURE-'B-I'

FORM - A Ref. Chapter – 9.2

Form of Balance Sheet of a Cooperative Bank

CAPITAL AND LIABILITIES Rs. P. PROPERTY AND ASSETS Rs. P.

1. Capital **1.** Cash in hand with Reserve Bank.
State Bank of India. State Cooperative Bank
and Central Cooperative Bank.
i) Authorised Capital **2.** Balances with other Banks
Share of Rs…………..each…….. **i)** Current deposits
ii) Subscribed Capital……. **ii)** Savings bank deposit Fixed deposits Share
of Rs……………Each……….
iii) Amount called up on…………. **3.** Money at Call and short notice.
Shares of Rs……………each……… **4.** Investments
less calls unpaid of **i).** In central and State Government securities
(at book value)

(iv) Above. held by
a). Individuals Face value Rs………………
b) Cooperative Institutions
Market Value………………
c). State Government **ii).** Other Trustees Securities
2. Reserve Fund and other Reserves: **iii).** Shares in cooperative institutions other than in item (5) below.
i). Statutory Reserve
ii). Agricultural (Credit Stabilization Fund) **iv).** Other investments (to be specified)
iii). Building fund **5.** Investments out of the principal
subsidiarys state partnership fund
In shares of
iv). Dividend Equalization Fund
v). Special Bad Debts Reserve. **i).** Central Cooperative Banks
vi). Bad and Doubtful Debts Reserve. **ii)** Primary agricultural Credits Societies
vi). Investment Deprecation Fund **iii)** Other Societies
vii). Other funds and Reserves (to be specified)
3. Principal/Subsidiary State partnership **6.** Advances:
Fund Account: **i).** Short-term loans, cash credits, overdrafts
for share capital of: and bills discounted

i). Central Cooperative Banks of whish secured against:
ii). Primary agricultural credit societies **a).** Government and other approved securities
iii). Other societies **b).** Other tangible securities @
4. Deposit and Other Accounts: **a).** Of the advances, amount due from individuals
i). Fixed deposits ** of the advances, amount overdue:
ii). Individuals ** Considered bad and doubtful of recovery:
b). Central Cooperative Banks **ii).** Medium-term loans of which secured against
c). Other Societies **a).** Government and other approved securities
ii). Savings Bank Deposits **b).** Other tangible securities @
a). Individuals ** Of the advances, amount due from
individuals of the advances, amount
overdue;
b). Central Cooperative Banks Considered bad and doubtful of recovery
c). Other securities
iii). Current Deposits **iii).** Long-term loans of which secured against:
a). Individuals **a).** Government and other approved securities
b). Central Cooperative Banks **b).** Other tangible securities @
c). Other deposits
iv). Money at call and short notice. Of the advances, amount due from
individuals of the advances, amount
overdue
5. Borrowings:
i). From the Reserve Bank of India/State/ Considered bad and doubtful of recovery
Central/Cooperative Bank:
a). Short-term loans, cash credits and overdrafts Interest Receivable: of which overdue
of which secured against: Considered bad and doubtful of recovery
A). Government and other approved securities **8.** Bills Receivable beings Bills for Collection as per contra.
a). Other tangible securities
b). Medium-term loans of which secured against **9.** Branch Adjustments
c). Government and other approved securities **10.** Premises less Deprecation
B). Other tangible securities @ **11.** Furniture and Fixture less Deprecation
c). Long-term loans of which secured against:
A. Government and other approved securities
B). Other tangible securities @
a). From the State Bank of India
b). Short-term loans, cash credits and drafts

of which secured against:
A. Government and other approved securities
B). Other tangible securities @
(b) Medium-term loans of which secured against:
A). Government and other approved securities @
B). Other tangible securities @
© Long-term loans of which secured against:
A). Government and other approved securities
B). Other tangible securities @
a) from the State Government
a). Short-term loans of which secured against:
A). Government and other approved securities
B). Other tangible securities @
(b) Medium-term loans
of which secured against:
A). Government and other approved securities
B). Other tangible securities @
(b) Long-term loans of which secured against **12.** Other assets (to be specified)
A). Government and other approved securities **13.** Non-Banking Assets acquired
in satisfaction of claims
(stating mode of valuation)
B). Other tangible securities
iv). Loans from other source
(source and security to be specified) **14.** Profit and loss.
6. Bills for collection being bills
receivable as per contra
7. Branch adjustments
8. Overdue Interest Reserve
9. Interest payable
10. Other Liabilities
i). Bills payable.
ii). Unclaimed dividends
iii). Suspense
iv). Sundries
11. Profit and Loss:
Profit as per last balance sheet
less appropriations and profit for
the year brought from the profit
and loss accounts.

Contingent Liabilities:
i). Outstanding Liabilities for
guarantees issued
ii). Others

Total Total

NOTES* "Fixed deposit" will include reserve fund deposits of societies, employees provident fund deposits, staff security deposits, recurring deposits, cash certificates, etc.
**Under the item "individual" deposits from institutions other than cooperative banks and society may be included.
"Borrowings" and "Advances". – Short-term loans will be for periods upto 15 months, medium-term loans from 15 months to 5 years and long-term loans over 5 years. @ "Other tangible security" will included borrowings against gold and gold ornaments, repledges of goods, mortgage of land, etc. General Instructions – The corresponding figures (to the nearest rupee, if so desired) for the years immediately preceding the year to which the balance sheet relates should be shown in separate columns.

ANNEXURE 'C'
Ref: Chapter – 9.2

BALANCE SHEET.
(VERTICAL FORM)

Name of Society……………………………………
Balance Sheet as at…………………………………
Schedule No
Figures as at the
end of current
financial year
Figures as at the
end of previous
financial year
1 2 3 4 5
1. Source of funds
(1). Share holders' funds:
(a). Capital
(b). Reserves and surplus
(2). Loans funds:
(a). Secured loans
(b). Unsecured loans
TOTAL:
11. Application of funds
(1). Fixed assets:
(a). Gross block
(b). Less deprecation
©. Net block
(d). Capital work in progress
(2). Investments
(3). Current assets, loans and advances
(a). Inventories
(b). Sundry debtors
©. Cash and bank balances
(d). Other current assets

NOTES

1. Details under each of the above items shall be given in separate schedules. The Schedules shall incorporate all the information required to be given under – A Horizontal from read with notes containing general instructions for preparation of balance-sheet.
2. The Schedules referred to above, accounting policies and explanatory notes that may be attached shall from at integral part of the balance sheet.
3. The figures in the balance sheet may be rounded off to the nearest '000' or '00' as may be convenient or may be expressed in terms of decimals of thousands.
4. A footnote to the balance sheet may be added to show separately contingent liabilities.

ANNEXURE 'D'
Ref: Chapter- 10.5

AUDIT MEMORANDUM

(Rule 71 read with section 79)
Audit Memo No. ……………………………….
1. Name and address of the Society.
2. Registration No. & Date.
3. (a). Membership:
(No. of member admitted after previous audit to be indicated separately)
(b). Is the Register of members/share Register in order:-
(c). Are admission of members in order:-
(e) Loan and advances
Less Current liabilities and provision:
(a). Liabilities
(b). Provisions
Net current assets
(4). (a). Miscellaneous expenditure to the extent not
written off or adjusted

(b). Profit and Loss account
TOTAL:
(d). Does the Cash book indicate that all members have paid their entrance fees:-
(e). How many member registered during the year of audit and if so, has the registration accepted as per Act, Rules and Bye-Laws:-
4. Area of Operation:-
5. Activities undertaken:-
6. No. of committee meetings held during the period:-
7. Date of last Annual General Meeting/Special Meetings:-
8. Period covered by Last Audit:-
Present Audit:-
9. Details of defects/irregularities etc.
Pointed out in last Audit and not rectified by the Society:-
(II)
Performance indicators:-
1. Share Capital Previous Year Current Year
Government:
Individuals:
Others:
Total:-
2. Reserves:
3. Borrowings/Financial Assistance:
4. Advance/Loan issued:
5. Advance/Loan outstanding
Members:
Bank:
6. Business turnover:
7. Profit (+)/ Loss (-):
8. Total staff:
9. Establishment cost:
10. What is the limit of the borrowings
fasted by the Bye-laws of the society:
11. Are the Bonds in order and registered
where necessary:
12. Has any breach of law, Rules or Bye-laws
noticed during audit:
13. What rate of dividend was last declared:-
14. Do the amount of loan shown in register of
loans tally with entries in cash book:
15. Total amount of loan given and the number
of borrowers during the period of Audit:
16. What is the total amount of loans outstanding
with the members at the end of the prior to
undertaking audit:
17. Is the dead stock register written up to date and
has due deprecation allowed on such dead stock:-
18. Does the society transact with non-members and
if so, is bonus allowed to them on purchase:
19. Are all the Registers maintained by the Society
regularly and in proper:
20. What is the total profit of the society during

previous year and manner of apportionment among:
i). Reserve Fund (Statutory)
ii). Other Reserve Fund
iii). Dividend
iv). Bonus to member and staff
v). Carried forward
21.
(i) Is the Cash book maintained regularly and as per Act, Rules and Bye-Laws:
(ii). Has unduly huge cash balance kept in hand for a long period and if so, explanation therefore by the managing committee:
(iii). Who is the custodian of cash balance of the society:
(iv). On the last day of Audit, Auditor to verify cash balance with closed cash book for the day, record certificate of verification and hand over the verified cash to the custodian of Cash:
22. Whether the Board of Directors elected or nominated as per Act and Rules and if so, the Board in Existence:
23.
(i). How many committee meetings held during the period of audit is the minutes recorded regularly:-
(ii). What is the date of last annual general body meeting and special general meeting:-
24. Comments/suggestion by the Auditor:
(III)
IRREGULARITIES DETECTED.
A. Major.
1.
2.
3.
B. Minor.
1.
2.
3.
(IV)
Statutory Schedules
(TO BE ENCLOSED IN SEPARATE)
SCH.-I List of all transactions which appear contrary to the provisions of TCS Act, Rules & Bye laws of the society.
SCH.-II List of all sums which ought to have been but have not been but have not been brought into account.
SCH.-III List of irregularity in expenditure or in realization of Moneys.
SCH.-IV List of Bad or doubtful debts.
SCH.-V List of all other irregularities noticed in Audit, not covered by the above schedules.
(V)
1. Name & Designation of the Auditors :
2. No & Date of orders of appointment :
3. Date of completion of Audit :

Date……………………. Signature of Auditor

ANNEXURE –E

Ref. Chapter-11.1.

1. BANKING REGULATION ACT, 1949.

(As applicable to Cooperative Societies as amended by Banking Law (Amendment Act, 1983 and Banking Regulation (Amendment) Act. 1991 (No. 54 of 1991) The banking Regulation Act. 1949 (as applicable to cooperative Societies) which had come into force from 1st March, 1966, has vested the Reserve Bank with various statutory powers of control and supervision over the cooperative banks. The powers in regard to incorporation, management etc. of these of banks, however, continue to vest in the Registrars of Cooperative Societies of the States concerned. Further the provisions of the B.R. Act, 1949 (as applicable to cooperative societies) shall be in addition to, and not save as expressly provided in the Act, in derogation of any other law for the time being in force. This means that the cooperative banks are required not only to comply with the provisions of the B.R. Act, but also other laws applicable to them. In respect of matters specifically provided for in the B.R. Act, the provisions of the said Act will prevail over the provisions of the Cooperative societies Acts.

The salient features of some of the important sections of the Act are. **Sec.5 (ccv):** In terms of this Section, a Primary Cooperative Bank means a Cooperative Society other than the Primary Agricultural Credit Society:

(**a).** The primary object or principal business of which is the transaction of banking business.

(b). The paid-up share capital and reserve of which are not less than one lakh Rupees.

©. The bye-laws of which of do not permit admission of any other cooperative society as a member. Provided that this sub-clause shall not apply to the admission of cooperative bank as a member by reason of such cooperative bank subscribing to the share capital of such cooperative society out of funds provided by the State Government for the purpose.

