



**DEPARTMENT OF CO-OPERATION**

**GOVERNMENT OF KERALA**

# **KERALA CO-OPERATIVE AUDIT MANUAL**

**PART - II**

**(Draft)**



## **PREFACE TO THE SECOND PART OF THE KERALA CO-OPERATIVE AUDIT MANUAL**

The revision of Kerala Co-operative Audit Manual is envisaged in a phased manner. The first part of the Audit Manual comprising the general audit guidelines was published earlier. The Second part deals with the audit of Credit Co-operatives. The structural changes taken place recently in the short term Co-operative Credit System ie, the delayering of three tier to two tier structure is considered while preparing this part of the Audit Manual. Hence the audit guidelines of District Co-operative Banks is excluded and much emphasis is given for the audit of Kerala State Co-operative Bank. Apart from Co-operative Credit System, audit procedures of Housing Co-operatives are also included in this part of the Manual. The third part shall be prepared incorporating the audit guidelines of non credit co-operatives such as Marketing, Processing, Consumer, Fisheries, Dairy, Labour Contract Cooperative societies etc.

We are thankful to the authorities for assigning this job to us.

On behalf of the Working Group on Revision of Kerala Co-operative  
Audit Manual

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3-09-2020

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chairman

# **KERALA CO-OPERATIVE AUDIT MANUAL**

## **PART II**

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## **PART II - AUDIT OF CREDIT CO-OPERATIVES**

### **Chapter I(1)**

#### **SHORT TERM AGRICULTURAL CREDIT CO-OPERATIVES**

#### **1. AUDIT OF KERALA STATE CO-OPERATIVE BANK**

- 1.1 Introduction
- 1.2 Major areas of consideration in Administrative Audit
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- 1.4 Laws applicable to the Kerala State Co-operative Bank
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## **1.1 Introduction**

As per Section 63 (10) of the KCS Act, the Administrative Audit of an Apex Co-operative institution is to be carried out by the Departmental auditors and financial audit is to be carried out by Chartered Accountants. Being an Apex Institution, the Kerala State Co-operative Bank has to undergo the processes of administrative audit as well as financial Audit. As per subsection (11) of section 63 of Kerala Co-operative Societies Act 1969, the audit report of the accounts of the Kerala State Co-operative bank which includes the report on administrative matters, shall be laid by the Government, before the Legislative Assembly, in the manner prescribed. The administrative audit is a process of evaluating the efficiency and effectiveness of the administrative procedures. It includes the assessment of policies, strategies and functions of the various administrative departments control of the overall administrative system etc. The objectives of administrative audit are as follows.

1. To understand the existing system and assess the strengths and weaknesses of each departments/ branches/units and to suggest the methods of improvement for overcoming the weaknesses.
2. To identify the bottlenecks in the existing administrative mechanisms.
3. To identify the opportunities for betterment of the administrative mechanism.
4. To evaluate the optimum utilization of resources, including financial as well as human resources.
5. To evaluate the policies and programmes and suggest for its improvement or replacement.

In administrative audit, the auditor has to ensure rectification of observations/defects pointed out in the earlier audit reports and inspection reports. He has to gather as much information and data to understand the implication of the business transactions of the bank. He shall communicate all his observations to the management and seek clarifications, and defects which are not rectified shall be included in the final audit report. The auditor shall see that cost effectiveness, cost control and internal control systems are properly and effectively implemented in the bank.

### *1.2 Major areas of consideration in Administrative Audit.*

- A. Formulation of the business plans of the institution.
- B. Implementation of the of business plans in a comparatively cost effective and efficient manner.
- C. The propriety of the decisions taken by the management.
- D. The economy of each transaction should be evaluated by the auditor so as to ensure reasonable profitability to the institution. The rate of return on the funds invested or expended should be examined by the auditor in order to ensure maximum return.
- E. The management decision making is crucial to the growth and progress of the institution, hence the auditor should see that the management's decision making was efficient and expeditious.
- F. The auditor has to verify the planning, control, and co-ordination of the management functions and see that they achieve the optimum results.
- G. The business results should be analyzed scientifically so that a true economic picture of the institution is revealed.

Example: ratio analysis involving various parameters.

- H. The most important duty of the auditor with respect to the audit of a Co-operative institution is with regard to the examination of its compliance or adherence to Co-operative Principles. He must ensure that the institution is working strictly according to the Co-operative Principles.
- I. Apart from the above factors the auditor has to look into the various functional aspects of the Kerala State Co-operative bank.

### *1.3 Major areas of consideration in Financial Audit.*

The Financial Audit of Kerala State Co-operative Bank has to be carried out by Chartered Accountants. A Chartered Accountant is defined in clause (b) of sub section (1) of section 2 of the Chartered Accountants Act 1949 and as amended from time to time. An audit by a Chartered Accountant is an

examination of the Books of Accounts and other records such as documents, vouchers, etc, which confirm and support the correctness of the entries' in the Books of Accounts to enable the auditor to satisfy himself as to whether the Profit and Loss Account and Balance Sheet exhibit a true and fair view of the State of affairs of the bank.

#### *1.4 Laws applicable to the Kerala State Co-operative Bank.*

- (i) Kerala state Co-operative Societies Act 1969
- (ii) Kerala state Co-operative Societies Rules 1969
- (iii) Banking regulation Act 1949 (As applicable to Co-operative Societies (1965-66)
- (iv) Banking Companies Act 1970 and 1980
- (v) Reserve Bank of India Act 1934
- (vi) Reserve Bank of India Rules 1935
- (vii) DICGC Act (Deposit Insurance and Credit Guarantee Corporation Act 1961
- (viii) National Bank for Agricultural and Rural Development Act 1981
- (ix) Payment and Settlement Act 2007
- (x) Negotiable Instruments Act 1881
- (xi) Information Technology Act 2000
- (xii) Income Tax Act 1961
- (xiii) Prevention of Money Laundering Act 2002
- (xiv) Credit Information Companies Regulation Act 2005
- (xv) Chartered Accountants Act 1949

And any other enactments applicable to Co-operative Banks from time to time as directed by the Government of Kerala and Reserve Bank of India.

#### *1.5 Constitution of the Kerala State Co-operative Bank*

The Kerala State Co-operative Bank was constituted by merging the Kerala State Co-operative Bank and the District Co-operative Banks as per Amalgamation Order issued by the Registrar of Co-operative Societies, dated 29/11/2019. Special care shall be taken in audit to see that all the procedures of merger or amalgamation are carried out as per the provisions of the Kerala Co-operative Societies Act and Rules.

Special attention shall be paid to see that the products and services of the banks are integrated with a vision to protect the interests of customers of each bank. The consolidated Balance Sheet of the post merger situation shall be verified by the auditor to see that the integration has been done with precision and no characters have been lost. The auditor shall see that the value of the assets and liabilities of Amalgamating banks is brought in to the Balance Sheet of the amalgamated bank without any discrepancy or erosion from the pre amalgamation Balance Sheets.

Data migration is the most important element of amalgamation and the auditor shall ensure that no data loss has been happened.

The auditor shall make a review of the overall position of assets and liabilities to ensure that amalgamation has not caused any disadvantage to the bank.

#### *1.6 Application of Banking Regulation Act to Kerala State Co-operative Bank*

The Banking regulation act 1949 was amended and the provisions “As applicable to Co-operative Societies” (AACCS) came in to effect on 1<sup>st</sup> March 1966. The Reserve Bank of India was vested with the statutory powers of supervision and control over Co-operative Banks. But the powers of registration or incorporation, management, amalgamation, liquidation etc are vested with the Registrar of Co-operative Societies.

#### *1.7 Maintenance of Liquid Assets*

Since the bank is functioning under the regulatory umbrella of RBI and provisions of BR Act, it should maintain liquid assets at the rate and manner as prescribed by the RBI from time to time.

##### *1.7.1 Cash Reserve Ratio (CRR)*

Section 18 of the Banking Regulation Act provides for the maintenance of Cash Reserve Ratio (CRR), (subject to change from time to time based on the decision of RBI), which is not applicable to scheduled Banks. But Sn.42 (1) and

42(14) of Reserve Bank of India Act (1934) stipulate the requirements in relation to the maintenance of Cash Reserve Ratio by a scheduled bank. State Co-operative Bank being a scheduled bank is guided by these regulations. Section 42(7) of the act empowers the Reserve Bank of India to exempt any bank from the compliance of the provisions of the Act. Section 42(1) of Reserve Bank of India Act requires a scheduled bank to maintain 3% of its Demand and Time liabilities as cash reserve with Reserve Bank of India. The Act was amended vide Reserve Bank of India amendment act 2006, which came into force from 1<sup>st</sup> April 2007. The amendment modified the requirement from 3% to such percent as decided by Reserve Bank of India. Scheduled Co-operative Banks were granted exemption by Reserve Bank of India from time to time whenever it increased the CRR or stipulated requirements of additional CRR. As such scheduled State Co-operative Bank had been maintaining CRR of 3% of NDTL with Reserve Bank of India since their scheduling. Reserve Bank of India decided in July 2001 that the scheduled State Co-operative Bank need not be granted any exemption after 31st December 2001. Thus Reserve Bank of India is issuing instructions relating to changes in CRR stipulations to scheduled State Co-operative Banks. Accordingly every scheduled State Cooperative Bank is liable to maintain Cash Reserve Ratio @ 4% since 10<sup>th</sup> December 2016. Reserve Bank of India in its latest review meeting has decided to reduce the ratio to 3%.

In the above circumstances, the auditor of the bank is obliged to examine the following points with respect to the maintenance of Cash Reserve Ratio.

1. Whether the bank has maintained the CRR as per the directions of Reserve Bank of India.
2. Whether the CRR calculation is strictly adhering to the guidelines of Reserve Bank of India.
3. Whether the bank had filed necessary returns as prescribed by Reserve Bank of India.

Every bank included in the second schedule shall maintain with Reserve Bank of India, average daily balance, the amount of which shall not be less than such percent of the total of the demand and time liabilities.

The Cash Reserve Ratio is calculated as a percentage of Net Demand and Time liabilities as on the last Friday of second preceding fortnight.

If the average daily balance held at the bank by a scheduled bank during any fortnight is below the minimum prescribed, such scheduled bank shall be liable to pay to the bank in respect of that fortnight penal interest @ of 3%, above the bank rate on the amount by which such balance with the bank falls short of the prescribed minimum and if during the next succeeding fortnight, such average daily balance is still below the prescribed minimum, the rates of penal interest shall be increased to a rate of 5%, above the bank rate in respect of that fortnight and each subsequent fortnight during which the default continues on the amount by which such balance at the bank falls short of such prescribed minimum.

The auditor shall verify the DTL Register as well as the returns and satisfy that the bank had maintained the required cash reserves with Reserve Bank of India and any failure of it shall be reported by the auditor.

#### *1.7.2 Statutory Liquidity Ratio (SLR)*

As per Sn.24 of Banking Regulation Act (AACS) 1949, the banks were required to maintain, in addition to CRR, statutory Liquidity Ratio(subject to change from time to time based on the decision of RBI) @ 19.5% w.e.f fortnight commencing 14<sup>th</sup> October 2017. In addition to the requirements for cash reserve, the Banking Regulation Act (1949) requires banks to maintain notified percentage of assets in the form and manner prescribed by Reserve Bank of India. The various forms of investments specified for the purpose in respect of scheduled state co-operative Banks are as under.

1. Cash; cash in hand and cash at Automated Teller Machines, only Indian Rupees and Coins (currencies of foreign countries are excluded)
2. Balance maintained in excess of CRR requirements, with Reserve Bank of India.
3. Net balance in current accounts. The balances with RRBs and cooperative Banks and private sector Banks are not considered. The excess of the aggregate of the credit balance in current accounts maintained in the SBI or a public sector bank over the aggregate of the credit balances in current accounts held by such banks.
4. Investments in approved securities such as dated securities of Government of India, Treasury Bills of the Government of India, State Development Loans (SDLS) of the State Government.

The auditor should verify the register and satisfy that the bank had complied with the provisions of Banking Regulation Act with respect to SLR maintenance. The auditor has to see that the Returns have been filed by the Bank properly and timely.

The details of investments may be verified by the auditor in order to satisfy that the requirements are fulfilled. The auditor should call for the details of Returns filed in form Number I, daily weekly/fortnightly and monthly returns etc and ensure that they are filed properly in time.

*1.8 Returns/Statements to be submitted by the Kerala State Co-operative Bank.*

- |   |  |                    |
|---|--|--------------------|
| 1 | List of officers - as and when changes take place.       |                    |
| 2 | Statement of cash reserve in form No. I                  | -(monthly)         |
| 3 | Statement of unsecured loans and advances in Form No. II | -(monthly)         |
| 4 | Licensing - Form III and IV                              |                    |
| 5 | Opening of new places of Business - Form V               |                    |
| 6 | List of offices - (Form VI)                              | -Quarterly         |
| 7 | Statement of liquid Assets – (Form VII)                  | -Monthly/Quarterly |
| 8 | Statement of unclaimed deposits (form VIII)              | -Annul             |
| 9 | Statement of assets and liabilities (form IX)            | -Monthly/Quarterly |

10	DEAF account statement	-Monthly/Quarterly
11	Certificate of holding securities	-Quarterly
12	Utilization of ACS Fund	-Quarterly
13	OSC - 1 to 7	
14	Shares in cooperative societies	-Yearly
15	Statement of Non-Banking Assets	-Yearly
16	Interest rate sensitivity statement	-Quarterly
17	Annual review statement	-Yearly
18	CRAR Statement	-Yearly

Apart from the above returns and statements, the bank is liable to file the returns of Income Tax, GST and other statutory returns. The auditor shall verify whether the bank has filed all the returns and statements in the manner prescribed by RCS/RBI/NABARD.

#### *1.9. Maintenance of average daily cash balance*

Reserve Bank of India Act prescribed of average daily cash balance to be maintained by the bank. The auditor should ascertain whether the bank had complied with the regulation and ensure that the average daily cash balance has been invested in the Reserve Bank of India.

#### *1.10 Membership*

The auditor shall verify the membership details as well as the Register of Members to ensure that it is maintained as per KCS rule 29(2)(C). The auditor has to verify the bylaw clause also with respect to the membership.

#### *1.11 Share capital*

The bank is to maintain a Register of Share Capital, Share Application Register as well as a Share withdrawal Register. The auditor should see that all these Registers are kept up to date and balance outstanding in respect of Share Capital is in agreement with that of the Balance Sheet figure. He should also ensure that the Paid up Share capital is within the limit of the Authorised Share Capital. Whenever the paid up share capital level reaches the threshold level, the bank has to amend the bylaw provisions in respect of Authorised Share Capital. The Bank is liable to issue Share Certificates to the share holding members. The auditor has to ensure that it is promptly issued. As the capital



adequacy level depends on the share capital, the auditor should give fair attention to the amount of share capital collected from members. It is necessary to see that the bank has complied Sn.22, 23 and 24 of Kerala Co-operative Societies Act.

#### *1.12 Verification of cash retention limit*

The branch level cash retention limit shall be fixed by the Board of Directors/ Board of Management. The auditor shall see that the limit is scrupulously complied with. Any deviation should be reported by the auditor.

#### *1.13 Cash verification*

Idle cash may adversely affect the profitability of the bank. Hence the auditor has to ensure that only the statutory minimum level of cash is kept by the bank. He shall verify the cash kept in the branches, regional offices, as well as Head office. The cash kept in the Automated Teller Machines/Cash Deposit Machines is also to be verified. The Cash Transit Register shall also be checked by the auditor.

#### *1.14 Verification of deposits*

Deposits are the most important source of funds of a bank. Deposits are received from general public and other constituents like sole proprietorship, partnership firm, companies, Hindu undivided family and so on.

#### Balance Sheet disclosures

##### *A. i Demand Deposits*

1. From banks
  2. From others
    - ii. Savings Bank Deposits
    - iii. Term Deposits
- i. From Banks
  - ii. From others

## B. 1. Deposits of Branches.

*Deposits are two types* 1. Demand deposits (repayable on demand)

2. Term Deposits -ie. Deposits repayable after a fixed term

### *Demand Deposits*

1. Current Accounts : There is no restriction on withdrawal on the number of transactions in the account during any period, no interest payable except specifically permitted by the Reserve Bank of India.

2. Savings Bank Deposits: Bank impose restrictions on maintenance of minimum balance, amount of withdrawal, number of withdrawal, interest payable, as per Reserve Bank of India guide lines.

When Current and SB accounts are turned to be dormant or inoperative, then it may be transferred to a separate ledger. (Please refer to 1.34 DEAF Scheme)

### *Term Deposit*

These are repayable after a specific period of time. At present the minimum period is 7 days - interest payable periodically.

The following main points have to be noted while auditing the deposits :

1. Have you checked the total of all balances in the individual deposit accounts which tallies with totals in General Ledger (GL)?

2. Have you checked that the above system is in order? These figures have to be verified from General Ledger to Balance Sheet.

3. If any difference is noticed the auditor has to give details in the LFAR.

4. Have you test checked the balances in the individual subsidiary ledgers to the deposit accounts?

5. Have you cross checked the balances of each head in the Balance Sheet?

6. List out the cases where guidelines with respect to conduct and operations of inoperative accounts are not being followed.

7. List out details of the cases where any unusual large movements (increase/decrease) in the aggregate deposits held at the year end after the Balance Sheet date and till date of audit.

8. List out overdue/matured term deposits at the end of the year.
9. The KYC compliance of individual depositors.
10. The rate of interest paid on deposits and the rate of interest permissible as per the circulars of Registrar.
11. The deposit mix in order to ascertain the profitability.
12. If the credit deposit ratio is very low that should be commented in the audit report.
13. The balance outstanding as per schedule and as per Balance Sheet.

#### *1.15 Verification of loans and advances.*

##### *Loans and Advances*

Loans and advances includes Demand Loans, Cash Credit Accounts, Overdraft Accounts, Term Loan Accounts, Bills Purchased and discounted etc.

##### *1. Demand Loans :*

A demand loan is an advance of a fixed amount repayable on demand. The repayment of demand loans may be cited in one lump sum or by installments. Interest is calculated on the basis of daily outstanding and applied at stipulated periodic intervals usually on monthly basis. The auditor shall verify the interest rate, repayment of installments over dues if any etc.

##### *2. Cash Credit Accounts:*

This facility is provided mainly to individuals or enterprises engaged in manufacturing and trading activities to enable them to meet the gap in their working capital requirements and are repayable on demand. This facility is granted against security of stock of goods, book debts etc. of the borrower.

##### *3. Over draft Accounts:*

This facility is granted to a current account holder in which the customer can draw upto an agreed sum in addition to his credit balance in the account. This facility may either be secured or clean (ie, without security) and does not have a repayment schedule.

#### 4. *Term Loans*

They are repayable in installments spread over a period of time generally after the moratorium period. During moratorium period, no principal or interest is to be paid. When there is default in repayment of installments of loan and interest the bank has the right to demand, repayment of loan accounts including interest.

#### 5. *Bills Purchased and Discounted*

Bills Purchased refers to demand bills and cheques whereas, bills discounted refers to usance (time) bills. Banks purchase/discount only bona fide trade bills. Banks can discount usance bills of any maturity which is normally decided in loan policy of the bank. The auditor shall verify the Bills register and the amount of discount and the amount realised.

Term Loans are generally extended for the following purposes :

1. For setting up of plants, acquisition of fixed assets like land, building, plant and machinery , furniture, vehicle, implements, houses, consumables etc
2. For meeting expenses on education/medical treatment of self/ dependents,
3. For meeting other personal expenses,
4. For meeting deficit in the working capital requirements as assessed by the bank,
5. For marketing/launching/branding etc.

*Auditor has to verify the following while auditing loans and advances*

##### *1). Application*

- a) Whether proper form is used/whether it is properly filled in and signed by the applicant.
- b) Whether Project Report and such other statements submitted wherever required.
- c) Whether statements like income tax and audited financial statements furnished.
- d) Details of Registration Documents

*i) In respect of partnership firm:*

- (i) Partnership Deed
- (ii) Details of Partners
- (iii) Borrowing Power

*ii) In case of Companies.*

- (a) Memorandum of Association and Articles of Association (MOA and AOA)
- (b) Borrowing Powers in A O A
- (c) Copy of resolution
- (d) Search Report
- (e) Agreement/Demand Promissory Note (DPN)
- (f) Credit report from Bankers

*2) Project Appraisal:*

- (a) Analysis of financial Statements
- (b) Analysis of Appraisal memorandum
- (c) Stock Statement
- (d) Insurance Cover
- (e) Analysis of Profit and Loss Account
- (f) Projections
- (g) Ratio analysis
  - 1. Primary
  - 2. Collateral

*Details regarding value, insurance, inspection etc.*

- (h) Analysis of audit report and notes
- (i) Legal compliance of documents

*3). Advances:*

*a) Credit appraisal*

Verify whether the Branch Office has complied with procedures and instructions issued by Controlling authorities regarding loan appraisal, enhancement of limit etc.

*b) Sanction/Disbursement*

1. Verify that credit facilities have been sanctioned within limits fixed by the branch office, controlling office.

2. Verify that advances have been disbursed after complying with terms and conditions of sanction.

*c) Documentation*

1. Examine that credit facilities have been released by Branch Office after execution of all necessary documents.
2. List out the cases of deficiency in documents, non-registration of charges, non obtaining of guarantees.
3. Examine that advances against lien of deposits have been granted by marking a lien on deposit receipts.

*d) Review/Monitoring/Supervision*

- i. Check whether register has been maintained noting the due date for renewal of limits
- ii. Examine that Stock/book debt statement and other periodic operational data and financial, statements etc, received regularly from borrowers and duly scrutinized.
- iii. Examine system of obtaining reports on stock audits periodically.
- iv. Examine cases of advances to non corporate entities with limits more than Rs. 10 lakhs where the Branch office has not obtained audited accounts of the borrowers.
- v. Obtain report on inspection/physical verification of securities charged to the bank.
- vi. List out cases of deficiencies in value of securities and inspection there of or any other adverse features such as frequent/unauthorized overdrawing beyond limits, inadequate insurance coverage etc.
- vii. Verify that in respect of leasing finance activities Branch office has complied with the guidelines issued by the controlling authorities of bank relating to security creation, asset inspection, insurance etc.
- viii. Verify recovery of credit card dues.
- ix. List out the cases where relevant controlling authority of the bank has authorized legal action for recovery of advances or recalling of advances but no such action was taken by the Branch office.
- x. Confirm that all non performing advances have been reported to the controlling authority.
- xi. Confirm that claim for DICGC and Export Credit Guarantee/Insurance and subsidies if any been duly lodged and settled. Obtain the year wise status of pending claims both number and amounts.

xii. Confirm that in respect of N P A, Branch office has obtained valuation Reports from approved valuers for the fixed assets charged to the bank.

xiii. Confirm that Branch office has complied with the recovery policy prescribed by the controlling authorities with respect to compromise/ settlement and written off cases, list out the cases of compromise/ settlement and written off cases.

xiv. List out the major deficiencies in credit review, monitoring and supervision.

xv. Verify whether the borrower is submitting the following documents regularly -

- Monthly stock statement
- Book debt statement
- Statement in respect of Large advances

*The auditor has to exercise the following activities during the audit :*

1. Follow time lines and commitments as decided earlier.
2. Keep track of daily targets. For pendency ,verify reasons and take corrective actions. Document the extent of verification.
3. Issues identified by audit staff during the audit may be discussed and cleared on daily basis. All observations should be recorded.
4. Comparative analysis of Profit and Loss Account and Balance Sheet items with previous year figure and call for explanation in case of material variances.
5. Plan to check and report aspects of LFAR to avoid any area to be missed out.

*While performing Balance Sheet audit the auditor has to look into the following aspects relating to loans and advance:*

1. List out the number of cases and names of parties including the limits for all cases above specified limit and sample selected below the limit.
  - a. Credit Appraisal
  - b. Sanction and disbursement
  - c. Documentation – pre sanction and post sanction including registration and mortgage of property and registration of charges with Registrar of Companies/ CERSAI.