Sec.6: The forms of business in which the cooperative bank may engage have been specified in sec.6

A bank can, however, undertake such business in which the Central Government may specify under clause (0) of Sub-sec.6 of the Act, as a form of business in which it is lawful for a cooperative bank to engage itself.

The Government of India by a Notification dated 12.12.1995, has specified "hire purchase" and 'equipment leasing' as forms of business in which it is lawful for a Primary Cooperative Bank to engage.

Sec.8: A Cooperative Bank cannot undertake trading activities.

Sec.9: A Cooperative Bank is prohibited from holding any immovable property whatsoever acquired except such as is required for its own use, for any period exceeding seven years from the acquisition thereof or from the commencement of the Act, i.e. 1st March 1966, whichever is later. If a Bank cannot dispose off the property within the stipulated period, it has to seek extension of time. In case of a Primary Credit Society, which becomes a Primary Cooperative Bank, after the commencement of the Amendment Act(1983), the period of 7 years for holding the non-banking assets acquired by it shall commence from the day it becomes a Primary Cooperative Bank, Further, the Reserve Bank can extend the aforesaid period of 7 years by such further period as it may consider necessary to do so, in cases where it is satisfied that such extension would be in the interest of the depositor of the Cooperative Bank.

Sec.11: No Cooperative Bank shall commence or carry on the business of Banking in India unless the aggregate value of its paid up capital and reserve is not less than Rupees one lakh. For the purpose of this section, 'value' means the real or exchangeable value and not the nominal value shown in the books of the bank. A determination by the Reserve Bank of aggregate value of the paid up capital and reserves of a cooperative bank shall for the purpose of the Act.

Sec.14 A: No Cooperative Bank shall create a floating charge on the undertaking or on any of its property or on any part thereof, unless the creation of such floating charges is certified in writing by the Reserve Bank as not being detrimental to the interests of the depositors of such Cooperative Bank.

Sec.18: A Cooperative Bank other than a Scheduled State Cooperative Bank/Primary Cooperative Bank is required to maintain cash reserve with itself or in Current Account (net balance) opened with the Reserve Bank or State Bank of India or Sate Cooperative Bank of the State concerned or with any other Bank notified by the Central Government not less than 3% of DTL of the last Friday of the second preceding fortnight and shall submit in prescribed from, a return to Reserve Bank on or before the 15th of subsequent month showing the amount so held on alternate Fridays of the month. The banks notified under this section are the State Bank of India and the State Associated Banks and the 20 Nationalised Banks. In the case of a Primary Cooperative Bank, the cash reserve can be maintained in the Central Cooperative Bank of the District concerned or in a Central Cooperative Bank outside the District provided the Urban Bank has its branch in the said District.

The balance held by the Cooperative Bank in current account with the State Bank of India or a subsidiary bank or the nationalized banks shall be set off by the balances held by the balances held by the said banks with such Cooperative bank and only the net balance in the current account shall be regarded as Cash reserve.

While computing the liabilities of a Cooperative Bank, its liabilities to the State Bank of India, a subsidiary bank, a nationalized bank, a regional rural bank, a banking company or any other financial institution notified by the Central Government in this behalf, shall be reduced by the liabilities of all such banks and institutions to the Cooperative Bank.

The following items shall not be included in liabilities:

(a). In respect of advances granted by a bank against any balance maintained with it, such balance to the extent of the amount outstanding in respect of such advance.

(b). The amount of any advance or other credit arrangement drawn and availed of against approved securities.

(Fortnight shall mean the period from Saturday to the following Friday, both days inclusive).

Note:

(i). The Reserve Bank vides its Circular No. UBD.BR. 19/A6-89-90 dated 10th March, 1990, advised that the Government of India have notified the discount and Finance House of India (D.F.H.I.), for the purpose clause (d)(6) of Explanation of sub-sec.1 of the sub-sec.42 of the R.B.I. Act, 1949. Thus (the Primary cooperative Bank can derive the benefit of Netting the assets and liabilities in respect of their dealings with D.F.H.I.

(ii). The Reserve Bank vide its Circular No. BR70/160400/95-96 dated 29th June' 1996, has advised that the Government of India vide Notification 20/3/94-BOA (ii) dated 21st June' 1996 have notified institutions noted below as eligible to participate as both lenders and borrowers in the call/notice money market and bill discounting scheme with effect from 6th June' 1996.

(a). PNB Gilts Limited.

(b). SBI Gilts Limited.

©. Gilt Securities Trading Corporation Limited.

(d). ICICI Securities and Finance Company Limited.

The primary Cooperative Banks can derive the benefit of netting of the assets and liabilities in respect of their dealing with these 4 primary dealers.

Sec.19: This Section imposes restrictions on holding shares in other cooperative societies. As per the instructions of the Reserve Bank of India, the total investment of a Cooperative Bank in the shares of Cooperative Institutions (except those of central/State Cooperative Banks to which it is affiliated) should not exceed 5% of the subscribed capital of the institution. When more than one cooperative Bank contributes to the shares of a Cooperative Institution, the limit of 5% of the subscribed capital should apply not in respect of the investment of each of the bank but in respect of all the Banks taken together.

Sec.20: This section prohibits sanction of loans or advances on the security of its own shares and also unsecured loans and advances to Directors or the firms or private companies in which they are interested. In case of primary Cooperative Banks unsecured loans to directors are subject to the directives issued by the Reserve Bank from time to time.

Sec.20A: Cooperative Banks would have to obtain prior approval of the Reserve Bank to remit in whole or in part any debt due to it any of its past or present directors.

Sec.21: This section empowers the Reserve Bank to determine the policy in relation to advances to be followed by the Cooperative Banks generally or any Cooperative Bank in particular. Under this section, the Reserve Bank may issue directive to Cooperative Banks generally, or to Cooperative Bank in particular as to;

(i). the purpose for which advances may or may be made;

(ii). margin to be maintained in respect of secured advances;

(iii). The maximum amount of advances or other financial accommodation which may be made by a Cooperative Bank to any one party;

(iv). the maximum amount upto which guarantees may be given by a Cooperative Bank on behalf of any party;

(v). the rate of interest and other terms and conditions on which advances or other financial accommodation may be made.

Sec.21A: Notwithstanding anything contained in the usurious Loans Act, 1918 or any other law relating to indebtedness in force in any State, transactions between a Cooperative Bank and its debtors shall not be reopened by any court on the ground that the rate of interest charged by the Cooperative Bank in respect of any such transaction is more.

Sec.22: The Cooperative Banks, which were existing on 1-3-1966, were required to apply to the Reserve Bank for a licence within a period of 3 months from the commencement of the Act. Such Banks were permitted to carry on banking business if licences were granted to them or until they were informed that licence cannot be granted to them. New banks should invariably obtain a licence before commencing banking business.

A Cooperative Bank which comes into existence as a result of the division of any other Cooperative Society carrying on business, shall before the expiry of three months from it so coming into existence, apply in writing to the Reserve Bank, for a licence for carrying on baking business under this Section.

Sec.23: State Cooperative Banks and the Primary Cooperative Banks are required to obtain prior permission of the Reserve Bank for opening new branches. Central Cooperative Banks need not obtain such permission for opening branches within their areas of operation.

In terms of new Sub-Sec. 4-A, the Cooperative Banks other than Primary Cooperative Banks, shall submit the application for opening of a new place business or changing the location of an existing place of business, to the Reserve Bank through the National Bank for Agriculture and Rural Development, with an advances copy of the application directly to the Reserve Bank. Urban Cooperative Banks can however submit their application directly to the Reserve Bank.

Sce.24: Every Cooperative Bank shall maintain in cash or unencumbered approved securities an amount which shall not, at the close of business on any day, be les than 25% or such other percentage not exceeding 40% of the total of its Demand and Time Liabilities in India or as the Reserve Bank may specify from time to time.

Sec.24A: This new section empowers the Reserve Bank, without prejudice to the provisions of sec. 53, to exempt by issue of notification in the official gazette any cooperative banks or class of cooperative bank with reference to all or any of the offices of such bank or banks or with reference to the whole or any part of the assets and liabilities of such Cooperative Bank or Banks from the application of whole or any part of the provisions of Sec. 18 and Sec. 24 for such period and on such conditions as may be specified in such notification.

Note: (a). "Net Balance in Current Account" maintained by a cooperative bank in the Reserve Bank of India, State Bank of India, State Associated Bank and Nationalized banks, any balances or deposits maintained by the Central Cooperative Banks with the State Cooperative Bank of the State concerned and any balance or deposits maintained by a Primary Cooperative Bank in the Central Cooperative Bank concerned or with the State cooperative Bank of the State concerned, shall be eligible for being computed as liquid assets under this section.

(b). The monthly return shall indicate the position as on alternate Fridays and will show the statutory liquid assets based on the demand and time liabilities as on the last Friday of the second preceding fortnight.

(c). The Reserve Bank is empowered to call for a daily return from any Cooperative Bank in the form and manner the Reserve Bank may specify.

(d). The valuation of 'unencumbered approved securities' shall be in accordance with the method of valuation which the Reserve Bank of India may specify.

(e). The Reserve Bank, vide its circular No. Cir. (PCB) 53/16.26/00/93-94 dated 8th February' 1994, has advised the banks to submit return in Form I alongwith appendix I and II, showing the daily position of cash reserves and liquid assets maintained and the extent of deficit/surplus by the bank respectively, as at the close of business on the alternate Fridays of the month to which the return relates, on or before 20th of the subsequent month. Non submission of the return u/s. 24 will be viewed seriously and will be subjected to the various penal actions in terms of sec. 46(4) of the act.

(f). In terms of sections 18 and 24 of the Banking Regulation Act, 1949 and the Rules framed thereunder, Urban Cooperative Banks are required to submit return in Form 1 on or before the 15th of the subsequent month showing the position of their demand and time liabilities, cash reserve and liquid assets as at the close of the business on the alternate Fridays of the month to which the return relates. The Reserve Bank has observed that some of the urban cooperative Banks are not reporting in the above return, the position of demand and time Liabilities for the correct dates of alternate Fridays. The Reserve Bank has also observed that banks are not taking into the correct corresponding dates of last Fridays of the second preceding fortnight with reference to which the amount of cash reserve and liquid assets are required to be maintained/computed and shown at items IX & XI respectively. It is also observed that the concept of 3% of cash reserves and 25% of liquid assets to be maintained by urban cooperative banks with reference to last Friday of second preceding fortnight during particular fortnight/period is also not properly followed by some of the banks. The UCBs are also required to furnish Appendix I & II to the Form I invariably as prescribed in UBD/COOPERATIVE Circular PCB. No. 53/16 26.00/93-94 dated 8th February' 1994. (Ref: R.B.I. Circular No. UBD. Mum. RTN. 4/06.05.96-97 dated 18th December, 1996).

Sec.29&31: In terms of the notification issued under amended sec. 29, the banks are now required to prepare their Profit & Loss account and Balance sheet as at 31st March of each year. The banks will have to submit to the Reserve Bank, 3 copies of duly audited Profit & Loss account and Balance sheet, signed by the principal officer of the bank and atleast 3 directors, before 30th September of each year. The Balance Sheet is also required to be published as required under Rule 10 in one of the local newspapers within a period of 9 months from the end of the period to which they relate i.e. before 31st December. For valid reasons, extension of time may be allowed by Reserve Bank of India, for a further period not exceeding 3 months. An application giving reasons for the delay, accompanied by supporting Board Resolution and information as per Annexure II, should be submitted before 30th September of the year. In terms of Rule 10, 3 copies of the newspaper in which accounts and Balance Sheet together with Statutory Auditor's Certificate has been published should be sent to the Reserve Bank, latest by 31st December of the year. Printed booklets in the form of Annual Report is not acceptable as a return. The published Balance Sheet should contain Statutory Auditors Report.