## 2. Monitoring/Review/Supervision by the Branch office.

- a. Submission of financial statement
- b. Submission of Income Tax Returns
- c. Timely submission of stock statement
- d. Calculation of drawing power
- e. Inspection of godown/other units of the Borrowers
- f. Operation in the account
  - i. Overdues
  - ii. Sticky accounts
  - iii. Drawal of funds
- g. Renewal of documents due/ Review of term loans
- h. Penal interest for default/whether system driven or manual
- i. Insurance Coverage
- j. Verification of data in Core Banking Solutions with reference to Basel II / Basel III

### 3 *Creation of master for borrower*

After the sanction, the Master would be created for new borrowers. In case of existing borrowers, the Master may be modified based on the latest terms and conditions of sanction. These fields would typically include the following :

- a) Repayment Schedule
- b) EMI
- c) Rate of Interest (Normal and penal)
- (d) Drawing power
- (e) Classification of advances

These parameters are keyed on system and after disbursement, the various functions like charging of interest, classification etc, would be based on the above data. The auditor has to check the correctness of these inputs for selected samples to ensure that the system applies its parameters correctly.

The loan policy of the bank is to be verified by the auditor before entering in to the detailed checking of loan accounts. Various loan accounts have different types of terms and conditions which should be the guiding tool to the



auditor. The loan applications should be verified by the auditor to ensure that all the necessary documents as prescribed by the approved loan policy are attached with the loan applications. It is also necessary that the rules and regulations prescribed by the RBI, NABARD and the State Government or Registrar of Co-operative societies, is complied while sanctioning the loans. The securities to the loans are most important; hence the loan applications of borrowers should be scrutinized properly, so that adequate security is ensured for the loans. The value of the mortgaged security property should be verified by the auditor. The original deed as well as the previous deeds should also be verified. The legal opinion on the property may be verified to ensure the ownership right of the borrower.

The land tax receipt, the encumbrance certificate from the Registration Department, ownership certificate and location certificates may also be verified in order to ascertain the ownership right and previous liabilities on the property. The auditor should check carefully the following documents.

1. Loan application
2. Bond or Agreement
3. Original deed of the mortgaged property
4. Encumbrance Certificate
5. Tax receipts
6. Valuation report
7. Location map and certificate
8. Possession and enjoyment certificate
9. Recovery certificate in case of employees
10. Minutes of the Board meeting sanctioning the loan
11. Circulars of RBI/NABARD/RCS with respect to the rate of interest chargeable on loans and advances
12. Legal opinion

The auditor shall verify the valuation report and ensure that adequate security has been obtained for the loan amount disbursed. He shall compare the market value of similar properties in the similar location and with the land value notified by the Government of Kerala with the valuation report. Deviations with

the comparative analysis may be reported. The auditor shall see that the rate of interest charged is in accordance with the circulars of Registrar/RBI and it is uniform among all borrowers. The loan repayment shall be ascertained and verify whether all legal steps have been initiated against all the defaulters in time.

He shall pay special attention to the following matters

- a. NPA accounts
- b. NPA provisions
- c. Waiver under OTS
- d. High value loans
- e. ARC/EP cases
- f. Recovery actions, such as

SARFAESI actions and procedures.

(a). He should see that the NPA classification is done correctly without any deviation from the classification norms issued by NABARD/RBI/RCS. The latest RBI/NABARD circular in respect of NPA classification and management should be followed.

(b). He shall see that the asset classification is done strictly in accordance with the IRAC Norms and that provisioning is made fully for the bad/doubtful loan.

(c). The government order sanctioning or permitting the settlement of overdue loans shall be verified by the auditor.

(d). The high value loans shall be scrutinized by the auditor and see that all the terms and conditions of the loan policy of the bank and directions of RBI/NABARD/RCS is properly complied. The valuation report, security, legal opinion, repayment of loan, interest rate etc shall be verified by the auditor.

(e). The progress of execution petitions filed by the bank shall be ascertained and reported

(f). Recovery actions such as SARFAESI may be verified and commented.

#### *1.15.1 Verification of Gold Loan Accounts*

The branches are liable to keep and maintain Gold Loan Ledger as well as stock register of gold (ornaments) pledged. In Core Banking System, the stock register can be prepared without much time provided the data entry should be correct and prompt. The auditor should verify the following points with respect to the gold loans.

- a. The purity of the gold to be certified by gold appraiser
  - b. The market rate should be correctly ascertained and the loan amount is fixed as 75% or less than the market value, in order to avoid any loss to the bank.
  - c. The market trend in the price of gold should be considered by the management for fixing the rate especially when the gold price is declining.
  - d. The number of items as well as the gross weight of the gold to be recorded in the loan ledger as well as the stock register.
  - e. The signature of the borrower should be obtained in the loan ledger.
  - f. The auditor should physically verify the gold with the assistance of gold appraisers, to detect frauds.
  - g. The details of gold auction is also to be examined by the auditor as there is a chance of monetary loss to the institution if the gold price is lower than the price of the gold at the time of loan issue.
- (1). Read circular No.52/86 dated.26-12-1986 of RCS
  - (2). Read circular No. 35/2005 dated. 30-09-2005 of RCS
  - (3). Read circular No. 22/16 dated.19-7-2016 of RCS
  - (4). Read circular No.13/18 dated.16-2-2018 of RCS
  - (5). Read circular No.13/13 dated 26-9-2013 of DCA

#### *1.16 Verification of the investments*

The best way for the bank to maximize its profit is to maximize its lending; in other words, when the CD ratio is higher the profitability will also be higher. When the CD ratio is lower, the bank shall have excess funds which have to be invested, leading the bank to seek for the profitable investment options. The following investment options are available:

1. Term deposits in banks and financial institutions
2. Securities (Central Government, as well as State Government securities.)
3. Shares and debentures

The auditor shall see that the rates of return on each type of investments are optimum, so that the bank is able to maximize its profits. As the trading activities in securities require precise attention of the management there should be a subcommittee to monitor the investment decisions. The committee should be careful in avoiding loss in the trading business. The Auditor has to examine the whole arrangements for investments and suggest modifications if necessary.

### *1.17 Verification of borrowings*

Usually the loans from NABARD constitute the major amount of borrowing which is sanctioned for agricultural purposes. The scheme of lending should be carefully examined and ensured that the terms and conditions are strictly complied. The Auditor has to check the following points with respect to the borrowings:

1. The rate of interest on borrowings; to ensure lowest available rate
2. The re payment of instalments; to avoid payment of any penal interest
3. Whether the interest subvention from Central Government is availed promptly.

### *1.18 Minimum involvement*

The agricultural lending funded by NABARD, will have a condition of minimum involvement of the bank. The Auditor shall verify the banks contribution to the lending and ensure minimum involvement of the bank.

### *1.19 Book Keeping and maintenance of accounts*

The bank is liable to maintain the books of accounts as per the provisions of Banking Regulation Act and Kerala Co-operative Societies Act and Rules. The auditor has to verify whether all the books of accounts and records are kept up to date as per rules, the auditor has to verify and report if any lacuna is noticed. Failure of filing the statutory returns is also to be reported by the auditor.

### *1.20 Core Banking Solutions*

As a result of amalgamation of District Co-operative Banks and Kerala State Co-operative Bank, the unification of different software used by different District Co-operative Banks becomes a necessity and hence Data migration audit also become inevitable. The general guidelines and procedures laid down in chapter VII of the 1<sup>st</sup> part of the Kerala Co-operative Audit manual is to be adhered to by the Auditors of Kerala State Co-operative Bank also. The auditor shall verify the heads of accounts and obtain a list of new accounts opened and

closed during the year of audit in order to ascertain the process of control. He shall review the recording of transactions and ensure that all entries in the books of accounts are authorised. He shall also verify that the financial statements are properly generated.

The Auditor shall go through the circular No.27/17 of Registrar of co-operative Societies and ensure that the points in it are taken in to account and he shall make his report based on the circular. The audit shall extend to the purchase, condition, maintenance etc of Hardware, license of the software, AMC of Hardware and software, control measures for the protection of Data safety and integrity, Password controls, User ID/password maintenance, Data base management, transaction, processing etc. He shall obtain the explanations from the Chief executive for the following:

1. Whether there is an information system policy for the institution.
2. Whether there is an operational manual for the Core Banking of the Bank.
3. Whether the institution has computerized all its activities otherwise to what extent the Core Banking is implemented.
4. Whether there is EDP department/authorized officer in charge of the data processing activities.
5. Whether the system administrator is identified, authorized and properly qualified and trained.
6. Whether the access levels are periodically reviewed by the CEO/Senior officers.
7. Whether the data is properly backed up? / What is the arrangement for data backup? Whether it is adequate and proper?
8. Whether the system protection is satisfactory.
9. Whether the backed up data is periodically tested to ensure recovery.
10. Whether the system is protected against un authorized access.
11. Whether there is a system of password control? Whether that system/controls are effective or not.
12. Whether the software provides for clearing module.
13. Whether the software system identifies the NPA.
14. Whether the staff authorized for the Core Banking jobs are trained properly.

15. Whether the data migration is error free.
16. Whether the CBS is efficient enough to generate all the required reports.
17. Whether the day end reports viz exception reports, MIS Report, User ID report, parameter changes, access log etc are printed and authenticated.
18. Whether the information system audit is done periodically in the institution and the report placed and discussed in the meeting of the Board of Directors.

#### *1.21 Compliance of statutory obligations*

The bank has to comply the statutory obligations such as deductions of Income Tax, TDS, and GST as per the terms laid down by the Central Government and RBI. The auditor should see that the bank has complied with the statutory obligations by deducting such kind of taxes and fees and remit the same to the authorities concerned in time. The bank has to file the returns also regularly, as prescribed. The auditor shall verify the compliance and make his report accordingly.

#### *1.22. Capital adequacy norms*

Capital Adequacy Ratio is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. However, as per Reserve Bank of India's norms, as of 2019 the bank's tier I and tier II capital must be 9% of its risk weighted assets. It means that it can absorb a reasonable amount of loss and complies with the statutory capital requirements. It is intended to protect the interests of depositors and promote stability and efficiency of financial system. It is an important measure of financial soundness of the bank.

All State Co-operative banks were brought under the ambit of capital adequacy norms as per circular No. RBI/2007-08/203, RPCD.Co.RF.BC.40/07.38.03/2007-08 dated 04/12/2007. As per it, the State Co-operative Banks were directed to disclose their CRAR. (Capital to Risk weighted Assets Ratio) as on 31<sup>st</sup> March 2008. They were also obliged to disclose the CRAR every year along with the Balance Sheet as "Notes on accounts".

Adequacy of capital is one of the prerequisites of license from the Central Bank as well as continuance of the business of the bank. The objective behind the policy is to strengthen the soundness and financial stability of the Co-operative banks. Thus in order to assess the capital structure of the State Co-operative banks, it is proposed to introduce the capital to Risk weighted Assets Ratio (CRAR) by the Reserve Bank of India, and directed to disclose the CRAR as on 31<sup>st</sup> March 2008, though without any minimum prescription. But as per the circular No. RPCD.RCB. BC.73/07.51.012/ 2013-14 dated. 7<sup>th</sup> January 2014 that had prescribed the minimum level of CRAR, which shall be attained as follows.

31-03-2015 - 7%

31-03-2017- 9%

As per the circular referred above (4<sup>th</sup> Dec.2007 of RBI) has assigned, risk weights, according to the prescribed risk weights, to the balance sheet items and off balance sheet items. The value of each item shall be multiplied by the relevant weights to arrive at the risk adjusted values of assets and off balance sheet items.

The capital funds shall consist of Tier I and Tier II capital. Tier I capital (core capital) constitutes the most permanent and readily available capital, which shall be the backbone of the bank against unexpected losses, and the Tier II capital consists of funds which are comparatively slowly available.

#### Tier I capital

1. Paid up share capital
2. Free reserves
3. Capital reserve
4. Surplus if any in profit and loss account

(After appropriation of Dividend, Educational Fund, other Funds for asset loss etc.)

## Tier II capital

1. Undisclosed Reserves
2. Revaluation Reserves
3. General Provisions and Loss reserves
4. Investment fluctuation reserve

The capital adequacy ratio (CRAR) is computed as follows.

$$\frac{\text{Capital funds}}{\text{Risk weighted assets and off balance sheet items}} \times 100$$

Risk weighted assets and off balance sheet items.

The auditor is under an obligation to verify the computation of CRAR and he should also ensure that the minimum level of CRAR prescribed by the RBI is maintained. If otherwise, he has to report the matter.

### *1.23 Know Your Customer (KYC) Compliance*

In order to check the financial crimes and protect the banking system from the international or national economic offences, Know Your Customer (KYC) guidelines were issued by the Reserve Bank of India in 2005. According to it, the banks should frame their KYC policies incorporating the key elements .

- (i) Customer Acceptance policy
- (ii) Customer identification Procedures
- (iii) Monitoring of Transactions and
- (iv) Risk Management.

As per this policy, the customer is properly defined, the customer identification procedures are also laid down in order to check any kind of misuse of banking system by the anti social elements. The customer transactions are to be monitored continuously, the banking management is to adopt Risk Management policy by segregating the customers into different categories such as high risk, medium risk and low risk.

The auditor should ascertain whether the cooperative banks have a KYC policy and maintaining sufficient precaution with respect to the customers by complying the conditions laid down in the circulars of RBI and Registrar. He shall verify whether the customers are KYC complied and if not, it shall be reported.

The video based customer identification process has been introduced as per circular dated, 9<sup>th</sup> January 2020 of Reserve Bank of India.



- Refer Circular No.– 1).RPCD AML.BC.No.80/07 40.00/2004-05 of RBI dated 18/2/2005
- 2) Circular No.12/2012 dated 31/03/2012 of RCS
  - 3) Circular No.30/2013 dated 24/04/2013 of RCS
  - 4) Circular No.42/2016 dated 10/11/2016 of RCS
  - 5) Circular No.43/2016 dated 06/11/2016 of RCS
  - 6) Circular No. DBR.AML.BC.No.81/14.01.001/2015-16 dated 25<sup>th</sup> February 2016 of RBI
  - 7) Circular No. DOR.AML.BC.No.27/14.01.001/2019-20 dated 9<sup>th</sup> January 2020 of RBI.

*1.24 Prudential norms on Income Recognition, Asset Classification and Provisioning.*

Main elements of prudential norms are income recognition, asset classification and provisioning for loans, advances and capital adequacy. Prudential norms reflect a banks actual financial health in its Balance Sheet and Reserve Bank of India has introduced it in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks. The policy of income recognition should be objective and based on record of recovery rather than on any subjective consideration likewise the classification of assets of the bank has to be done on the basis of objective criteria which would ensure a uniform and consistent application of the norms. The provisioning shall be made on the basis of the classification of assets in to different categories such as standard, substandard, doubtful etc.

Prudential Norms on income recognition, asset classification and provisioning were made applicable to State Co-operative Banks and District Central Co-operative Banks from 1996-97 by the Reserve Bank of India, vide circular No. R.PCD.No.155/07.37.02/95-96 dated 22<sup>nd</sup> June 1996. Subsequently several amendments/modifications were made on the subject by RBI/NABARD. The auditor has to verify the master circular as well as the amendments in order to see that the terms and conditions laid down on the matter is complied with.

The Auditor shall verify the following points:

i. Norms for treating the loans and advances as NPA. Whether the asset classification is genuinely and properly done or wrong classification is relied to suppress the real NPA.

ii. Whether the income recognition is based on realistic data or on any subjective considerations.

iii. Whether the age wise classification of loan is made accurately based on loan documents and registers.

iv. Whether the criteria for classification of assets such as standard assets, substandard assets, doubtful assets and loss assets has been strictly complied with.

v. Whether the realizable value of the security is assessed correctly or not

vi. Whether there is any erosion in the value of security. If yes, whether it is reported properly by the auditor.

vii. Whether the loss asset is classified correctly and whether it is fully provided for.

viii. Whether terms and conditions laid down in Circular No.35/12.05.001/2014-15 dated 14<sup>th</sup> May 2015 of Reserve Bank of India (RBI/2014-15/594. DCBR.BPD(PCB/RCB) in respect of provisioning pertaining to frauds has been complied with.

ix. Whether the income recognition policy prescriptions in respect of unrealized interest on loans and advances fees, commission, accrued interest on investments etc are taken into account.

x. Whether the norms of agricultural advances have been made applicable while classifying loan accounts.

xi. Whether the asset classification is done at branch level or not.

xii. Whether the loans exempted from provisions has been classified as such.

xiii. Whether the investments in permanent and current port folio is beneficial to the bank or not.

xiv. Whether loss in respect of cash balances, or deposits with other banks, amounts in branch adjustments. Frauds and embezzlements and depreciation in building, furniture and verticals have been fully provided or not.

xv. Whether provision has been made for net debit balances in respect of Inter Branch accounts as directed in Circular RPCD.RF.BC.No.59/07.37.02/2003-04 dated 5<sup>th</sup> January 2004 of Reserve Bank of India.

#### *1.25 Verification of Shares in other institutions*

The return on the shares taken in other institutions is to be examined by the auditor. If the dividend on such shares is less or nil, such kind of cases should be reported with suggestions for withdrawal of such shares. RBI/NABARD guideline in this respect is also to be verified. He shall verify the share certificates and details of dividend obtained on such shares.

#### *1.26 Inter Branch Reconciliation.*

Since financial transactions between the Head Office and Branches and between Branches are inevitable, they should be reconciled periodically in order to avoid any discrepancies. There should be a systematic arrangement for the regular reconciliation of those accounts. The auditor should verify the reconciliation statements and ensure that they are properly reconciled. Long pending items should be specially looked in to.

#### *1.27 Branch Level Inspection*

The bank should have an internal inspection wing which should inspect the branches periodically as per the instructions of the Board of Directors. The auditor should verify whether the inspection as scheduled has been conducted periodically and the compliance report submitted by the branches is being scrutinized by the HO for the better performance.

### *1.28 Inspection of Affiliated Societies*

Sub section (7) of Sn.66 of KCS Act empowers the apex society for the inspection of its affiliated member societies. The bank should have made arrangements for the periodical inspection of affiliated societies by constituting an internal inspection team. The auditor has to see that the inspection team conducts the inspections and submit their report to the Board of Directors / CEO and compliance is also reviewed by the Board of Directors. Returns filed by the members to the Apex shall also be verified in audit.

### *1.29 Verification of Minutes*

The auditor shall go through, the minutes of the sub committees, Board meetings as well as the General Body, so that he can ascertain the propriety of the decisions and compare it with the business transactions. The minutes of the Board of Directors and Executive committee may also be verified. He shall see that the decisions are implemented in accordance with the resolutions of the Board of Directors/General Body and any deviation in it shall be reported.

### *1.30 Reserve Bank of India Scheduled Bank Regulation 1951*

Whether the bank had complied with the regulation stipulated in the RBI Scheduled bank regulation 1951 is another point of verification in the audit.

### *1.31 Maintenance of State Partnership Fund*

The maintenance and utilization of state partnership fund is to be verified by the auditor. He has to verify whether dividend on shares taken by the Government of Kerala has been properly collected from the societies concerned and remitted timely.

### *1.32 Maintenance of Agricultural Credit Stabilisation Fund*

It is necessary on the part of the auditor to examine the maintenance and operation of agricultural credit stabilisation fund, as per rules.

### *1.33 Inoperative Deposit Accounts in Co-Operative Banks*

#### *“Depositor Education and Awareness Fund” Scheme-2014*

With respect to the maintenance of inoperative deposit accounts in the banks, Reserve Bank of India has formulated a Scheme named “Depositor Education and Awareness Fund” scheme 2014. As per the scheme, Banks shall calculate the cumulative Balances in all such inoperative accounts and shall transfer to the fund the amounts becoming due in each calendar month ie., the proceeds of the inoperative accounts and balance remaining unclaimed for ten years or more and the interest occurred thereon on the last working day of the subsequent month. The banks shall remit the amounts due through portal facility of the E-Kuber of RBI to the designated account for the Scheme “DEAF Account”. Each bank has been allotted “Bank DEAF Code” by RBI for operating the fund. The DEAF code allotted to Kerala State Cooperative Bank as well as to District Co-operative Banks shall change in the amalgamated situation. Bank is required to file returns as prescribed by RBI in respect of DEAF accounts. On the date of transferring the bank shall submit a consolidated Return (Form No. I) showing the amount credited to the fund indicating separately the amount of interest bearing deposits, non-interest bearing deposits and other credits transferred. The bank shall maintain complete details, such as name of customer, account number, amount including interest accrued transferred to the fund, date of such transfer etc. A monthly Return (in form No. II) is to be submitted by the bank for the total amount of funds transferred to the fund. The details of refund of deposit amount from the fund to the depositor shall be submitted in Form No. III. A consolidated monthly return (in form No. IV) for claims made by the bank from the fund may be forwarded to RBI. In form number, yearly return shall be submitted indicating item wise details of amount due. The auditor of the bank shall verify the customer wise details and the amount credited to the fund. The auditor should verify the returns filed and he shall certify that the returns have been

correctly compiled by the bank in the monthly and yearly returns submitted to the RBI. The Bank have to disclose the details of DEAF account in the “Notes to account” also. The RBI has advised the Bank to include the transfer of unclaimed deposits to “DEAF” in the LFAR also. The auditor shall verify whether the account is jointly operated by the authorized signatory’s. He shall also verify whether the returns have been filed to the RBI in the prescribed format in the stipulated manner and within the time limit prescribed.

The auditor shall verify the rate of interest payable on the principal amount transferred to the fund. In the case of revival of the inoperative account which shall become operative account shall be verified by the auditor and shall enquire that the transactions in the revived account is proper and in compliance with all rules, regulations and procedures.

RBI has further instructed that the following aspects relating to “DEAF” Scheme shall also be included in the LFAR (Long Form Audit Report) of the bank.

- (i) Transfer of unclaimed deposits to DEAF account
- (ii) Submission of Return
- (iii) Submission of reconciliation certificates
- (iv) Systems of addressing customer complaints’
- (v) Refund of deposits to customers/claimants
- (vi) Audit of records maintained by the Bank.

#### *1.34 Treatment of interest subvention amount receivable from Government of India.*

(Circular No.50/DOS-05/2019 dated 05-03-2019 of NABARD)

As per the circular of NABARD ‘Interest subvention Amount Receivable’ from Government of India will attract zero percent risk weight, which should be included in “other assets”. The auditor shall verify the accounting and see that the amount received is properly accounted in the head of account.

#### *1.35 Treatment of amount receivable from State Government under loan waiver scheme.*

The amount receivable from State Government under Debt waiver scheme will attract zero percent weight for calculation of CRAR subject to a payment

schedule being provided and adhered to, by the State Government. Receivables deviating from the schedule will be assigned 100 percent Risk weight. The amount receivable under Debt waiver scheme shall be parked under “other assets” (Circular No.171/DOS-16/2019 dated 13.06.2019 of NABARD). The risk weight assigned as well as the accounting of the amount shall be verified by the auditor and see that it is correctly assigned and properly accounted.

### *1.36 Verification of refinance availed from NABARD*

The auditor shall verify the refinance availed from NABARD by the bank during the year. The eligibility criteria prescribed each year by NABARD. The Refinance policy for 2017-18 was issued vide (circular No. 72/DOR-09/2017 dated 31<sup>st</sup> March 2017) The basic parameters are as follows:

CRAR – as on 31-03-2016 – 7% Minimum

Net NPA – should be less than 6% and low-risk category

Net profit

Audit classification – A or B

For low risk category, the quantum of refinance shall be unrestricted, subject to the bank realistic lending program, for moderate risk category, the quantum of refinance shall be fixed at 25% over and above the refinance drawn in the previous year /90% of the ground level credit for term loans disbursed by the State Cooperative Bank whichever is more.

For medium risk category the quantum of refinance will be fixed at 10% over and above the refinance drawn in the previous year/ 80% of the ground level credit for term loans disbursed by the State Co-operative Bank, whichever is more.

The auditor shall verify the following points with respect to refinance:

- (i) The eligibility criteria for the year
- (ii) The banks eligibility based on the criteria
- (iii) The amount of refinance sanctioned
- (iv) The amount of refinance availed

- (v) The rate of interest on the loan
- (vi) The repayment period and repayment schedule
- (vii) Penal interest paid if any for default
- (viii) Interest subvention claimed by the bank.