Note: RBI vide its Circular No. UBD.MRO.RTN/4211/11.06/97-98, dated 24th March 1998 has reiterated that normally the profit and loss account and the balance sheet of the bank gets completed within 45 days of closure of the accounting year and a copy has to be submitted to the Auditor within 15 days thereafter. There should, therefore be no difficulty in submitting Statement of NPAs along with a special return in Form IX as on 31st March of that year by 20th May every year. The RBI has reiterated that if the audited balance sheet and profit and loss account along with Auditors Report is not submitted before 30th September, every year it will invite penalties under Section 46 and on 47A of BR Act, 1949.

Sec.35: This section empowers the Reserve Bank, to authorize its officers, to inspect Cooperative Banks and supply to the cooperative Banks so inspected, a copy of its report. In case of Primary Cooperative Banks, the Reserve Bank may authorize the State Cooperative Bank of the State concerned, to carry out the inspection on behalf of the Reserve Bank.

Sec.35A: This section empowers the Reserve Bank to issue directions, to Cooperative Banks in general and to any Cooperative Bank in particular, regarding any aspect of the working of the Cooperative Banks/Bank concerned. While sec. 21 referred to earlier confers powers to issue directions in regard to the advances by cooperative banks, sec. 35A covers all aspects of the functions of Cooperative Banks. These two section together give powers to the Reserve Bank to issue directions on all matters concerning the operations of a Cooperative Bank in particular, or all Cooperative Banks, or group of Cooperative Banks, in general.

In addition to conducing regular inspection under this section, the Reserve Bank in also empowered to carry out a scrutiny of the affairs of the Cooperative Bank, at any time it is considered necessary to do so.

Note: NABARD has also been statutorily empowered to carry out the inspection of Cooperative Banks (excluding Primary Cooperative Banks).

Sec.36: The Reserve Bank is empowered to depute, in case it is considered essential to do so, for the reorganization or expansion of Cooperative credit on sound lines, one or more of its Officers to watch the proceedings at any meeting of the Board of Directors of any Cooperative Banks or any other body constituted by it and require such bank to give an opportunity to the Officers, so deputed to be heard at such meeting(s). The Reserve Bank may appoint one or more of its Officers to observe the manner in which the affairs of the Cooperative Bank or its Officers or branches are being conducted required such Officers to make a report thereon.

Sec.45: Under this section, the Reserve Bank can recommend to the Central Government, to order a moratorium in respect of Cooperative Bank. The power to issue such a moratorium however rests with the Central Government.

Sec.45Y: This section empowers the Central Government to make rules, in consultation with the Reserve Bank, specifying the periods for which a Cooperative Bank shall (a) preserve its books of account and other documents and (b) keep with itself different instruments paid by it.

Sec.45Z: This section enables the Cooperative Banks to return at the request of the customer (including Government and Statutory Corporations), a paid instrument before the prescribe period of preservation, only after making and keeping in its possession a true copy thereof, made by mechanical process or other process which in itself ensures the accuracy of the copy. The bank is also entitled to recover from the customer the cost of making such copies of the instruments.

Sec.45ZA: This section enables depositors, of a Bank to nominate one person to whom, in the event of the death of the sole depositor or death of all the depositors, the amount of deposit may be returned by the Bank. In pursuance of the provisions of this section, the Cooperative Banks (Nomination) Rules, 1985, have been framed and the nomination forms in deposits, safe custody, lockers have been prescribed.

Sec.45B: This section gives protection to a Cooperative Bank in respect of claims made by persons, other than persons in whose names a deposit is held with it. However, if a notice/order is issued by a court of competent Jurisdiction, then the Bank should take due notice of it.

Sec.45ZC: This section enables a Cooperative Bank to return the articles kept by person with it, in safe custody, to his nominee in the event of his death.

Sec.45ZD: This section gives protection to a cooperative Bank in respect of any claim to any article made by any person other than the person who placed the article in safe custody with it.

Sec.45ZE: This section enables an individual locker holder to nominate one person to whom, in the event of his death, the cooperative Bank may give access to the locker and liberty to remove the contents of the locker.

Sec.45ZF: This section gives protection to a Cooperative Bank in respect of claims from persons other than the hirers of the locker.

Sec.46: In this section, the various penalties that may be imposed on Cooperative Banks, for non-compliance with the various provisions of the B.R. Act, have been specified.

Sec.47A: Under this section the Reserve Bank is empowered to impose penalties on a bank for contravention and defaults of the nature referred to in sub-sec. (3) and (4) of sec. 46 of the Act bid, without recourse to the Court of Law. An enquiry is to be conducted and a reasonable opportunity of being heard should be given to the Bank. The procedure for conducting the enquiry is laid down in Rule 11 of the Banking Regulation (Cooperative societies) Rules, 1966. The procedure stipulates the appointment of an Enquiry Officer by the Reserve Bank for holding the enquiry. The Enquiry Officer is required to send a statement giving sufficient particulars of the contravention or default of the nature referred to in subsec. (3) or sub-sec. (4) of sec. 46 of the Act and to give 30 days time for sending the reply. The enquiry officer shall fix the date for conducting the enquiry, which should be on a day to day basis. The bank is entitled to be represented at the enquiry by its authorized representative, who may be a Director or Officer but not by a legal practitioner. The procedure also provides for cross examination of the witness both by the representative of the Reserve Bank or of the Cooperative Bank. After completion of enquiry the said officer shall record his findings and submit the entire report to the Reserve Bank.

Amendments to Sec. 46& 47A of B.R. Act, 1949 with effect from 31st January, 1994

Sec.46 (4): "If any other provision of this Act is contravened or if any default is made in complying with any requirement of this Act or of any order, or direction made or condition imposed thereunder, by any person, such person shall be punishable with fine which may extend to fifty thousand rupees or twice the amount involved in such contravention or default, where such amount is quantifiable, whichever is more, and where a contravention or default is a continuing one, with a further fine which may extend to two thousand and five hundred rupees for every day, during which a contravention or default continues."

Sec.47A (1) (b): "Where the contravention or default is of the nature referred to in sub-sec. (4) of Sec. 46, a penalty not exceeding five lakh rupees or twice the amount involved in such contravention or default where such amount is quantifiable, whichever is more, and where such contravention or default is a continuing one, a further penalty which may extend to twenty five thousand rupees for every day, after the first, during which the contravention or default continues".

Sec.47A (2): "For the purpose of adjudging the penalty under sub-sec.(1), the Reserve Bank shall serve notice on the banking company, requiring it show cause why the amount specified in the notice should not be imposed and a reasonable opportunity of being heard shall also be given to such banking company".

Note: Cooperative Banks other than Primary Cooperative banks are also required to send to NABARD, copies of the returns and documents which they are required to furnish to the Reserve Bank u/s 24, 26, 27 and 31.

2. COOPERATIVE BANKS (PERIOD OF PRESERVATION OF RECORDS) RULES 1985.

In terms of these rules, the period of preservation of various records are:

(A). To be preserved for a period not less than five years preceding the current calendar year.

(i). Ledgers and Registers:

1). Cheque Book Registers. **(2).** Delivery Order Registers. **(3).** Demand Liability Registers. **(4).** Demand Remittances Despatched Registers. **(5).** Demand Remittances Received Registers. **(6).** Vault Registers.

(ii). Records other than Registers:

(1). Telegraphic Transfer Confirmations. (2). Telegrams and Telegram Confirmations.

(B). To be preserved for a period not less than Eight years preceding the current calendar year.

(i). Ledgers and Registers:

1). All personal ledgers. **(2).** Loans and advances registers or ledgers. **(3).** Call, Short or Fixed Deposit Registers or Ledgers. **(4).** F.D. Interest Registers. **(5).** Draft, TT and Mail Transfer Registers. **(6).** Remittance Registers. **(7).** Bills Registers. **(8).** Clearing Registers. **(9).** Demand Loan Liability Registers. **(10).** Draft and Mail Transfer Advises Despatched Registers. **(11).** Draft and Mail Transfer Advices Received Registers. **(12).** Draft payable Registers. **(13).** Drawing Power Registers. **(14).** Stock Registers showing collection of dividends and interest on securities on behalf of constituents. **(15).** Registers or ledger of Bank's Own Investments. **(16).** Branch Ledgers. **(17).** Overdrafts and Loan Registers. **(18).** Safe Custody Registers. **(19).** Equitable Mortgage Registers. **(20).** Trust Registers. **(21).** Clean Cash Books.

(ii). Records other than Registers:

1). Bank Cash Scrolls. **(2).** Bank Transfer Scrolls. **(3).** Remittance Schedules. **(4).** Paid Cheques. **(5).** Paying-in slips. **(6).** Vouchers relating to DDs, TTs, Fixed Deposits, Call Deposits, Cash credit and other deposit and loan accounts including vouchers relating to payment to nominees. **(7).** Account opening forms, inventories prepared in respect of articles in Safe-Custody and safety locker and nomination forms. **(8).** Standing Instructions regarding current accounts. **(9).** Application for TTs, DDs, MTs and other remittances. **(10).** Application for overdrafts, loans and advances. **(11).** Press Copy Books.

ANNEXURE –'F'.

Chapter – 11.6

Guidelines on prudential norms for SCARDBs / PCARDBs

Income Recognition, Asset, Classification and Provisioning Norms.

1. Income Recognition Norms:

(i). The prudential norm for income recognition should be based on the record of recovery and therefore unrealized income should not be taken to profit and loss accounts by SCARDBs / PCARDBs. However, in the case of certain States where the State Coop. Act/Rules /audit Manual provide for taking such unrealized interest to the income head in the Profit and Loss Account, it is necessary for those SCARDBs/PCARDBs to make full provisioning for equivalent amount by charging to Profit and Loss Account. In other words, the SCARDBs/PCARDBs which are charging interest on all overdue loans if such interest remains unrealized, the same may be taken to income account provided matching provision is fully made for the same by charging to P & L Account. Accrued interest taken to income account in the previous year should also be provided in full in case the same become overdue during the current year.

(ii). Fee, Commission and other income may be treated as income only when the account is classified as standard. Besides, a matching provision should be created to the extent such items were treated as income in the previous year but not realized in the subsequent year.

(iii). Fees and commission earned by banks as a result of renegotiation or scheduling of outstanding debts should be recognized on an accrual basis over the period of time covering the renegotiated loan or rescheduling of credit facilities.

(iv). Even in case of credit facilities backed by Government guarantee, overdue interest can be taken to P & L Account only if matching provision is made.

II. Norms for treating loans/advances etc., as NPA for the purpose of Asset Classification:

(a). Definition of Non-Performing Asset (NPA):

A credit facility may be treated as 'past due' when it remains outstanding for a period of 30 days after due date. For instance, if due date for payment of interest/principal is 31st March, then loan becomes past due as on 30th April. The credit facility backed by the Government guarantee though past due should not be treated as NPA.

(i). Treatment of Term Loans:

Term loans for agricultural purposes may be treated as NPA if interest or installments of principal amount remained past due for two crop seasons covering to half years. In case of term loans for non-agricultural purpose (allied agricultural activities and non-farm sector activities) an assets may be difind as NPA if interest or instalment of principal amount remained as passded due for two quarters or more. In case of all term loans, the entire loan outstanding may be treated as NPA, even if there is default in payment of interest installment.

(ii). Project/Housing Loans etc:

In case of Projects (industry, fisheries, plantations, etc.,) where moratorium is given for repayment, the loan becomes due only after moratorium or gestation period is over i.e., NPA criteria will be applicable only after the gestation period of moratorium ends. Similarly, in the case of housing loans or similar advances granted to staff members where interest is payable after recovery of principal, such loans should be classified as NPA when the principal becomes 'past due'.

(iii). Treatment of different facilities to borrower as NPA:

In case of SCARDBs with federal structure, the facility which has become irregular should only be treated as NPA and all other facilities sanctioned to the same PCARDB should not be classified as NPA. However, at PCARDB/SCARDB branch level where loans are given to the ultimate borrower all the facilities granted to a borrower may be treated as NPA, even if any one of the facility becomes irregular.

iv). Any other Credit facility including gold loans should be treated as NPA, if the amount (principal & interest) of the received in respect of that facility remains past due for a period of two quarters as on balance sheet.

III. Norms for Asset Classification:

Criteria for classification of assets:

It is essential that before classifying the assets it should be decided whether an asset is NPA or not on the basis of above mentioned criteria in para II. Thereafter, classification of loans is required to be done into four categories, as under:

(i). Good/Standard assets:

A Standard asset is one which does not disclose any problem and which does not carry more than the normal risks attached to any business. Thus, in general, all the current loans may be treated as standard assets if repayment period for the same is reschedule/rephrased, in the event of natural calamity, etc., as per NABARD/RBI guidelines.

(ii). Sub-Standard Asset (SSA):

A non-performing asset may be classified as sub-standard on the basis of the following criteria:

a). An asset which has remained overdue for a period not exceeding 3 years in respect of both agricultural and non-agricultural loans should be treated as sub-standard.

b). In case of term loans, where instalments are overdue for a period not exceeding 3 years, the entire loan outstanding should be classified as sub-standard and not the defaulted installments alone.

c). An asset, where the terms and conditions of the loans regarding payment of interest and repayment of principal have renegotiated or rescheduled, after commencement of production, should be classified as sub-standard and should remain so in such category for atleast two years of satisfactory performance under the renegotiated or reschedule terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance of the above condition.

(iii). Doubtful assets: Non Performing Asset may be classified as doubtful on the basis of the following criteria:

a). An asset which has remained overdue for a period exceeding 3 years in respect of both agricultural and non-agricultural loans should be treated as doubtful.

b). In case of term loans, where instalments are past due for more than 3 years, entire outstanding in the term loan account should be treated as doubtful.

(iv). Loss Assets:

Loss assets relating to the loans and advances portfolio are those where loss is identified by the bank/auditor/RBI/NABARD inspectors but the amount has not been written off wholly or partly. In other words, an asset which is considered unrealizable and/or of such little value that its continuance as a doubtful asset is not worthwhile, should be treated as a loss asset. Such loss assets will include past due loans on cases:

(a). Where decrees or execution petitions have been time barred or documents are lost or no other legal proof is available to claim the debt.

(b). Where the members and their sureties are declared insolvent or have died leaving no tangible assets.

(c). Where the members have left the area of operations of the SCARDB/PCARDB leaving no property and their sureties have also no means to pay the dues,

(d). Where the loan is fictitious or when gross misutilisation is noticed,

(e). Where the assets financed are totally destroyed and borrower has no other means to repay the loan.

(f). Where the title to the security is defective and as such cannot be legally proceeded against,

(g). Where loan liability itself is disputed and

(h). Where loans which have become infructuous and subsidies or compensation had not been adequate.

V. Provisioning Norms:

i). Provisioning is necessary considering the erosion in the value of security charged to the banks over a period of time. Therefore, after the loan assets are classified into various categories (viz., standard, sub-standard, doubtful and loss assets) necessary provision has to be made for the same. The details of provisioning requirements in respect of various categories of assets are mentioned below:

Standard Assets:

No provision is required to be made.

ii). Sub-standard provision of 10% of total outstanding in this category may be made.

iii). Doubtful assets:

a). 100% provision is to be made of the extent to which the advance is not covered by realizable value of securities to which the bank has a valid recourse and the realizable value is estimated on a realistic basis.

b). Over and above (a). provision is to be made depending upon the period for which an asset has remained overdue/NPA, 20% to 50% of the secured portion (i.e., estimated realizable value of the outstandings) on the following basis. Criteria Provision to be made

Overdues above 3 years and up to 4 years 20%

Overdues over 4 years, but not exceeding 6 years 30%

Overdues exceeding 6 years 50%

iv). Loss assets:

The entire loss asset should be written off. If the assets are permitted to be retained in the books of account for any reason, 100% of the outstandings thereof should be fully rovided for.

2). The following aspects, however, may be kept in view while taking provisions:

(i). Agricultural loans as secured:

All agricultural loans may be treated as fully secured as the same are disbursed against charge on land s provided in the respective State Cooperative-operative Societies Acts/Rules.

(ii). Treatment to PF and Gratuity amount: Liabilities towards PF and gratuity should be estimated on actuarial basis and fully provided for.

(iii). Loans exempted from provisioning:

Loans guaranteed by Government should not be classified as NPA/overdue and therefore no provision is required to be made in respect of such advances. Loans granted against fixed deposits, NSCs eligible for surrender, IVP, KVP, LIC Policies, etc., are not be classified as NPA and therefore are exempted from provisioning.

(iv). Loans against gold/Govt. Securities:

Advances against gold ornaments, government securities and all other kinds of securities are not exempted from provisioning requirements.

(v). Deprecation in Investments accounting procedure:The investment portfolio of a bank would normally consist of both approved securities (predominantly Government securities) and other securities (share, debentures and bonds of cooperative and other institutions). Investments in approved securities should be bifurcated into permanent and current investments. Permanent investments are those which banks intend to hold till maturity and current investments are those which banks intend to deal in i.e., buy and sell on a day-to-day basis. As the deprecation in respect of permanent investments is not likely to affect their realizable value on maturity, deprecation need not be provided for investments in the permanent category. Investments under current category should be valued at lower of the cost value or market value, on a consistent basis. Deprecation in the current investments, if any, should therefore be fully provided for. Banks following a more prudent method of valuation (e.g. showing only realizable value) should continue to do so and there should be no slip-back in their case. Investments should be shown in the balance sheet net of deprecation. It is, however, open to banks to show the book value of investments, the deprecation there against and the net amount of investments of separately. As regards valuation of securities other than approved securities, they should be valued at lower of cost price or market value. Investments in the shares of cooperative institutions, however, may be valued at carrying cost price.

N.B. The above Norms circulated vide NABARD Circular No. NB.DOS.LDB/I/97-98 dated 19-6-97. These are being constantly upgraded and are thus subject to change.

ANNEXURE – 'G'

Chapter – 11.10

FORMATS OF LONG FORM AUDIT REPORTS
FOR COOP. BANK AND BANK BRANCHES.

LONG FORM AUDIT REPORT FOR COOPERATIVE BANK.

The following paragraphs list the important matters with regard to advances, fund management, internal control and profitability, besides certain general matters which the auditors of banks are expected to comment upon in their long form audit reports. It may be mentioned that this list is illustrative and not exhaustive. Therefore, if it is felt that certain other important matters deserve to be included in the long form audit report, the statutory auditors may do so. May of the matters to be dealt with by the statutory auditors in their LFARs will be based on the LFARs received from branches. In dealing with such matters, the statutory auditors are expected to make their observations on the basis of a review of branch auditors LFARs. Where the auditors have any reservations or adverse remarks with regard to any of the matters to be dealt with in their LFARS. They may give the reasons for the same. Also where relevant, instances of situations giving rise to their reservations or adverse remarks may also be given.

1. Share holding pattern:

Share capital from member societies, individuals and Govt. and whether share holding of govt. exceeds 49% of the total capital. System of share linking to borrowings by member societies/borrowers.

II. ADVANCES:

1. Credit Appraisal.

Experience of well laid down system of appraisal of loan credit proposals, including adequacy of information for appraising the credit worthiness of the applicant, and adherence thereto. Whether exposure norms stipulated by RBI provisions of Tripura Cooperative Societies Act are violated.

2. Sanctioning/Disbursement.

Delegation of powers/authority at various, levels, adherence to authorised limits, whether limited are disbursed after complying with terms and condition of sanction.

3. Documentation.

***** System of ensuring that documents are executed as per the terms of sanction.

***** Nature of documentation defects observed during audit and suggestions to avoid such defects.

- System of documentation in respect of joint/consortium advances.

- Renewal of documents.

Review/Monitoring/Supervision.

- Periodic balance confirmation/acknowledgement of debts.

- Receiving regular information, Stock/Book Debt statement. Balance Sheet, etc.

- Receiving audited accounts in the case of borrowers with limits beyond Rs. 1.00 lakh.

(direct advances, i.e. not routed through credit societies)
- System of scrutiny of the above information and follow-up by the bank.
- System of periodic physical verification or inspection of stocks, equipments and machineries and other securities.
- Inspection reports and their follow-up.
- Review of advances including enhancement of limits, etc.
- Review of facilities.
- Overall monitoring of advances through maturity/ageing/industry-wise analysis.

5. Bad/doubtful Advances.

a). Effectiveness of the system for compiling data relating to the impaired advances and the provision in respect thereof.

b). System for identification, quantification and adequacy of provision.

c). System for suspension of charging of interest and adherence thereto or making provision to unrealized interest taken to P & L a/c.

d). Ascertaining the realizable value of securities and the possible realization from guarantors assessment of the efficacy of rehabilitation programmes.

e). Provisions/write-offs under proper authority.

f). Recovery procedure, including that relating to suit-filed and decree accounts.

6. Large Advances.

Comments on adverse features considered significant and which need management's attention.

7. Imbalances.

No. of PACS with imbalances, imbalance in principal A/c and interest A/c of the DCCB, percentage of imbalances to total loans & advances a/c. Reasons and likely impact on bank.

III. FUNDS MANAGEMENT.

1. SLR/CRR Requirements – System of Ensuring Compliance.
- System of compiling weekly DTL position from branches.
- Records maintained for the above purpose.

2. Investments.
- System of purchase and sale of investments, delegation of powers, reporting system etc.
- Control over investments, including periodic verification/reconciliation of investments with books/records.
- Valuation: mode: changes in mode of valuation compared to previous year; shortfall and provision therefore.
- System relating to SGL/Bankers Receipts (BRs); control over SGL/BRs outstanding at the year end and their subsequent clearances.
- Whether RBI guidelines/provisions of the State Coop. Society Act/Rules/Bye-Laws violated.

V. INTERNAL CONTROL.

1. Written guidelines/instructions/manual for accounting aspects.

2. Balancing of Books/Reconciliation of control and subsidiary records.
- System of monitoring the position of balancing of books/reconciliation of control and subsidiary records.
- Follow-up action.

3. Inter-branch Reconciliation.
- Comments on the system/procedure and records maintained.
- Test check for any unusual entries put through inter-branches/head office accounts.
- Position of outstanding entries, system for locating long outstanding items of high value.

- Steps taken or proposed to be taken for bringing the reconciliation up-to-date.

4. Branch Inspections.

- System of branch inspections, frequency, scope/coverage of inspection/internal audit, concurrent audit or revenue audit; reporting. -System of follow-up of these reports, position of compliance.

5. Vigilance.

- Observations on major frauds discovered during the year under audit.
- System of follow-up on vigilance reports.

6. Suspense Account, Sundry Deposits, Etc.

- System for clearance of items debited/credited to these accounts.
-Test check for any unusual entries under these heads.

V. PROFITABILITY.

1. Analysis of variations in major items of incomes and expenditure compared to previous year, with important ratios.

2. Effect of any change in the accounting policies on profit/loss for the year. Whether overdue interest is taken to P & L A/c and if so, whether corresponding provision is made. Whether the bank has made adequate provision for impaired credits.

VI. OTHER MATTERS.

1. Accounting policies – their conformity with Accounting Standards.

2. Any major observations on branch returns and process of their consolidation in final statements of accounts.

3. Balances with other banks-observations-on outstanding items in reconciliation statements.

4. Any other matter which, the auditor considers, should be brought to the notice of management.

QUESTIONNAIRE IN CONNECTION WITH LONG FORM AUDIT REPORTS IN CASE OF BANK BRANCHES

The following paragraphs list the matters which the branch auditors of banks are expected to comment upon in their long form audit reports. Where the auditors have any reservations or adverse remarks with regard to any of the matters to be dealt with in their LFARs, they may give the reasons for the same. Also, where relevant, instances of situations giving rise to their reservation or adverse remarks may also be given. Where any of the comments made by the auditors in their LFAR is adverse, they should consider whether a qualification in their main reports is necessary. It should not, however, be assumed that every adverse comment in the LFAR would necessarily result in a qualification in the main report is necessary, the auditors would use their discretion in the facts and circumstances of each case.