### *1.37 Marginal Standing Facility (MSF) and Liquidity Adjustment Facility (IAF)*

Liquidity Adjustment facility was extended to schedule State Co-operative banks, which are Core Banking solutions enabled and having minimum CRAR of 9% with effect from 20<sup>th</sup> August 2018.

The auditor shall go through the terms and conditions issued by Reserve Bank of India FMOD (Financial Markets Operation Department) and ensure that the terms and conditions are complied with while availing the MSFs and LAFs (if the bank is eligible as per norms of RBI):

### *1.38 “Cash Management Activities engaging service provider and its subcontractor.”*

As per circular RBI/2017-18/152

DCB (Plg.) No.3563/10.25.07/2017-18 dated 6<sup>th</sup> April 2018. RBI has prescribed certain minimum standards for the cash management arrangements by the service providers/sub contractors. The auditor shall verify whether the outsourced agency/service providers/subcontractor has the minimum net worth prescribed by RBI. The specifications in respect of including physical condition, of cash transit van, provision for custodians security guards, trained staff, transit route arrangements, etc shall be clearly monitored and ensured. The auditor shall see that the guidelines are followed in cash management system properly.

### *1.39 Unauthorized Banking Transactions – Customer’s liability* (Circular No.RBI/2017-18/109

DCBR.BPD.(PCB/RCB)Cir.No.06/12.05001/2017-18 dated 14/12/2017.)

In view of the increasing volume of electronic banking transactions, RBI has instructed the banks with respect to the customer’s liability in unauthorized



electronic Banking Transactions. In order to streamline line the procedure, banks are advised to adopt appropriate systems and procedures to ensure safety and security of electronic banking transactions, carried out by customers. The banks have to implement robust and dynamic fraud detection and prevention mechanism as well as risk assessment mechanisms and also appropriate measures to mitigate the risks and protect themselves against the liabilities arising there from and a system advising the customers on how to protect themselves from electronic banking related frauds.

The banks are also advised to frame and adopt a policy for customer protection, which should contain a robust customer grievance redressal structure, timeliness for resolution of customer complaints and compensation for customers based on the promptness in reporting the frauds to the banks. The customer's liability is specified based on the time taken to report the fraudulent transactions. The auditor shall examine the details of such transactions and make the report based on the RBI circular as well as the Banks policy, framed in this respect.

#### *1.40 Recording of Details of Transactions in Pass Book/ Statement of Accounts by Co-operative Banks.*

Reserve Bank of India, in its circular No. RBI/2017-18/24 DCBR.BPD. (PCB/RCB) Circular No.02/12.05.001/2017-18 dated 13<sup>th</sup> July 2017, has instructed the banks to provide adequate details of the transactions in the pass books and/or statements of account to enable the account holders to cross check them. The debit entries such as payment to third parties, issuance of drafts/ pay orders, any other payment instrument, bank charges recovery of installment of a loan/interest on loan, creation of fixed deposit/recurring deposit, transactions at POS, and credit entries such as cash deposits, receipt from third parties, proceeds of clearing/collections, draft etc paid, interest on deposits, loan proceeds, maturity proceeds of fixed depots/recurring deposit, shall be recorded in the pass books or statement of accounts. The auditor shall verify the entries

made in the pass books/statement of accounts of customers on a random basis to ascertain the compliance by the bank.

#### *1.41 Ensuring security of card transactions*

In view of increasing number of digitalised banking transactions Reserve Bank of India has issued guide lines for ensuring the security of card transactions as per circular No.RBI/2019-20/142 DPSS.CO.PD No. 1343/02.14.003/2019-20 dated 15<sup>th</sup> January 2020. The auditor shall examine whether the guidelines has been complied in the issue and management of debit/credit cards and other on line banking transactions.

#### *1.42. Mobile Banking Transactions.*

RBI has issued operative guidelines for mobile banking operations in India by banks as per circular No.RBI/2016-17 DPSS.Co.PD. Mobile Banking No2/02-23-001/2016-17 dated 1<sup>st</sup> July 2016.

As per the circular, State Co-operative banks are permitted to offer Mobile Banking services after obtaining necessary permission from the Departments of Payment and Settlement Systems, Reserve Bank of India. Mobile Banking services are to be made available to the customers irrespective of the mobile network. Licensed banks who have implemented Core Banking solutions are permitted to provide mobile banking services to the customers. Only Indian rupee based domestic services shall be provided. The guidelines issued by RBI “Risks and Controls in computers and Telecommunications” “Know Your Customer” “Anti Money Laundering” and “combating the Financing of Terrorism” would be applicable to the Mobile Banking Services also. Information security is very important to the mobile banking services and hence, technology used for Mobile Banking must be secure and should ensure confidentiality, integrity and authenticity. Even though banks are permitted to offer mobile banking facility to their customers without any restriction on daily transactions involving purchase of goods and services, it is open for banks to put

restrictions on transactions depending on bank's own risk perception. The Auditor of Kerala (State) Co-operative Bank shall examine the following in respect of mobile banking services provided to its customers:

(i) Whether the bank has obtained necessary permission from the Reserve Bank of India, before offering the mobile banking services to its customers.

(ii) Whether there is any discrimination in providing mobile banking services with respect to different networks.

(iii) Whether the bank is licensed.

(iv) Whether the bank has implemented Core Banking Solutions.

(v) Whether the mobile banking services provided to Indian Rupee based services only.

(vi) Whether the guidelines issued by RBI in respect of "Risk controls in computers and Telecommunications" were complied with.

(vii) Whether the guide lines in respect of "Know Your Customer" "(KYC)", Anti Money Laundering (AML) and "combating the financing of Terrorism" (CFT) issued by Reserve Bank are complied with by the bank".

(viii) Whether the technology used for 'mobile banking Services' is secure and ensure confidentiality, integrity and authenticity.

(ix) Whether any restrictions/limit put by the bank in respect of daily transactions involving purchase or sale of goods and services.

(x) Whether there is a robust customer complaints and grievance redressal mechanism in the bank.

(xi) Whether the fund transfer services are provided and the conditions prescribed are followed in the bank.

(xii) Whether the bank conduct Information System Audit regularly on mobile banking system.

(xiii) Whether the bank had notified the time frame and the circumstances in which any stop payment instructions could be accepted.

(xiv) Whether the bank had instituted adequate risk control measures to manage the risks to which the mobile banking services are exposed.

(xv) Whether the bank had insured themselves against risk arising out of unauthorized transfer through banking or technological failure etc.

### *1.43 Information System Audit*

State Co-operative Banks were advised by NABARD vide circular No. NB.DoS.HO.Pol./3634/J-1/2014-15 dated 25<sup>th</sup> February 2015, to adopt the Information System Audit as per guidelines prescribed. A check list for the guidance of Information System Auditor was prescribed and the scope of Information System Audit and Information security, Electronic Banking, Technology risk management and Cyber Frauds was also provided in the guidelines. Banks were advised to adopt an IS audit Policy, adopt appropriate systems and practices for conducting Information System Audit by Qualified IS auditors, on an annual basis covering all the functions of HO as well as Branches. The Information System Audit Report is to be placed before the Audit Committee and Board of Directors. As per the guidelines issued, bank shall have an Information System policy, approved by the Board of Directors. Banks have been advised to conduct the Information System Audit prior to the conduct of statutory audit, in order to facilitate the Banks Statutory Auditor to incorporate the Information System Audit Comments/observations also in his report. As the Core Banking solution enabled Co-operative Banks are offering diversified banking products through Core Banking, it is essential to ensure safety and security of Information System, which shall be ensured by adopting an Information Technology Policy and Information System Audit. Information System audit is the process of collecting and evaluating evidences to determine whether the information system safeguards assets, maintains data integrity and achieve organizational goals. The Information System Auditor shall examine the following;-

- (i) Whether the system is adequate enough for the business needs of the bank and available at all times when required.
- (ii) Whether the information system is well protected against all types of losses, threats and disasters.
- (iii) Whether the controls are properly adopted to prevent unauthorised access.

(iv) Whether the management has put sufficient precautionary checks to avoid any kind of un authorised modifications.

- (v) Whether the Information System Audit includes the following
- (a) System administration
  - (b) Physical control
  - (c) Environmental Control
  - (d) Net work Security
  - (e) Data integrity and
  - (f) Business continuity

(vi) The Auditor shall verify whether the bank has adopted an Information System Audit policy approved by the Board of Directors.

(vii) “Whether Migration Audit” has been conducted by the Bank.

(viii) Whether Information System Audit has been conducted regularly as prescribed.

(ix) Whether the IS Audit report has been placed before the Top Management/Audit Committee/Board of Directors and compliance ensured.

(x) Whether the security, reliability and availability of data are ensured in the System.

(xi) Whether integrity and collectiveness of systems and control are reviewed properly in the Information System Audit.

#### *1.44 Scholarship Accounts*

RBI have advised cooperative banks to allot a different product code in their Core Banking Solutions to the accounts opened by the beneficiaries’ under the various Central/State Government Schemes including scholarship schemes for students so that stipulation of inoperative/dormant account due to non operation does not affect such accounts. (RBI circular No. RPCD. RCB.BC.No.42/07-51.014/2013-14 dated October 7 2013.) Consequent on a judgment/directions by Hon. High Court of Bombay, RBI had further clarified that the accounts of all student beneficiaries under various Central/State Government scholarship Schemes are free from restrictions of “minimum balance” and total credit limit”. The auditor of the bank while auditing such accounts shall be guided by the above directions and shall ensure that the bank had acted upon the directions.

#### *1.45 Membership in Credit Information Companies.*

State Co-operative banks have been advised by Reserve Bank of India to take membership in Credit Information Companies. As per Section 15 of Credit Information Companies Act 2005, every credit institution shall become member of at least one Credit Information Company. In order to facilitate complete credit information of clients/borrowers, RBI permitted/ advised all Co-operative Banks to become member of all Credit Information Companies and submit data to them, as per circular DCBR.BPD. (PCB/RCB) Cir.No.13/16-74.000/2014-15 dated 29<sup>th</sup> January 2015.

The auditor shall verify the records/documents relating to the membership in Credit Information Companies. He shall also verify the reports of such Credit Information Companies with respect to the borrowers.

#### *1.46 Stock Audit of Working Capital Loans*

NABARD in its circular No.72/DoS.04/2015-16 dated 24<sup>th</sup> April 2015 has advised State Cooperative Banks to conduct stock audit of working capital loan accounts where the balance outstanding is Rs. 5 crores and above. The auditor shall go through the guidelines issued by NABARD and see that the bank had complied with while conducting the stock audit.

#### *1.47 Provisioning pertaining to frauds*

In the event of erosion in the value of security or non-availability of security or frauds on the part of borrowers, the asset classification and provisioning may be made depending upon the exact realizable value of security obtained. Reserve Bank of India has issued guidelines in respect of such incidents. In case of frauds, the entire amount due to the bank, in respect of the quantum of security held against such assets is to be provided for over a period not exceeding four quarters commencing with the quarter in which the fraud has been detected. If there has been delay in reporting the fraud to the Reserve Bank of India, the entire provisioning is required to be made.

#### *1.48 Business analysis*

The auditor shall make a business analysis by comparing the business statistics of previous years. The increase or decrease of business turn over should be specifically pointed out in the audit report. Various parameters in ratio analysis may be adopted in order to make an inference with reference to the business growth of the bank.

#### *1.49 Verification of Reserve Fund*

Verify the minutes and ensure that the Reserve Fund has been appropriated from the net profit as per rules. Also see that it has been invested as stipulated in the Act/Rules/ by laws/Circulars.

#### *1.50 Disclosure of Information by State Co-operative Banks*

As per circular No.246/DOS/13/2015 dated 20-11-2015 NABARD has advised that State Co-operative banks shall make arrangements for the displaying of their abridged Balance Sheet and Profit and Loss Accounts based on the audited financial statements, in all their branches for the information of general public/customers, and also to be posted in the banks' website.

The auditor shall examine whether the bank has disclosed its financial position by displaying their abridged Balance Sheet, Profit and Loss account, in their Head office, as well as branches and through its website.