ASSETS.

1. Cash:

a). Does the branches generally carry cash balances which vary significantly from the norms fixed by the Head Office?

b). Does the branch hold adequate insurance cover for cash ?

c). In cash maintained in effective joint custody of two or more officials as per instructions of the Head Office ?

d). Have the cash balances at the branch been checked at periodic intervals by the authorized officials of the bank ?

2. Balance with State Bank of India and Other Banks.

a). Were balance confirmation obtained in respect of outstanding balances as at the year end and whether the aforesaid balance have been reconciled ? If not, the nature and extent of differences be reported.

b). Your observation on the reconciliation statements may be reported in the

following manner ?
(i). Cash transactions remaining unresponded (give details):
(ii). Revenue items requiring adjustments/write-off (give details):
(iii). Old outstanding balances remaining unexplained/unadjusted for over one year (give year-wise details).
c). In case any item deserves special attention of the management, the same may be reported.

3. INVESTMENTS.
Has the Branch kept money at call and short notice or purchased/sold investments during the year? If so, whether instructions/guidelines, if any, laid down by Head Office/Controlling Authority have been complied with?
4. ADVANCES.
(The answer to the following questions may be based on the auditor's examination of all large advances and a test check of other advances. In respect of large advances, all cases of major adverse features, deficiencies, etc. should be reported. In respect of other advances, the auditor may comment upon the relevant aspects generally, along with instances of situations giving rise to his reservation or averse remarks. For purposes of the above, large advances are those in respect of which the outstandings are in excess of 1% of the aggregate advances of the branch or Rs. 1 lakh whichever is less).
a). Credit appraisal.
(i). In respect of advances sanctioned during the year under audit, have you come across cases where the branch has not obtained loan applications in appropriate forms prescribe by the Head Office ?
(ii). In your opinion, has the branches complied with the procedures/instructions of Head Office regarding preparation of proposals for grant/renewal of advances, enhancement of limits, etc., including adequate documentation in respect thereof.
(iii). What, in your opinion, are the major short coming in credit appraisals?
b). Sanctioning/disbursement.
- Have you come across case of credit facilities having been sanctioned beyond the delegated authority or limit of the branch? Are such cases reported to higher authorities?
- Have you comes across cases where limits have been disbursed without complying with the terms and conditions of the sanction?
c). Documentation.
(i). Have you come across cases of credit facilities released by the branch without execution of all the necessary documents? If so, give details of such cases.
(ii). In respect of advances examined by you, have you come across cases of deficiencies in documentation, value of security and inspection thereof or any other adverse features such as frequent/unauthorized overdrawing beyond limits, inadequate insurances coverage, non-registration of charges, etc.?
d). Review/Monitoring/Supervision.
(i). Is the procedure laid down by the Head Office for periodic review of advances including periodic balance confirmation/acknowledgement of debts. Followed by the Branch?
(ii). Are the stock/book debt statements and other periodic operational data and final statements etc., received regularly from the borrowers and duly scrutinized? Is suitable action taken on the basis of such scrutiny in appropriate cases?
(iii). Indicate the cases of advances to non-corporate entries with limits beyond Rs. 10 lakh where the Reserve Bank of India guidelines with regard to compulsory audit have not been complied with.

(iv). Has the inspection or physical verification of security charged to the Bank been carried out by the branch as per the procedure laid down by the Head Office?

(v). Has the branch identified and classified advances into Standard/Substandard/ Doubtful/Loss Assets in line with the norms prescribe by RBI? (The auditor may refer to the relevant H.O. instructions for identification of non-performing assets and classification of advances).

If you disagree with the branch classification, give details of such advances with reasons.

(vi). Have you come across cases where the Board of Controlling Authority has authorized legal action for recovery of advances or discontinuance of application of interest on doubtful advances or recalling of advances but no such action was taken by the branch?

(vii). Have all irregular, sticky/sick advances been reported to the controlling authority promptly? Also state whether any rehabilitation programme in respect of such advances has been undertaken, and if so the status of such programme.

(viii). Have appropriate claims for insurance and subsidies, if any, duly lodged and settled? If not, indicate the number of cases and the amounts involved.

(ix). List the major deficiencies in credit supervision.

6. OTHER ASSETS.

a). Stationery and Stamps.

Does the system of the bank ensure adequate internal control over issue and custody of stationery comprising of security items (Terms Deposit Receipts, Drafts, Pay Orders, Cheque Books, Traveler's Cheques, Gift cheques, etc.)?

b). Suspense Accounts/Sundry Assets.

(i). Does the system of the bank ensure expeditious clearance of items debited to Suspense Account? Details of old outstanding entries may be obtained from the management and the reasons for delay in adjusting the entries be ascertained. Does the scrutiny of the accounts under various sub-heads reveal balances; which in your opinion are not recoverable and would require a provision/write-off? If so, give details thereof.

(ii). Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved.

II. LIABILITIES.

Bills payable, Sundry Deposits, etc.

(i). The number of items and the aggregate amount of old outstanding items pending for 3 years or more may be obtained from the management and reported under appropriate heads. Does the scrutiny of the accounts under various sub-heads reveal old balances? If so, give details thereof.

(ii). Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved.

III. PROFIT AND LOSS ACCOUNT.

1. Has the test checking of interest revealed excess/short credit of material amount? If so, give details thereof.

2. Has the branch complied with the Income Recognition norms prescribed by RBI? (The auditor may refer to the H.O. instructions regarding charging of interest on nonperforming assets).

3. Has the check of interest on deposits revealed any material discrepancies.

4. Are there any divergent trends in major items of income and expenditure which are not satisfactorily explained by the branch? If so, the same may be reported upon. For this purpose an appropriate statement may be obtained from the branch management explaining the divergent trends in major items of income and expenditure.

5. Indicate the effect of changes, if any, in accounting policies on the items of income and expenditure. (The auditor may refer to the instructions of the H.O. regarding changes in accounting policies).

IV. GENERAL.

1. Books and Records.

a). Does general scrutiny of the books of account indicate whether they have been properly maintained, with balances duly inked out and authenticated by authorized signatories?

b). Indicate the position relating to balancing of the books examined.

2. Reconciliation of Control and Subsidiary Records.

Have the figures of the control and subsidiary records been reconciled as at the yearend? If not, the last date upto which such figures have been reconciled should be given under the respective heads, preferably in the following in the following proforma:

'Head of Account. Balance as at ………

(specify date) Reconciled up to

As per General

Ledger

As per Subsidiary

Ledger

3. Inter-branch Accounts.

a). Indicate the date upto which reconciliation in various accounts pertaining to interbranch transactions (e.g. Demand Drafts paid/payable) is available with the branch. A yearwise break-up of outstanding entries in the inter-branch accounts, together with a statement of the reason for their remaining outstanding and the steps being taken by the management in respect thereof, should be obtained from the management and reported in the following format:

131

Year Debits Credits

No. of entries Amount(Rs) No. of entries Amount(Rs)

Statements of reasons:

Statement of steps being taken by the management:

b). Does your test check indicate any unusual entries put through inter-branch/H.O. accounts? If so, report their nature and the amounts involved.

c). Are long outstanding items of high identified regularly and action taken thereon?

4. Previous Reports.

In framing your audit report, have you considered the major adverse comments arising out of the latest reports of the previous auditors, concurrent auditors or internal auditors, or in inspection report of NABARD? State the various adverse features persisting in the branch, though brought out in these audit/inspection reports.

5. Frauds.

Furnish particulars of frauds discovered during the year under audit at the branch, together with your suggestions, if any, to minimize their recurrence.

6. Miscellaneous.

a). Does the examination of the accounts indicate possible window dressing?

b). Are there any other matters which you, as branch auditor, would like to bring to the notice of the management or the central statutory auditors?

ANNEXURE 'G'

Ref. Chapter – 11.10

Memorandum of instructions – Income recognition, assets classification, provisioning and other related matters – Accounting procedure.

Enclosure to circular UBD. NO. 1 & L. (PCB) 46/12.05.00/94/95 dated 28th
February 1995.

Accrued Interest on Performing Advances.

i). It has been clarified in circular UBD. No. 1 & L. 71/J.I/92-93 dated 17th June 1993 that accrued interest in respect of performing advances may be charged to borrowal account and taken to income account. I11ustratively, if the accrued interest is Rs. 10,000/- in respect of performing advances of a borrower '**X**' (cash credit, overdraft, loan account etc.) the following entries can be passed in the Books of Account.

(Dr) Borrower's account (CC, OD Loan) Rs. 10,000.00

(Cr) Interest account Rs. 10,000.00

ii). In case the accrued interest of Rs. 10,000/- in respect of the borrowal account is not actually realized at the end of the same accounting year the amount of accrued interest will have to reserve by passing the following entries:

(Dr) (P & L a/c) Rs. 10,000.00

(Cr) Overdue Interest Reserve Account Rs. 10,000.00

iii). In case accrued interest is realized subsequently the following entries may be passed:

(Dr) Overdue Interest Reserve Account Rs. 10,000.00

(Cr) Interest Account Rs. 10,000.00

II. Accrued Interest on Non-performing Advances:

Accrued interest in respect of non-performing advances may be debited to 'Interest Receivable Account' and corresponding amount credited to 'Overdue Interest Reserve account.' For example if the interest accrued in respect of Cash Credit/OD/Loan etc. account of borrower 'Y' is Rs. 20,000/- the accounting entries may be passed as under:

i). (Dr) Interest Receivable Account Rs. 20,000.00

(Cr) Overdue Interest Reserve Account Rs. 20,000.00

ii). Subsequently, if interest is actually realized, the following accounting entries may be passed:

(Dr) Cash/Bank Account Rs. 20,000.00

(Cr) Interest Account Rs. 20,000.00

(Dr) Overdue Interest Reserve Account Rs. 20,000.00

(Cr) Interest Receivable Account Rs. 20,000.00

III. Exclusion of Overdue Interest Reserve from Loans and Advances for Making Provisions.

As indicate at item 1 above, banks can charge to borrowal account accrued interest and take to income account in respect of performing advances. In case the amount of accrued interest is not realized as at the end of the same accounting year, the same should be reserved by debit to profit & loss account and corresponding amount credited to Overdue Interest Reserve Account. While making provisions, however, the amount held in 'Overdue Interest Reserve Account' in respect of performing advances/assets should be deducted from the aggregate loans and advances.

IV. Accounting of Overdue Interest in Loan Ledgers & Balance-Sheet.

i). With a view to facilitating the banks to works out the amount of interest receivable in respect of each non-performing borrowal account, banks can consider opening a separate column in the individual ledger accounts of such borrower's and interest receivable shown therein. This would enable the banks to determine at a particular point of time, the amount of interest actually to be recovered from the borrowers. Total of the amounts shown under the separate columns in the loan ledgers would be interest receivable in respect of nonperforming advances and it would get reflected as such on the 'assets' side of balance sheet with a corresponding item on the liabilities side of the balance-sheet as 'Overdue Interest Reserve.'

ii). Similarly, a separate column should be provided in the loan ledger in respect of performing advances for showing overdue interest if not realized on 31st March every year so that total thereof could be shown separately under overdue interest reserve a/c on 'liabilities' side of balance sheet. It is further clarified that while overdue interest in respect of performing advances gets integrated with the overall outstanding balances, it is shown separately in respect of non-performing advances under 'interest receivable account' on the 'assets' side of balance sheet.

iii). Banks should also show the quantum of 'Overdue Interest Reserve Account' on 'liabilities' side-item 8 of balance sheet. Since the above account would contain overdue interest reserves both in respect of performing as well as non-performing assets, it is advised to maintain separate records in respect thereof to facilitate the bank and RBI Inspecting Officers to know the relative amounts without any difficulty.

ANNEXURE – 'G'

Ref. Chapter – 11.10.

Format of Long Form Audit Report (UBD)

PART – 1

A. Introductory:

i). Name of the bank.

ii). Date of registration.

iii). Whether licensed by RBI under Section 22 of the Banking Regulation Act, 1949 (As applicable to Cooperative Societies)

iv). Last audit report dated ………..
for year ended 31st March………….

v). Whether the bank has furnished satisfactory compliance to the Pervious Audit Report.

vi). Year/Period of Present Audit.

vii). Name of the Auditor and year since when he has audited this bank.

viii). Date of last proforma balance sheet of inspection of RBI and the period covered

ix). Whether the bank has furnished satisfactory compliance to RBI inspection report.

B. MANAGEMENT:

Auditor may cover the following aspects:

i). Overall functioning of the Board of Management, Committees constituted by the Board, Chairman and Chief Executive Officer.

ii). Regularity in holding meetings of the Board/Committees, Annual General Meeting/Special General Meetings.

iii). Whether the constitution of the Board of Management and the election of Office Bears is in accordances with the Bye-laws/State Cooperative Societies Act.

iv). Involvement of Board in formulation of Policies and mobilization of resources, deployment

of credit, investment of surplus funds, lending to priority
sector/weaker section, review of overdues/NPAs
and action taken against defaulters, recruitment, training,
review of the RBI inspection reports/audit report.
v). Observance of guidelines issued by RBI
on Do's and Don'ts for Directors.
vi). Periodical review of various aspects of
bank's working as per guidelines of RBI.
vii). Donations made by banks.
C: MEMBER SHIP:
Membership Pattern (Regular/Nominal membership,
compliance with the bank's bye laws/State Cooperative
Societies Act. in enrolment of membership, etc.)
D: Achievement of Viability Norms Fixed by RBI.
i). Share Capital
ii). Reserves
iii). Deposits
iv). Advances
135
v). Working Capital
E: Compliance with Provision of Banking Regulation Act, 1949 (AACS)/State Cooperative
Societies Act/Bank's Bye-Laws:
Infringement of the provisions of B. R. Act, the bank's bye-laws and State Cooperative
Societies Act, may be brought out indicating the nature of violation and relevant provisions
thereof. Special attention is to be paid in respect of the following aspects.
i). Purchase/disposal of fixed assets.
ii). Incurring of expenditure
iii). Creation of charge on assets
iv). Borrowings from other banks/institutions
v). Investments with other banks/institutions
A: Internal Control:
i). Whether the bank has prepared any manual/
guidelines/instructions for accounting aspects
and maintenance of books of account.
ii). System regarding balancing of books of account
and reconciliation of subsidiary/control records.
Actual position of balancing of books.
iii). System of monitoring the position of balancing of books
and follow up action to bring the position up to date.
iv). System of accounting inter-branch transactions
and position regarding reconciliation of outstanding entries.
B. Branch Control and Inspections:
i). Whether the bank has developed a proper
branch reporting system and prescribed control
returns for submission by branches to Head Office.
ii). System of monitoring for prompt submission
of returns and scrutiny at the Head Office.
iii). Follow up action of the irregularities noticed in particular
on the exercise of discretionary powers by branch managers.

iv). Periodicity of internal inspection of
branches and adherence to schedule.
v). Whether the coverage in the inspections
reports is comprehensive.
136
vi). System of follow up action of inspection
reports and submission of compliance reports.
vii). Whether the major irregularities/frauds and
misappropriations have been brought to the notice
of Board of Management and proper action has been
taken against those responsible. Details to be furnished.

PART - III

LIABILITIES

A: Deposits:

i). Growth of deposits, deposit-wise high cost
and low cost of deposits visa-a-vis targets
fixed for mobilization of deposits.
ii). Whether RBI directives on interest
rates on deposits are adhered to.
iii). Whether the bank has resorted
to window dressing of deposits.
iv). Whether the bank has observed proper safeguards
while opening deposit accounts/obtained photographs.
v). Institutional deposits – whether the bank
was getting large amounts of institutional
deposits to cover the over-extended position.

B: Borrowings:

i). Particulars of limits availed of by the banks
from SCB/DCCB/NATIONALISED BANKS.
ii). Whether the borrowings are occasional/
continuous and resorted to sustain the
over-extended position of lendings.
iii). Whether the borrowings are warranted
visa-a-vis resources/lending programme.
iv). Whether the bank was resorting to borrowings
to meet its CRR/SLR requirements.
v). Any impact on the profitability of the bank.
137

C: Other Liabilities:

The large amounts outstanding under this head may be examined.

D. Contingent Liabilities:
(Non-fund based liabilities)

i). Letter of Credit opened by the bank and
bills received thereunder to be examined.
ii). Whether letter of Credit limits have been
sanctioned taking into account the credit worthiness
of the borrower.
iii). Whether guarantees have been issued
taking into account party's networth and by
obtaining proper security/counter-guarantee.

iv). Please examine the guarantees invoked,
claims paid by the bank and steps taken
for recovery from the parties.
v). Whether the bank has followed guidelines
issued by RBI while issuing unsecured guarantees.

E: Profit and Loss Account:

i). A comparative study of profitability and major
variations observed in income and expenditure.
ii). Revenue leakage, if any, observed.
iii). Whether the bank was taking unrealized
interest on loans and advances into income
account and if so, whether sufficient provisions
have been created there against as per RBI guidelines.
iv). Appropriation of profits to various funds as per
state Cooperative Societies Act. to be examined.

PART –IV

ASSETS:

A: Cash and Bank Balances:

Cash:

(a). Does the branch generally carry cash balance which vary significantly from the limits fixed by the Head Office? If the bank has not fixed any limits for the purpose, indicate whether the cash balance held by the bank's branches are in accordance with the day-to-day requirements.

(b). Does the branch hold adequate insurance cover for cash?
(c). Is cash maintained in effective joint custody to two or more officials, as per instructions of Head Office?
(d). Have the cash balance at the branch been checked at periodical intervals by the authorized officials of the bank?

Balances with Reserve Bank of India, State Bank of India and Other banks:

(a). Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? If not, the nature and extent of differences be reported.
(b). Your observations on the reconciliation statements may be reported in the following manner:
i). Cash transactions remaining unresponded (give details):
ii). Revenue items requiring adjustment/write-off (give details):
iii). Old outstanding balances remaining unexplained/unadjusted for over one year (give year-wise details):
(c). In case any item deserves special attention of the management, the same may be reported.

B. Money at Call and Short Notice:

i). Whether the Board has prescribed any guidelines and delegated powers to CEO/Brach Managers for placing funds in call deposit with other banks.
ii). Whether the funds have been placed in accordance with guidelines and within the powers delegated.

C: Investments:

(a). (i). Whether the Board of Management has laid down broad policy for investments funds.
(ii). Whether the investments in Government and other approved securities are

conformity with RBI guidelines.
(iii). Whether the bank's investments in PSU bonds etc. are in accordance with RBI guidelines.
139
(iv). Whether the bank has provided for deprecation on the holdings in Government and other approved securities, etc. as per RBI guidelines.
(b). i). System of purchase and sale of investments, delegation of powers, reporting systems, etc.
ii). Controls over investment, including periodic, verification/reconciliation of investments with bank's records.
iii). Valuation, mode changes in mode of valuation compared to previous year; shortfall and provision therefore.
iv). System relating to SGL/BRs, control over SGL/BRs outstanding at the yearend and their subsequent clearance.
D. Funds Management:
i). System of ensuring compliance with SLR/CRR.
ii). System of compiling DTL position from branches.
iii). Defaults in CRR/SLR and reasons therefore.
iv). Payment of penal interest to RBI over defaults.
E: Advances:
(a). Credit appraisal System:
i). Whether there is a well laid-down system of credit appraisal of loans/cash credit applications.
ii). Whether loan applications have been designed to elicit essential information/particulars to make proper assessment of the credit worthiness of the applicant.
(b). Sanctioning/Disbursement:
To examine the delegation of powers/authority at various levels. Adherence to authorized limits and whether limits are disbursed after complying with terms and conditions.
Compliance to prudential exposure limits as per the Reserve Bank of India guidelines.
(c). Documentation:
i). System of ensuring that documents are executed as per the terms of sanction.
ii). Nature of documentation defects observed during audit and suggestions to avoid such defects.
140
iii). System of documentation in respect of joint/consortium advances.
iii). Renewal of documents.
(d). Review/Monitoring/Supervision:
i). Periodic balance confirmation/acknowledgement of debts.
ii). Receiving regular information, Stock/Book debt statements, Balance sheet etc.
iii). Receiving audited accounts in the case of borrowers with limits beyond Rs. 10 lakhs.
iv). System of scrutiny of the above information and follow-up by the bank.
v). System of periodic physical verification or inspection of stocks, equipments and machineries and other securities.
vi). Inspection report and their follow-up.
vii). Review of advances including enhancement of limits, health code

classification, etc.
viii). Renewal of facilities.
(e). Concentration of advances:
Any under concentration of advances/Industry-wise/group-wise/security-wise.
(f). Large advances:
Large advances depicting undesirable features requiring Management's attention.
(g). Advances to directors and their relatives:
i). Whether the advances to directors and their relatives are in conformity with RBI guidelines.
ii). Whether usual formalities connected with appraisal, sanction/disbursement/documentation have been followed.
F: Write off/Compromise proposals:
Whether write off/compromise proposal have been made in accordance with the procedure laid down in the State Cooperative Societies Act.
G: Remission of Debts:

Whether the bank has allowed remission of debts of directors in contravention of section 20 A of Banking Regulation Act, 1949 (as applicable to Cooperative Societies) and relevant provision of State Cooperative Societies Act.
H: Position of Overdues:
(1). (a). Classify total overdues of the bank according to duration as under:-
i). Overdues of more than 5 years standing Rs.
ii). Overdues of more than 3 years standing Rs.
iii). Overdues of more than 1 years standing Rs.
iv). Overdues of less than 1 years standing Rs.
Total: Rs
(b). Classify the overdues according to the security as ascertained from the bank
i). Overdues which are good and fully secured Rs…………………….
ii). Overdues which are good and secured by guarantees or sureties Rs……….
iii). Overdues which are doubtful against which Rs………………………………
are provided in the bad debt reserves.
(c). Give total amount covered by cases under arbitration by giving details regarding the number of cases pending with Registrar's nominee, the number of awards pending with the bank and under execution, etc.
(2). Are adequate steps being taken to recover overdues loans and cash credits?
(3). What is the amount of overdues interest? Is it duly provided for, if taken into P & L account?
I: Income recognition, assets classification and provisioning towards NPAs:
i). Whether the bank has implemented the guidelines issued by RBI and evolved a proper system for classification of assets and for making provisions.
ii). Whether the bank has followed the guidelines for creation of overdue interest reserve in respect of unrealized interest, issued by RBI and/or State Cooperative Societies Act.
iii). A classification of assets and provisions made therefor may be prepared in the enclosed format, as on the date of balance sheet.

J: Frauds, embezzlement and misappropriation:
i). Modus operandi, factors responsible for perpetration of frauds, misappropriation steps taken to streamline the systems and procedures so as to prevent recurrence, staff accountability, etc.

ii). Losses likely to be suffered by the bank and whether adequate provision has been made there against.

K: Other activities:

(a). Stock Invest Scheme.

ii). Whether payment arrangements have been made at designated centers as per SEBI guidelines.

iii). Whether proper arrangements for joint custody of stock invest have been made and proper control register maintained.

(b). Merchant Banking Business:

i). Whether the bank is adhering to conditions/instructions prescribed by RBI/SEBI, while giving permission for undertaking such business.

ii). Whether there has been any development of shares/Debentures on account of under writing of issues? If so, the extent of development shares/debentures and steps taken for their disposal.