#### *1.51 Appropriation of Net Profit*

The Net Profit of the bank is to appropriated in accordance with provisions of section 56 and rule 53 of KCS act and rules. The auditor shall see that the appropriation is made strictly in accordance with the Act, rules and Bye laws and brought to the books of accounts of the bank.

#### *1.52Preparation of Long Form Audit Report (LFAR)*

During the course of audit of the bank, the auditor may be experiencing some matters which are not covered by the Audit Report, but important enough

to be communicated to the bank management. In such circumstances the auditor shall prepare an additional Audit Report pertaining to the overall performance of the bank which is called Long Form Audit Report (LFAR). LFAR is to be prepared by the auditor and presented along with the main audit report and financial statements. Main contents of LFAR are:

(I) Assets

- (i) Cash
- (ii) Balance with RBI, SBI and other banks
- (iii) Money at call and short notices
- (iv) Investments
- (v) Advances
- (vi) Other Assets

(II) Liabilities

- (i) Deposit
- (ii) Borrowings
- (iii) Other Liabilities

(III). Profit and Loss Account

(IV). General

Detailed information in separate annexures has to be furnished as per the requirements.

LFAR is not a substitute to the main audit report, but supplemental forming part of the main audit report. The LFAR focuses on the evaluation of the internal control measures of the bank. LFAR helps the management to understand the short comings and deficiencies of the bank in a systematic way. Long Form Audit report has been made a practice through the circulars of RBI and NABARD.

The management of the bank may be able to adopt some corrective or progressive measures for the improvement of the bank. The auditors shall discuss with the concerned before finalizing the report, so that his comments and opinions or answers shall be correct and realistic.

The auditor while preparing the LFAR shall verify the previous reports to ascertain whether in respect of the accounts for the year under audit there are any matters, which deserve the attention of the management particularly with



respect to the adverse comments of a matter, which requires remedial action. The auditor shall get the details of any change in the Management Information System during the Year. The guidelines as well as the coverage of long form Audit Report is issued by NABARD as per circular No.107/Dos-20/2008 dated 30<sup>th</sup> June 2008.

The guidelines stipulate that the LFAR shall contain the detailed analysis of the following.

- Capital
- Asset quality
- Management
- Earning appraisal
- Liquidity Management
- Systems and controls.
- Compliance.

The work relating to the preparation of LFAR shall be taken up simultaneously with the main audit report. Both the reports shall be submitted simultaneously, so that the management shall be able to make decisions based on these reports. LFAR in respect of branches shall also be prepared as prescribed by NABARD, so that a comprehensive report shall be made available to the management of the bank.

(Refer to the circular of NABARD for the format of the LFAR)

### *1.53 Audit classification of Kerala of State Co-operative Bank*

The audit classification of State Co-operative Bank is to be carried out as per Circular. No. 83/DoS-13/2013 Dated. 06/05/2013 of NABARD. The classification pattern is based on the following broad parameters.

Sl.No	Parameter	Maximum marks
1	Capital adequacy	15
2	Asset quality	15
3	Management	10
4	Earnings	10
5	Liquidity	15
6	Systems and control	20
7	Compliance	15
	<b>Total</b>	<b>100</b>

The pattern is based on 'CAMELSC' model. Sub parameters have been identified for each of the above parameters, as follows

## 1.Capital adequacy (15 marks)

Capital adequacy has 2 Sub parameters such as

1. Net worth as a percentage of total Assets and
2. Capital to Risk weighted Assets Ratio.

If the net worth is greater than 5%, 5 marks shall be awarded. If it is between 4% and 5% 4 marks shall be given. If it is between 2% and 4% 2.5 marks and if the net worth is between 2.5% and 2%, 1.25 marks shall be awarded. If the net worth as a percentage of total assets is less than 0.25,no marks shall be awarded. The net worth which comprises capital plus free reserve shall be positive and it should be at least above 5% of total assets. Capital to Risk weighted assets Ratio (CRAR) shall carry 10 marks, as specified below.

CRAR > 9%	10 marks
7% to < 9%	8 marks
4% to < 7%	5 marks and
< 4%	Nomarks

## 2.Asset Quality (15 marks)

The total marks allotted for asset quality is 15 and the main components of assessment of asset quality is gross level of NPAs, ability of the bank to reduce the NPA level, provisions made for NPA and the compliance of IRAC norms. If the percentage of NPA is higher, the bank shall get less marks.

Gross NPA up to 5%	10 Marks
More than 5% and upto 8%	8 Marks
More than 8% and up to 12%	5 Marks
More than 12% and up to 15%	2.5 Marks
And if it is more than 15% no marks shall be awarded.	
If 100% provision is made	5 marks shall be awarded.
If provision made is above 90%and up to 100%	4 marks
If provision made isabove 85% and up to 90%	2.5 marks
If provision made is above 80%and up to 85%	1.25 marks
If provision made is below 80%	No marks

### 3. Management (10 marks)

Efficiency in respect of management shall be assessed with reference to leadership, top management second line management, training requirements, recruitment policy, rotation of staff etc.

Reference to leadership, the functioning of the Board's effectiveness, functions of Executive Committee and loan and Recovery Committee shall be assessed and 2 marks shall be awarded, if satisfactory. The following is the sub parameters for awarding marks:

Leadership	2 marks
Top management	2 marks
2 <sup>nd</sup> line management	2 marks
Organisation and & Job description	1 mark
Recruitment policy	1 mark
Training	1 mark
Rotation of staff	1 mark

The bank is required to constitute subcommittees such as Asset Liability Management Committee, Investment Committee, Audit Committee, Recovery Committee etc. The proceedings of the subcommittee meeting shall be properly recorded and the auditor shall verify the minutes of each subcommittee. If the NPA level is growing, the auditor shall be cautious, not to give marks to management. The decisions of Board of Directors are to be implemented by the top level Management. Hence their performance shall be assessed and marks(2) awarded based on their performance.

### 4. Earnings (10 marks)

Operating profit and Net profit are the sub parameters. If operating profit is more than the provisions required to be made, then 5 marks shall be awarded and marks shall be reduced depending on the rate of coverage. Net interest margin, non interest income to noninterest expenses ratio, etc to be verified by the auditor for awarding the marks.

5. Liquidity (15 marks)

Maintenance of CRR/SLR	5
Asset liability Management System, ALCO formed	2
Investment management	2
Deposit mobilization	2
Timely repayment of borrowings	2
Cash management	1
Deposit insurance	1

The auditor shall examine each sub parameter and award marks according to their performance.

6. Systems and controls (20 marks)

*The following points shall be considered.*

- |   |         |
|---|---------|
| (i) Whether there is a system of internal control, inspection and internal audit which is reviewed periodically by the management.          | 2 marks |
| (ii) If the audit committee is functioning effectively  | 2 marks |
| (iii) If there is a well defined loan policy and appropriate follow up and appraisal in all loans and advances                              | 3 marks |
| (iv) Credit monitoring arrangements   | 1 mark  |
| (v) Accounting procedure; if accounts finalized and annual financial statements prepared within 3 months of the close of the financial year | 2 marks |
| (vi) House keeping  | 2 marks |
| vii) Risk management systems  | 3 marks |
| (Full mark if Risk Management Committee and Fraud Risk Group functioning properly)  |         |
| (Viii) Computerisation and Core Banking solutions   | 5 marks |

## 7. Compliance (15 marks)

### *Full compliance of RBI/NABARD instructions*

(i) In respect of KYC/AML	3 marks
(ii) Compliance to audit defects	3 marks
(iii) Compliance to NABARD inspection defects	3 marks
(iv) Submission of External Returns	2 marks
(v) Submission of OSS returns to NABARD	2 marks
(vi) Progress in implementation of Monitorable Action Plan (MAP)	2 marks

Whether compliance to the audit defects is undertaken timely and reviewed by the Board of Directors within 3 months. Delay in rectification may be examined and marks shall be reduced for such delay. Management Information System shall be reviewed and timeliness of submission of returns,(off-Site Surveillance (OSS) and other statutory returns) may be considered for awarding marks.

The marks obtained by a bank against the respective parameters would indicate level of performance of the bank.

Based on the marks obtained, audit classification shall be awarded to the bank as shown below.

75 marks and above	- A class
60 and above but less than 75	- B class
40 and above but less than 60	- C class
Below 40	- D class

### *1.54 Verification of Audit compliance*

The Managing Committee of the bank is obliged to place the Audit Report before the General Body and read over, all the defects in full, in the general body. It is also mandatory for the managing committee to place the rectification report on the defects reported by the auditor. They are also duty bound to rectify the defects mentioned in the audit report and submit the rectification report to the Director of Co-operative Audit and to the Registrar within two months of the receipt of the Audit Certificate. The Auditor should verify the compliance and report any lapses in the rectification as well as the submission of such reports. The Rectification /Compliance report shall be submitted to the Reserve Bank of India and NABARD too.

## Chapter I (2)

### **AUDITING OF PRIMARY AGRICULTURAL CREDIT CO-OPERATIVE SOCIETIES (PACS)**

Sl. No

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### **1.2.1 Introduction**

Panchayath/Village level primary co-operative society formed primarily for the purpose of providing agricultural credit to the farmers has now been transformed into larger Co-operative institutions having much number of branches and multi level business activities, satisfying almost all needs of the people. The average membership of Primary Agricultural Credit Co-Operative Societies in Kerala has crossed five digit figures. The business activities undertaken by the Primary Agricultural Credit Co-Operative Societies apart from agricultural lending have multiplied manifolds in number as well as in size. Hence the auditors of Primary Agricultural Credit Co-Operative Societies have to undertake the audit work in a planned manner. They have to understand the business activities of the Primary Agricultural Credit Co-Operative Societies thoroughly and complete the audit in a time bound manner. The whole audit work should be programmed properly and it should be executed with precision and precaution. According to Maclagan committee Co-operative Audit extends beyond the bare requirements of the societies Act and should embrace an enquiry into all the circumstances which determine the general position of the society. Hence the auditor is liable to report any instances of violation or infringement of the Co-operative Act, Rules or its own By laws, verify the cash balance and certify the correctness of the financial statements in order to ascertain the genuineness of the business transactions, and see that the society is working on fair and sound economic conditions.

#### *1.2.2. Special features of Audit of Primary Agricultural Credit Co-Operative Societies*

- i. Large number of members
- ii. More number of branches
- iii. Computerized /TBA or Core banking
- iv. Multiple area of business – The auditor shall be conscious of verification of the various business areas/units.

- v. The auditor has to verify the Trial Balance/Receipt and Disbursement of each unit and ensure that all the figures are incorporated in the consolidated Trial Balance/Receipt and Disbursement and Balance Sheet.
- vi. The auditor shall ensure that the Bylaws of the Primary Agricultural Credit Co-operative Societies have suitably been amended in tune with the latest amendments in the Co-operative Societies Act and Rules.
- vii. The auditor has to ensure that the Primary Agricultural Credit Co-operative Societies have invested their funds only in the institutions approved by the Registrar.
- viii. The auditor shall resort to administrative audit as well as financial audit.
- ix. The auditor should ensure that the election to the Board of Directors has been conducted at regular intervals as prescribed.
- x. The audit of Primary Agricultural Credit Co-Operative Societies consists of the verification of cash balance, examination of overdue debts if any, verification and valuation of assets and liabilities, and includes the physical verification of stock in trade, furniture equipment etc. It also includes the verification of books of accounts and the schedules/statements.
- xi. In most of the Primary Agricultural Credit Co-operative Societies the services of auditors have been obtained by remitting the cost of auditor in advance, which leads to full time presence of Auditor in the institution.
- xii. The errors, omissions and procedural lapses may be rectified as and when they are detected and reported by the auditor.

*1.2.3.(a) Affiliation of Primary Agricultural Credit Co-Operative Societies with State Co-operative Union*

The auditor shall see that the Primary Agricultural Credit Co-Operative Societies has been affiliated with the State Co-operative Union as per Sn.90 of KCS Act and remitting the affiliation and annual renewal fee regularly, without any dues, as prescribed in the KCS Rules (Rule 148).

It is the duty of the auditor to examine whether the society has remitted the Co-operative Education Fund in accordance with Rule 53 of KCS Rules, Any lapses on the part of the society should be reported by the auditor with direction to comply clause 53(2) B (BA) of KCS Rules.

*1.2.3(b) Affiliation of Primary agricultural credit society with apex society.*

Whether the society is affiliated with the Apex Bank in accordance with Section.8A of KCS Act is also to be verified by the auditor.

*1.2.4. Maximum Borrowing Power:*

The auditor has to verify the Bylaw of the society to ascertain the maximum borrowing power of the society. He should examine whether it has exceeded the stipulation and if so it should be reported with suggestion for amending the provision of the Bylaws.

*1.2.5. Verification of Bylaws:*

The auditor should become familiar with provisions of the Bylaws of the society before going through the transactions of the society. He should ensure that the provisions of the bylaws are in line with the provisions of Kerala Co-operative Societies Act and Rules and other relevant central and state laws. He should also verify the latest amendments of the Bylaws of the society.

*1.2.6. Verification of sub rules in respect of the Primary Agricultural Credit Co-Operative Society:*

Several Sub Rules shall have been framed by the Primary Agricultural Credit Co-Operative Society for streamlining the Business activities. The auditor should verify each of the sub rules before auditing the transactions, so that he will be able to execute his job more professionally and efficiently. If sub rules are not properly framed, that should also be reported by the auditor, with direction to frame them at the earliest.

### *1.2.7. Membership and Share Capital:*

The area of operation of the society should be ascertained from the bylaws and it should be ascertained whether all the members are residents in the village or villages or is in occupation of land, in the area of operation of the society.

Share capital and entrance fees are paid along with the application by a person intending to become a member of the society or to increase his share capital. The society on receipt of the amount should keep it under suspense account. When he/she is admitted as a member, the Suspense Account is transferred to Share capital and Entrance fees. The auditor while vouching this item of receipt should verify whether the admission has been made in accordance with section 16 and Rules 16 & 17 of the KCS Act and Rules and the bylaws. He must also verify the application for membership and the resolution of the committee admitting him/her as a member. He has also to ensure that the society has observed the restrictions, if any stipulated in the Act, Rules and By laws with regard to the holding of shares by a member.

A person should not be admitted as a member without remitting the entrance fee along with the share capital as provided in the bylaws. The auditor shall also ensure whether the signature of the member has been obtained in the Admission Register. He should also see that the full address of the member together with the name and address of his nominee etc are entered in the register. Sn.19 of the Kerala Co-operative societies Act, states “No member of the society shall exercise the rights of a member unless he has made such payments to the society in respect of membership or has acquired such interest in the society, as may be prescribed by the Rules or by laws”. Thus admission of a member without actually receiving the share capital is not allowed. The auditor should ensure the accuracy of membership and share capital by verifying the statements of memberships and share capital with the personal ledgers.

### *1.2.8 Verification and valuation of liabilities*

#### *1.2.8.(a) Deposits from members:*

While vouching the receipts the auditor shall ensure that the amount received as deposits have been entered in the Day Book, personal ledger (for deposits) and General Ledger. The outstanding statement at the end of the year should be checked with those ledgers to ensure the accuracy of the statement. The rate of interest paid on deposits may be verified by the auditor to ensure that it is in line with the circular issued by the Registrar. If any violation is noticed, it should be reported with the detailed statement.

#### *1.2.8.(b) Borrowings from Apex Bank:*

The auditor should examine whether the society has complied with the limit prescribed in the bylaws in respect of MBP. It is the duty of the auditor to examine the cost of borrowings and advise for the cheaper loans. The year end Balances (as per General ledger and the personal ledger) should be verified by getting a confirmation from the financing bank. The cost of borrowings should be less than the yield on loans and advances.

#### *1.2.8.(c) Borrowings from other institutions:*

If the Primary Agriculture Credit Society have made any borrowings from any other institutions other than the financing Apex Bank, that also should be verified by the auditor and year end confirmation to be obtained from such institutions to ensure the accuracy of the account. The outstanding at the end of the year should also be checked with the confirmation statement, and the society's statement of accounts.

#### *1.2.8.(d) Borrowings from Government:*

Usually the State Government financial assistance to Primary Agriculture Credit Society is of three components such as share, loan and subsidy. As the subsidy component is not repayable, the other two components are repayable. The auditor should verify the details of loans received from Government and should ensure the prompt repayment of loans installments with interest. Any lapses in this regard should be reported by the auditor. The statement of

outstanding at the end of the year should be in agreement with the confirmation obtained from the concerned offices. The repayment schedule of share capital assistance should also be verified to ensure prompt repayment.

#### *1.2.9 Verification of rate of interest paid by society on deposits*

The rate of interest payable on various type of deposits received by Primary Agriculture Credit Society is prescribed by the Registrar from time to time. The auditor should go through those circulars and see that no excess interest is paid by the society. If any infringement is noticed, the auditor should take the excess interest paid to the 'Due to' account with direction to realize the amount from the person responsible for such excess payment.

#### *1.2.10 Verification of rate of interest paid by society on borrowings*

The rate of interest paid on borrowings should be verified by the auditor and satisfy that it is in line with the prevailing rate in the banking industry. The agreement made by the borrower and financier shall be examined by the auditor and see that the Board of Directors of the Bank have authorized such borrowings/ the requirement of such borrowings shall also be examined. The payable amount at the end of the year should be verified and see that it is taken to the Balance Sheet.

#### *1.2.11 Verification of Establishment charges paid and payable*

The establishment expenses should be verified by the auditor to satisfy that they are within the budget limit and ensure that the expenses are within the payment capacity of the society. Examine whether the payments have been authorized by the Board of Directors. Any undue payments should be taken to 'Due to Account' with suitable direction in the "summary of defects". The amount outstanding as payable on account of establishment expenses should be taken into Profit and Loss Account and Balance Sheet, which should be verified in the next audit to ascertain the actual position of the Account.

### *1.2.12 Verification of Income Tax and TDS*

Income Tax and TDS collected should be remitted within the due date promptly. It is the duty of the chief executive officer to deduct the tax from the salary of employees and remit to the Income Tax Department. The auditor should verify it to ensure that the society has complied with the provisions of Income Tax Act properly. He should ensure that the Returns are filed in time.

### *1.2.13 Verification of Suspense Liability – Advances due by society*

The Personal Ledger for suspense liability accounts will not be properly maintained by some of the societies due to the impression that it is not mandatory. The auditor shall verify the receipts and payments under the head and check it with the Personal Ledgers and Day book and General Ledger. The statement of balance outstanding in respect of Suspense liability items shall be verified by the auditor to ensure that the amount put under these heads are actually payable. Confirmation letters may be sent to the parties in order to ascertain the accuracy of outstanding amount. (Read Circular No. 08/2013 dated 16-06-2013 of the Director of Co-operative Audit).

### *1.2.14 Verification of Reserves*

Reserves may be statutory and non statutory. The reserves which are being created as per the provisions of Co-operative Societies Act such as Reserve fund, Bad debts Reserve, Agricultural Credit Stabilization Fund etc are example of statutory reserves. Statutory reserves may be created through/from the profits earned by the society or from the Government funds granted for certain specific purposes. These statutory reserves are to be invested outside the business of the society. There should be specific guidelines for the utilization of these statutory reserves. The auditor shall verify these guidelines (sub rules) and ensure that the utilization is in accordance with the rules laid down. The auditor has to verify the resolution of the Board of Directors for the utilization of these funds. The auditor shall examine the Profit and Loss Account and ensure that

the appropriation of net profit is in accordance with the provisions of the Act, Rules and Bylaws of the society. The interest earned on the investment of these funds shall be accounted and shall be taken to Profit and Loss Account.

Non statutory Reserves such as Reserve for overdue interest, Depreciation reserve, Reserve for objected items, Reserve for deficit stock etc are treated based on the directions of Registrar. Building fund and Dividend Equalization Funds are non statutory reserves made out from profits in accordance with the bylaws. The auditor should verify the resolution of the Board of Directors in respect of the appropriation of net profit. The utilization of these non statutory funds should be supported by a Board resolution; the auditor should verify the resolution and the entries in the Books of Accounts and annual statements.

#### *1.2.15 Verification of Provisions*

Provisions are made to maintain financial stability of the society, which should act as a cushion for any financial setbacks. Provisions for anticipated expenditures or future commitments may be made such as provisions for employee's salaries and allowances, gratuity, bonus or provision for administrative charges like electricity, rent, taxes etc. The auditor shall ensure that excessive provisions are not made resulting in the fall of profit rate, which will lead to the negation of the dividend to the members. The auditor should examine the various enactments (Co-operative Law, Bonus Act, Gratuity Act etc.) and provisions of the bylaws to ensure that the provisions made are reasonable, genuine and adequate. The provisions made for income tax and overdue loans should also be examined in line with the norms prescribed.

#### *1.2.16 Verification and valuation of Assets :*

##### *1.2.16.(1).Loans and advances*

One of the major businesses of the Primary Agricultural Credit Co-Operative Society shall be disbursing loans and advances to its members. Usually Primary Agricultural Credit Co-Operative Society shall be giving short



term and medium term loans to the borrowers. Primary Agricultural Credit Co-Operative Society is defined as follows in Sn.2(Oaa) of KCS Act “The Primary agricultural credit society” means a service co-operative society, service co-operative bank, a Farmers Co-operative Bank and a Rural Bank, the principal object of which is to undertake agricultural activities and to provide loans and advances for agricultural purposes, the rate of interest on such loans and advances shall be the rate fixed by the Registrar and having its area of operation confined to a village, panchayath or municipality.

The auditor shall ascertain whether the principal object of the Primary Agricultural Credit Co-Operative Society is achieved by lending to the farmers for agricultural activities, at the rate of interest fixed by the Registrar.

*1.2.16.1.(i). Verification of Loan policy:*

Depending on the peculiar nature of the Primary Agricultural Credit Co-Operative Society, there might have some loan policies, which should be examined by the auditor. For eg: Primary Agricultural Credit Co-Operative Society in hilly districts such as Idukki and Wayand may have different loan policy than the Primary Agricultural Credit Co-Operative Societies in coastal areas.

*1.2.16.1.(ii). Verification of Loan Documentation:*

The auditor should ensure that prescribed documents are obtained from the borrower. Normally there may be a number of documents, attached along with the loan application. The loan agreement should be properly executed by signing the document by both the parties. Title Deed of the security properties, latest tax receipt, Encumbrance certificate, Legal opinion, Location certificate, Possession certificate etc. should be verified by the auditor in order to ascertain ownership rights and the genuineness of the loan.

*1.2.16.1.(iii). Verification of loan procedures:*

The auditor should verify the loan procedures to ensure that the society has acted fairly and judiciously. The application form should be fully and properly filled up and submitted to the society, enclosing necessary documents such as ownership deed, tax receipt, encumbrance certificate, location certificate possession certificate etc. The Auditor shall examine the minutes in order to ascertain the Board resolution sanctioning the loan.

*1.2.16.1.(iv). Verification of Individual maximum Borrowing Power:*

It is the duty of the auditor to examine the borrowing limit prescribed for individual members. To that purpose he should verify the bylaw provisions as well as the circular directions of the Registrar.

*1.2.16.1.(v). Verification of Loan Disbursement :*

Usually the loan is disbursed in installments by the societies. While vouching the payments, it should be ensured that the payments are made through account payee cheques and proper receipt and acknowledgement obtained from the borrowers. Also ensure that the personal ledger of loans is properly filled up at the time of loan disbursement. He has to ensure that Sn.59 of KCS act is fully complied while sanctioning the loan.

*1.2.16.1.(vi). Verification of loan Recovery:*

Well built recovery mechanism is inevitable in Primary Agricultural Credit Co-Operative Society for maintaining the overdue level within the prescribed limit. The Board of Directors might have authorized specific officials for the timely recovery of loans. The auditor shall verify the recovery steps and make his suggestions regarding the improvement if needed. The overdue position shall be compared with that of previous years and shall be reported in the audit, if the position is worsening.