©. Credits Cards:

i). Adherence to guidelines issued by RBI.

ii). Whether there is any undue delay in raising claims.

iii). Amounts of bad/doubtful debts and provisions made there against.

(FORMAT)

Statement showing classification of Non-performing assets as on the date of balance sheet.

Amount of Provision
Classification
Principal
amount
outstanding
Interest
outstanding
Total
outstand
ing
% to total
advances Required actually
To be made made

I. Standard Assets.

II. Sub-Standard Assets.

III. Doubtful Assets
(Secured & unsecured
to be given separately)

(a). Up to 1 year

(b). Above 1 year & below 3 years

©. Above 3 years

IV. Loss Assets

Provisions at the end of previous year Rs...........................

Provision made during the year Rs…………………

Total Rs…………………

Note: While classifying loss assets, auditor may take into account R.B.I.'s last inspection report estimating the erosion in assets.

ANNEXURE - H

6. INCOME TAX ACT, 1961.

The term ‘person’ for the purpose of assessment of income tax Act. has been defined in clause 31 of section 2 of the Income tax Act. It may be relevant to point out that the Act. does not specify that cooperative society is an assessee for the purpose of the Act. But Section 80 of the Act begins with the words, “where in the case of assessee being a cooperative society_________” and this shows that cooperative society is an assessee under the Income Tax Act.

The Cooperative Societies are body corporate. The rates of income tax on cooperative societies are to be assessed as per circular issued time to time by the Income Tax Department, Govt. of India.

The relevant provision in the Income Tax Act. for determining the exemption limit and the levy of income tax on the income of cooperative societies are incorporated under section 80 p. Section 80 p. deals with the deduction in respect of income of cooperative societies while computing their income for taxation purpose. The provisions are mentioned below:-

Section 80 p. (1) Where in the case of an assessee being a cooperative Society, the gross total income includes any income referred to in sub-section (2) there shall be deducted, in accordance with and subject to the provision of this section, the sums specified in subsection (2) computing the total income of the assessee.

(2). The sums referred to in sub-section (1) shall be the following, namely:-

(a). In the case of a cooperative society engaged in:-

144

(i). carrying on the business of banking or providing credit facilities to its members,

(ii). a cottage industry, or

(iii). the marketing of the agricultural produce of its members, or

(iv). the purchase of agricultural implements, seed, live-stock or other articles intended for agricultural for the purpose of supplying them to its members, or

(v). the processing, without the aid of power, or of the agricultural produce of its members, or

(vi). the collective disposal of the labour of its members, or

(vii). fishing or allied activities, that is to say, the catching, curing, processing, preserving storing or marketing of fish or the purchase of material and equipments in connection therewith for the purpose of supplying them to its members,

Whole of the amount of profits and gains of business attributable to any one or more of such activities;

Provided that in the case of a cooperative society falling under sub-clause **(vi)** or sub-clause **(vii)** rules and bye-laws of the society restrict the voting right to the following classes of its members, namely:

1. the individuals who contribute their labour or, as the case may be, carry on the fishing or allied activities;

2. the cooperative credit societies which provide financial assistance to the society;

3. the State Government.

(b). in the case of cooperative society, being a primary society engaged in supplying milk raised by its members to a federal milk cooperative society, the whole of the amount of profits and gains of such business;

©. in the case of cooperative society engaged in activities other than those specified in clause (a) or clause (b) either independently of or in addition to, all or any of the activities so specified so much of its profits and gains attributable to such

activities as does not exceed Rs. 20,000/-
(e). in respect of any income derived by the cooperative society from the letting of godowns of warehouse for storage, processing or facilitating the marketing of commodities, the whole of such income,
(f). in the case of a cooperative society, not being a housing society or an urban consumers' society or a society carrying on transport business or as society engaged in

the performance of any manufacturing operations with the aid of the power, where the gross total income does not exceed Rs. 20,000/- the amount of any income by way of interest on securities chargeable under section 18 or any income from house property chargeable under section 22.
Explanation – For the purpose of this section, an "Urban Consumers Cooperative Society" means a society for the benefit of the consumers within the limits of a municipal corporation, municipality, municipal committee, notified area committee, town area or cantonment.
(3). In the case where the assessee is entitled also to the deduction under section 80-H or section 80-J the deduction under sub-section (1) of this section in relation to the sum specified in clause (a) or clause (b) or clause (c) of sub-section (2), shall be allowed with reference to the income, if any, as referred to in those clauses included in the gross total income as reduced by the deductions under section 80-H and 80-J.
Section 80G: (1) In computing the total income of an assessee, there shall be deducted in accordance with and subject to the provisions of this section, an amount equal to –
(a). Where the assessee is a company, fifty percent; and
(b). in the case of any other assessee fifty five percent of the aggregate of the sums specified in sub-section (2).
(2). The sums referred to in sub-section (1) shall be the following, namely:-
(a). any sums paid by the assessee in the previous year as donation to;
i). the National Defence Fund set up by the Central Government; or
ii). the Jawaharlal Nehru Memorial Fund referred to in the Deed of Declaration of Trust adopted by the National Committee at its meeting held on the 17th of August, 1964; or
iii). the Prime Minister's Drought Relief Fund; or
iv). any other fund or any institution to which this section appliers; or
v). the Government or any local authority, to be utilized for any charitable purpose.
(b). any sums paid by the assessee in the previous year as donation year as donations for the renovation or repairs of such temple, mosque, gurudwara, church or other place as is notified by the Central Government in the Official Gazette to be of historic, archeological or artistic importance or to be a place of public worship of renown throughout any state or states,
(3). No deduction shall be allowed under sub-section (1) if the aggregate of the sums referred to in sub-section (2) is less than two hundred and fifty rupees.
(4). The deduction under sub-section (1) shall not be allowed in respect of such part of the aggregate of the sums referred to in sub-clauses (iv) and (v) of clause (a) and in clause (b)

of sub-section (2) as exceeds ten percent of the gross total income (as reduced by any portion thereof on which income tax is not payable under any provision of this Act and by any amount in respect of which the assessee is entitled to a deduction under any other provision of this chapter), or two hundred thousand rupees, which ever is less:

Provided that if such aggregate included any sums referred to in clause (b) of subsection (2) and such aggregate exceeds the limit of two hundred thousand rupees specified in this sub-section, then such limit shall be raised to cover that portion of the donation which is equal to the difference between such aggregate and the said limit, so however, that the limit so raised shall not exceed ten percent of the assessee's gross total income as reduced as aforesaid or five hundred thousand rupees, which ever is less.

Section 80-H: (1) Where the gross total income in any assessee includes profits and gains derived from any industrial undertaking to which this section applied, there shall be allowed in accordance with and subject to the provisions of this section, a deduction from such profits and gains of an amount equal to 50% thereof in computing the total income of the assessee, so however, that the amount of the deduction under this section shall not, in any case, exceed one hundred thousand rupees.

(3). The provisions of this section shall in relation to an industrial undertaking, apply to the assessment year relevant to the previous year in articles and the nine assessment years immediately which the undertaking beings to manufacture or produce succeeding.

Section 80-J: (1) Where the gross total income of the assessee includes any profits or gains derived from an industrial undertaking or a ship or the business of a hotel, to which this section applied, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction from such profits and gains reduced by the deduction, if any, admissible to the assessee under section 80-H of so much of the amount thereof as does not exceed the amount calculated at the rate of 6 percent per annum on the capital employed to the industrial undertaking or ship or business of the hotel, as the case may be, computed in the prescribed manner in respect of the previous year relevant to the assessment year (the amount calculated) as aforesaid being hereafter, in this section referred to as the relevant amount of capital employed during the previous year.

(2). The deduction specified in sub-section (1) shall be allowed in computing the total income in respect of the assessment year relevant to the previous year in which the industrial undertaking beings to manufacture or produce articles or to operate its cold storages plant or plants or the ship is first brought into use or the business of the hotel start functioning (such assessment year) being, hereinafter, in this section, referred to as the initial assessment years and each of the four assessment years immediately succeeding the initial year.

Provided that in the case of an assessee being a cooperative society, the provisions of this section shall have effect as if for the words "four assessment years" the word "six assessment years" has been substituted.

****

Revised Audit Scale ANNEXURE-I(A)-I

Sr. Revised Audit Scale
No SCBs CCBs
Remarks
1.
A
Capital Adequacy 5
(Capital to Risk Weighted Assets)
> 8%
5% to 8%
2% to 3%
Less than 2%
5
3
2
1

A
Capital Adequacy 5
(Capital to Risk Weighted Assets)
> 8%
5% to 8%
2% to 3%
Less than 2%
5
3
2
1
If CRAR
is
negative,
no
marks is
to be
given.
B Asset Quality 20 B Asset Quality 20
1
Level of NPA 10
Upto 5%
6% to 10%
11% to 15%
16% to 20%
> 20%
10
8
6
4
Nil
1
Level of NPA 10
Upto 5%
6% to 10%
11% to 15%
16% to 20%
> 20%
10
8
6
4
Nil
2
Positive efforts to reduce NPA 5
If NPA reduced by over 80%
If NPA reduced by 60 to 80%
If NPA reduced by 40 to 59%
If NPA reduced by 25 to 39%
Less than 25%
5
3
2
1
Nil
2
Positive efforts to reduce NPA 5
If NPA reduced by over 80%
If NPA reduced by 60 to 80%
If NPA reduced by 40 to 59%
If NPA reduced by 25 to 39%
Less than 25%
5
3
2

1
Nil
2.
3
Percentage of provisioning made 5
To provisioning required to be made
100%
76% to 99%
51% to 75%
25% to 50%
Less than 25%
5
3
2
1
Nil
3
Percentage of provisioning made 5
To provisioning required to be made
100%
76% to 99%
51% to 75%
25% to 50%
Less than 25%
5
3
2
1
Nil
148
C Efficiency of Management 7 3 C Efficiency of Management 5
Auditors to use their discretion
depending upon the observation
made by them (Regular holding of
meeting. whether more than
minimum number of meetings
required to be held, actually held,
development issues like deposit
mobilisations, diversification of loans
and advances, a review of recovery
performance, investment review,
audit report review, NABARD
inspection report review and review
of compliance, etc. by the Board of
Management). If no Elected Board,
then the auditors will have to assess
the performance of the administrator.
Board of Directors (Prof.) & functioning
etc.
Auditors to use their discretion
depending upon the observation made
by them (Regular holding of meeting,
whether more than minimum number
of meetings required to be held, actually
held, development issues like deposit
mobilisations, diversification of loans
and advances, a review of recovery
performance, investment review, audit
report review, NABARD inspection
report review and review of
compliance, etc. by the Board of
Management). If no Elected Board, then
the performance of the administrator.
D Rotation of Staff 2
Auditors to use their discretion
D Rotation of Staff 2
Auditors to use their discretion

In vogue in
existing
norms
E
Computerisation 5
i) All branches and Head Office
computerised
ii) 75% of branches and HO
computerised
iii) 50% of branches and HO
computerised
iv) 25% of branches and HO
computerised
Less than 25%
5
3
2
1
Nil
E
Computerisation 5
i) All branches and Head Office
computerised
ii) 75% of branches and HO
computerised
iii) 50% of branches and HO
computerised
iv) 25% of branches and HO
computerised
Less than 25%
5
3
2
1
Nil
F
Earnings 5
F Earnings 5
4
1
Operating profit 2
If operating profit is more than
provisions required to be made.
If operating profit earned can cover
only 75% of the provision required to
be made.
If operating profit earned can cover
only 50% of the provision required to
be made.
If operating profit earned could cover
only 40% of the provision required to
be made.
If operating profit earned could cover
only less than 40% of the provision
required to be made.
2
1.5
1.0
0.5
Nil
Operating profit 2
If operating profit is more than
provisions required to be made.
If operating profit earned can cover
only 75% of the provision required to be
made.
If operating profit earned can cover

only 50% of the provision required to be
made.
If operating profit earned could cover
only 40% of the provision required to be
made.
If operating profit earned could cover
only less than 40% of the provision
required to be made.
2
1.5
1.0
0.5
Nil
If no
operating
profit and
incurring
losses, no
marks to be
given in
respect of
operating
profit and
net profit.
149
2
Net profit 3
If net profit is earned after making
full provision required to be made
and contributed to various reserves as
per bye-laws and declared dividend.
Net profit earned but not adequate to
declare dividend.
Net profit not adequate to contribute
to any reserves.
3
2
1
2
Net profit 3
If net profit is earned after making full
provision required to be made and
contributed to various reserves as per
bye-laws and declared dividend.
Net profit earned but not adequate to
declare dividend.
Net profit not adequate to contribute to
any reserves.
3
2
1
G Liquidity 10 **G Liquidity 10**
1
Maintenance of CRR/SLR 5
(i) No CRR/SLR violation
(ii) If no CRR violated SLR
requirement on not more than three
occasions.
(iii) If no CRR violation but violated
SLR on more than 3 occasions.
(iv) CRR violated on more than 2
occasions but no SLR violations.
(v) Both CRR/SLR violated.
5
4
2
1

Nil
1
Maintenance of CRR/SLR 5
(i) No CRR/SLR violation
(ii) If no CRR violated SLR requirement on not more than three occasions.
(iii) If no CRR violation but violated SLR on more than 3 occasions.
(iv) CRR violated on more than 2 occasions but no SLR violations.
(v) Both CRR/SLR violated.
5
4
2
1
Nil
5
2
Repayment to higher financing agencies 5
(i) If no violation
(ii) Single violation
(iii) Violated twice
(iv) More than twice
5
4
2
Nil
2
Repayment of Borrowings 2
(i) If no violation
(ii) Single violation
(iii) Violated twice
(iv) More than twice
5
4
2
Nil
This parameter is a new addition
H
Resource Management 11
H Resource Management 11
1
Cash Management **2**
Auditors to use their discretion. (Bank should review the cash retention limit frequently for all branches Excess cash retained should not exceed 20% of the limit fixed, etc.
1
Cash Management **2**
Auditors to use their discretion. (Bank should review the cash retention limit frequently for all branches Excess cash retained should not exceed 20% of the limit fixed, etc.
New parameter

2
Investment Management 3
(i) If no SLR Violation (one or two violation can be ignored) exposure norms not exceeded, permission from

RCS/RBI taken, dealings through brokers as per guidelines, if done through SGL A/c all norms complied, securities are all on actual possession etc.
(ii) Single norm violation
(iii) Two norms violation
(iv) More than two norms violated
3
2
1
Nil
2
Investment Management 3
(i) If no SLR Violation (one or two violation can be ignored) exposure norms not exceeded, permission from RCS/RBI taken, dealings through brokers as per guidelines, if done through SGL A/c all norms complied, securities are all on actual possession etc.
(ii) Single norm violation
(iii) Two norms violation
(iv) More than two norms violated
3
2
1
Nil
3
Deposit mobilisation 3
Marks may be allotted taking into account extent of increase in deposits mobilised over the previous year.
Extent of increase
(i) 40% and above
(ii) 26% to 39%
(iii) 16% to 25%
(iv) 11% to 15%
(v) 10% and less
3
2
1.5
1
Nil
3
Deposit mobilisation 3
Marks may be allotted taking into account extent of increase in deposits mobilised over the previous year.
Extent of increase
(i) 40% and above
(ii) 26% to 39%
(iii) 16% to 25%
(iv) 11% to 15%
(v) 10% and less
3
2
1.5
1
Nil
In vouge
4
Deposit Insurance 3
(i) All assessible deposits properly assessed and all insurance premium paid in time.

(ii) Assessible deposits not properly
worked, but no delay in payment of
premium.
(iii) Assessible deposits not properly
worked out and also delayed the
payment of premium (delay in
respect of one half year).
(iv) Though registered with DICGC
but not paid premium for two half
year (on the date of audit).
(v) Defaulted in payment of premium
for more than two half year.
3
2
1
0.5
Nil
4
Deposit Insurance 3
(i) All assessible deposits properly
assessed and all insurance premium
paid in time.
(ii) Assessible deposits not properly
worked, but no delay in payment of
premium.
(iii) Assessible deposits not properly
worked out and also delayed the
payment of premium (delay in respect
of one half year).
(iv) Though registered with DICGC but
not paid premium for two half year (on
the date of audit).
(v) Defaulted in payment of premium
for more than two half year.
3
2
1
0.5
Nil

1 Systems and Controls 17 1 Systems and Controls 17
1
Internal Inspection and Audit 5
(i) If internal inspection and or audit
concurrent audit system is in place.
(ii) If internal inspection and or audit
is in place but no concurrent audit.
(iii) If any one of the system is in
place but delay noticed (delay less
than one year) and most of the
branches are covered [75% of
branches covered]
(iv) –do- Delay by more than one year
(75% of branches covered).
(v) – do- (less than 75% of branches
covered)
5
4
3
2
Nil
1
Internal Inspection and Audit 5
(i) If internal inspection and or audit
concurrent audit system is in place.
(ii) If internal inspection and or audit is
in place but no concurrent audit.

(iii) If any one of the system is in place
but delay noticed (delay less than one
year) and most of the branches are
covered [75% of branches covered]
(iv) –do- Delay by more than one year
(75% of branches covered).
(v) – do- (less than 75% of branches
covered)
5
4
3
2
Nil
2
Loans and Advances Policies 4
(i) Followed all guidelines, presanction
approval, post-sanction letter
issued indicating follow-up done and
sanction before undertaking all terms
and conditions.
(ii) If no post-sanction follow.
(iii) If no post-sanction follow-up and
sanction letter also not issued.
(iv) Only sanction letter issued
without any pre-sanction approval
and post-sanction follow-up.
(v) If none and merely allowed
drawals.
4
3
2
1
Nil
2
Loans and Advances Policies 4
i) Followed all guidelines, pre-sanction
approval, post-sanction letter issued
indicating follow-up done and sanction
before undertaking all terms and
conditions.
(ii) If no post-sanction follow.
(iii) If no post-sanction follow-up and
sanction letter also not issued.
(iv) Only sanction letter issued without
any pre-sanction approval and postsanction
follow-up.
(v) If none and merely allowed drawals.
4
3
2
1
Nil
6
3
Accounting Procedure 2
(i) Accounts finalised and financial
statements prepared without waiting
for audit and within three months
from the date of balance sheet.
(ii) –do- within four months from the
date of balance sheet.
(iii) –do- within six months from the
date of balance sheet.
(iv) Prepared with the help of
auditors only within six months from
the date of balance sheet.
(v) –do- delayed by more than six

months.
2
1.5
1
0.5
Nil
3
Accounting Procedure 2
(i) Accounts finalised and financial statements prepared without waiting for audit and within three months from the date of balance sheet.
(ii) –do- within four months from the date of balance sheet.
(iii) –do- within six months from the date of balance sheet.
(iv) Prepared with the help of auditors only within six months from the date of balance sheet.
(v) –do- delayed by more than six months.
2
1.5
1
0.5
Nil

4
House keeping (Books of Account, 2 Balancing Reconciliation)
(i) All books balanced with the general ledger including bank reconciliation and without any delay (within one month from the date of balance sheet). Dr/Credit summation done etc.
(ii) –do- within two months delay.
(iii) Some of the books not balanced and bank reconciliation not done though accounts were closed.
(iv) Books not balanced and waited for auditors to do the job.
2
1
0.5
Nil
4
House keeping 2
(i) All books balanced with the general ledger including bank reconciliation and without any delay (within one month from the date of balance sheet). Dr/Credit summation done etc.
(ii) –do- within two months delay.
(iii) Some of the books not balanced and bank reconciliation not done though accounts were closed.
(iv) Books not balanced and waited for auditors to do the job.
2
1
0.5
Nil
5
Customer Service 2
All the discretion of the auditors.
5

Customer Service 2
All the discretion of the auditors.
6
Risk Assessment System 2
At the discretion of the auditors.
6
Risk Assessment System 2
At the discretion of the auditors.
J Compliance 18 J Compliance 20
7
1
Seasonability Discipline Nil
1
Seasonablity Discipline 2
i) If recovered and remitted to SCB within the time schedule for Rabi and Kharif (in full).
(ii) –do- but not in full (80% of demand).
(iii) Fully recovered and remitted but only in respected of one season.
(iv) CCB remitted by drawing from its own funds i.e. without adequate recovery.
(v) If the discipline not observed or remitted less than 80% of demand.
2
1.5
1
0.5
Nil
invogue,
Seasonability
discipline is
not
applicable to
SCBs
153
2
Minimum involvement 3
(i) Fully met.
(ii) 80% but less than 100% of ML met.
(iii) Less than 80% and upto 71%
(iv) 60% and above and upto 70%
(v) less than 60%
3
2
1
0.5
Nil
2
Minimum involvement 3
i) Fully met.
(ii) 80% but less than 100% of ML met.
(iii) Less than 80% and upto 71%
(iv) 60% and above and upto 70%
(v) less than 60%
3
2
1
0.5
Nil
3
Compliance to Audit Report 3
(i) Fully complied and reviewed by Board within three months from the

date of issue.
(ii) –do- after three months but less than six months.
(iii) Partial compliance only within three months.
(iv) –do- after three months but less than six months.
(v) No compliance or compliance delayed by more than six months.
3
2
1
0.5
Nil
3
Compliance to Audit Report 3
(i) Fully complied and reviewed by Board within three months from the date of issue.
(ii) –do- after three months but less than six months.
(iii) Partial compliance only within three months.
(iv) –do- after three months but less than six months.
(v) No compliance or compliance delayed by more than six months.
3
2
1
0.5
Nil
4
Compliance to NABARD inspection Report 4
(i) All compliance given within three months from the date of issue.
(ii) Only core compliance given within 45 days and other compliance delayed by one month.
(iii) Both core and general compliance delayed but delay less than one month in both cases.
(iv) –do- but one of them delayed by more than 1 month.
(v) Both core and general compliance delayed by more than 1 month.
4
3
2
1
Nil
4
Compliance to NABARD inspection Report 4
(i) All compliance given within three months from the date of issue.
(ii) Only core compliance given within 45 days and other compliance delayed by one month.
(iii) Both core and general compliance delayed but delay less than one month in both cases.
(iv) –do- but one of them delayed by more than 1 month.
(v) Both core and general compliance delayed by more than 1 month.

4
3
2
1
Nil
154
5
Internal Returns 2
Discretion to be used by auditors.
5
Internal Returns 2
Discretion to be used by auditors.
6
External Returns 3
Discretion to be used by auditors.
6
External Returns 3
Discretion to be used by auditors.
7
Implementation of DAP/MOU 3
(i) All targets fully achieved.
(ii) Upto 90% of targets achieved.
(iii) Upto 80% of targets achieved.
(iv) Upto 70% of targets achieved.
(v) Less than 70% of targets achieved.
3
2
1.5
0.5
Nil
7
Implementation of DAP/MOU 3
(i) All targets fully achieved.
(ii) Upto 90% of targets achieved.
(iii) Upto 80% of targets achieved.
(iv) Upto 70% of targets achieved.
(v) Less than 70% of targets achieved.
3
2
1.5
0.5
Nil
Audit Classification
Marks Secured:
65 and above **A**
50 to 64 **B**
40 to 49 **C**
Below 40 **D**
Note: (1) Section 11 (1) Non-compliant banks should be awarded only “D” Class irrespective of
aggregate marks secured.
(2) If networth of equity is negative, percentage of NPA to loans outstanding shows an increasing trend i.e. Beyond 20% and the banks is facing or likely to face liquidity crunch then “ No marks be awarded to the parameter-Efficiency of Management.”__