*1.2.16.1.(vii). Verification of over dues - assessment of bad/doubtful debts:*

The overdue position of each Primary Agricultural Credit Co-Operative Society depends on several factors ranging from general economic condition to the managerial ability of the CEO/ Branch Manager. The auditor should specifically examine the overdue position of each loan by verifying the personal ledgers. The recovery steps, including legal action should be thoroughly verified by the auditor. The responsibilities of staff, CEO and the Board of Directors should be scrutinized and reported.

Assessment of bad and doubtful debts is to be made by the Auditor after taking into consideration all the circumstances and examining each case in detail. The Auditor has to follow the guidelines issued by the Registrar/RBI for assessing the bad and doubtful debts. The classification of loans into bad and doubtful has to be made with great care as all debts classified as bad will be required to be written off and adequate provision for bad and doubtful debts. Provision for bad and doubtful debts shall be adequate to cover all debts classified as bad. Circulars of Registrar of Co-operative Societies is to be followed in respect of classification as well as provisioning (Read circular Number.40/2007 dated 10-12-2007 of Registrar of Co-operative Societies).

*1.2.16.1(viii). Verification of rate of interest on loans:*

Usually the rate of interest chargeable on loans and advances by Primary Agricultural Credit Co-operative Society is prescribed by the Registrar of Co-operative societies from time to time through circulars based on the market conditions. The auditor should ensure that the society has not charged excessive rate of interest from borrowers or charged a lower rate of interest in order to shower favouritism to the loanees. He should be thorough with the circulars in respect of rate of interest chargeable on loans and advances.

*1.2.16.1.(ix). Verification of loan disbursed to committee members:*

The auditor shall obtain a statement of loans issued to the committee members, from the chief executive and it has to be verified with the loan ledger and Day book. If the Board members are in default, on loan repayment it should be mentioned in the audit report. The rate of interest charged shall also be verified.

*1.2.16.1.(x). Verification of surety or security on loans :*

The securities or surety should be verified in order to ensure the repayment. The genuineness of sureties should be verified if the loan is disbursed based on personal sureties. If collateral securities are provided, that should be verified by the auditor.

*1.2.16.1.(xi). Verification of loans written off :*

Rule 62(1) and (2) of KCS Rules prescribes the procedure for writing off of bad debts. In Registrar's circular No.93/75(G311491/75) dated 11.11.1975, it has been specified that the auditors appointed under Sn.63 of KCS Act to audit the accounts, alone, are competent to issue the certificate contemplated in Rule 62(1).

*1.2.16.1.(xii). Verification of loan outstanding at the end of the year:*

The auditor should obtain a statement of loan outstanding at the end of the year from the chief executive and it should be scrutinized with the loan ledger and Day book and General ledger. If the loan outstanding at the end of the year as per General Ledger and the statement differ considerably, the auditor should make a thorough verification to detect, the reason for the discrepancy and the auditor shall create provisions for the differences.

*1.2.16.1.(xiii). Verification of Confirmation of Loans Outstanding :*

The auditor should send confirmation letters to the borrowers randomly to ascertain the loan position. If some of the borrowers are denying such loan outstanding, the auditor should send more letters of confirmation to arrive at the exact position, and he should make a thorough enquiry on the matter.

*1.2.16.1.(xiv). Physical verification of securities:*

The auditor should ensure the adequacy of securities for the loan advanced either by way of personal securities or by collateral securities. The loan policy should indicate the details of such personnel securities as well as the collateral securities.

*1.2.16.1.(xiv).(a). Personal sureties:*

The auditor should verify the details of sureties and ensure that the loan is secured by taking sufficient personal sureties. The employment and salary certificates from the competent authority should be attached with the loan application file. It should be closely scrutinized by the auditor to ensure the genuineness of personal sureties.

*1.2.16.1.(xiv).(b). Gold/Jewels :*

In the case of Gold loan, the auditor should ensure that sufficient quantity of gold is pledged with the society for sanctioning the loan. Apart from the annual verification of stock, the auditor is duty bound to verify the gold stock as a part of his audit. He should verify the gold stock register with gold loan ledger and day book to see that the figures of weight of gold, number of items and amount of loan disbursed are correct. In the case of large number of packets, the auditor can obtain the service of an appraiser for physically verifying the stock of gold pledged. Any discrepancy in stock of gold should be reported by the auditor. He should be careful of fake gold, offered as security for gold loan. He should verify the purity of the gold pledged. The auditor has to verify the certificate of the subcommittee in respect of the gold stock as mentioned in circular no. 13/18.

(Read Circular No. 1. 22/2016 dated. 19/07/2016 of Registrar of Co-op. Societies,

2. 13/2018 dated. 16/02/2018 of Registrar of Co-op. Societies,

3. 13/2013 dated. 26/09/2013 of Director of Co-op.Audit)

*1.2.16.1.(xiv).(c).Land and Building :*

The value of collateral securities taken on mortgage should be scrutinized by the auditor to ensure adequate coverage. He should see that the valuation of property was genuine and in accordance to the terms and conditions laid down by the State Government from time to time, and the land value notified by the Government of Kerala. Any instances of undervaluation or over valuation should be reported by the auditor. The auditor should ensure the ownership of the borrower/guarantor/surety on the property by verifying the title deeds, Possession Certificate etc. The legal opinion should be obtained and verified. The encumbrances on the security property should be verified.

*1.2.16.1(.xiv).(d). Deposit loan:*

The term deposit receipts should be verified by the auditor in the case of deposit loans. He should satisfy that the loan amount is not exceeded than the prescribed limit of term deposit. The rate of interest charged on deposit, loan and the deposit shall be verified. He shall examine the date of deposit amount of deposit, and see that the loan sanctioned is within the limit prescribed. The receipt shall be original and in the name of borrower. Whether lien is marked is also to be verified. (Refer. sub-section (2) of section 59 of KCS Act)

*1.2.16.1.(xv).Scrutiny of legal actions adhered to by the management for the recovery of overdue debts:*

Kerala Co-operative societies Act and Rules clearly laid down the steps for the recovery of overdue loans. The auditor should examine whether the Board of Directors has applied maximum effort for the recovery of bad debts/overdue debts by adopting various legal steps. He should report specifically on this with his observations and suggestions.

*1.2.16.2. Verification of Investments*

As per Sn.57 of KCS Act a Co-operative Society may invest its funds in the savings Bank account of government or in any societies specified in Indian Trusts Act 1882 or in the shares of or securities of any other society or bank approved by the Registrar. They are also permitted to purchase land or building which is necessary for its businesses with the prior Permission of the Registrar. The auditor shall verify the proceedings, approval, etc in audit. The verification as well as the valuation of different kind of assets is elaborated in Chapter IX of the first part of the Co-operative Audit manual, which shall be followed by the auditor of Primary Agricultural Credit Co-Operative Society.

(Read circular No. 07/2013 dated 05-06-2013 of the Director of Co-operative Audit).

*1.2.17 Verification of sale of fixed assets:*

Verify whether the amount received on account of sale of fixed assets is brought in to the Books of accounts of the society. Also verify the minutes to know whether the sales were authorized by the Board of Directors. Ensure that the sales amount had been properly accounted by crediting the fixed asset account. Verify the depreciation account of the asset sold to ensure that it is properly booked, and adjustment for profit /loss on sale of fixed assets was properly made. He shall see that the disposal of such assets is in accordance with Sn.56 A and circulars of Registrar of Co-operative Societies.

*1.2.18 Verification of shares taken by the Primary Agricultural Credit:*

*Co-Operative Society in the Apex Bank*

Shares taken by the Primary Agricultural credit society in the Apex bank shall be verified and ensured that the dividends on shares have been properly brought into books of accounts of the society.

*1.2.19 Verification of shares taken in other Co-operative societies:*

Usually Primary Agricultural Co-operative Societies take shares only in their Financing Bank (Apex bank). In special circumstances, Registrar may permit the Primary Agricultural Credit Co-operative Society to subscribe to the shares of other co-operative societies too. If such shares are being taken, the auditor should verify the share certificate and ensure the earnings by way of dividends.

*1.2.20 Verification of shares in other institutions:*

Primary Agricultural Credit Co-Operative Society may have subscribed to the shares of National level co-operative institutions. These institutions declare annual dividends periodically. The Auditor should verify the share certificates and subsidiary ledger and ensure that these dividends are properly accounted. Shares outstanding for long period and earning no dividend shall be specifically verified and reported.

*1.2.21. Verification of interest received and receivable:*

The rate of interest chargeable on various types of loans shall be prescribed by the Registrar. The society should prepare and submit a statement of interest receivable on loans and advances, for audit. The auditor should ensure that the society has complied with the circulars of Registrar while collecting the interest on loans. The statement of interest receivable should be examined by the auditor to see that it is prepared in accordance with the directions of Registrar.

(Read Circular 1. No 57/70 vdated 13-10-1970 of Registrar of Co-operative Societies,  
Circular 2. No. 43/69 dated 15-11-1969 of Registrar of Co-operative Societies.)

*1.2.22 Verification of Miscellaneous income received and receivable:*

The receipt of miscellaneous items such as interest, dividend, rent, hire charges of vehicles commission, sale of forms etc should be accounted properly. The auditor shall compare such receipts with that of previous years. Amount pending receipt on such items may also be considered while making such comparisons and ensured that such pending amount is included in the Balance sheet of the society.

*1.2.23 Verification of suspense assets, advances due to society:*

The Suspense Asset amounts classified as advances due to society should be verified by the auditor in order to ensure that no temporary misappropriation is taken place. Advances should be given only for the purpose of society needs and it should be settled at the earliest. Outstanding Balance at the end of the year should be verified with the personal ledgers and Day book. The minutes should also be verified to satisfy that the payment is authorized by the Board of Directors. All payments should be supported with proper vouchers and all refunds with receipts. Long pending advances should be scrutinized and explanation of Chief executive officer should be obtained for such pendency. The auditor should advise the society to bring down the pendency level to make



the Balance sheet a clean one. The auditor should verify each and every items of suspense asset to ensure its position. (Read Circular No. 08/2013 dated 16-06-2013 of Director of Co-operative Audit).

#### *1.2.24 Verification of purchase of fixed assets:*

In the case of movable assets, the auditor should verify the purchase, the rate at which it is bought, the prevailing market rate etc. and the auditor should see that the invoice is in the name of Primary Agriculture Credit Society and the details such as date of purchase, rate, gross amount, etc are entered in the stock register.

If the purchase is in respect of immovable property, the sale deed or agreement should be scrutinized. The minutes should be verified to see that the purchases are with the authorization of the Board of Directors.

1. Read Circular No. 35/83 dated. 12/07/83 of Registrar of Co-operative Societies
2. Read Circular No. 16/11/ dated. 18/02/2011 of Registrar of Co-operative Societies
3. Read Circular No. 26/2018 dated. 04/05/2018 of Registrar of Co-operative Societies
4. Read Circular No.36/18 dated. 29/06/2018 of Registrar of Co-operative Societies

#### *1.2.25 Verification of Depreciation:*

The auditor should understand the method adopted in the society with respect to depreciation of various fixed assets. He should compare the depreciation charged with the book value of the item, in order to satisfy that the depreciation charged is not in excess of the book value. The rate of depreciation to be charged is as prescribed by the Registrar through circulars. The auditor should see that such directions are complied by the society.

(1. Circular no. 26/72, dated. 5-6-72 and 2. Circular. No. 5/2003 dated 23-01-2003 of Registrar of Co-operative Societies).

#### *1.2.26 Verification of Debt waiver schemes:*

Various debt waiver schemes were implemented by the Government, such as Farmers Debt relief scheme, Debt Relief for fishermen, Debt relief for SC/ST members etc. The auditor should verify the terms and conditions of such

debt relief schemes announced by the Central/State Government from time to time and ensure that waiver is granted to genuine parties only, complying all the terms and conditions of such schemes strictly.

*1.2.27 Verification of restructured/rescheduled loans:*

Due to natural calamities like flood or drought, the loan especially short term agricultural loans might to have been rescheduled or restructured, resulting on the conversion of short term loans into medium term loans. The auditor should make a careful study on the conversion process and ensure that only the eligible loanees are given such facilities. The auditor should check the Day book entries in order to ensure the proper accounting treatment of the schemes.

*1.2.28 Verification of profit appropriation of previous years:*

The Co-operative societies Act and Rules (Sn.56 and Rule 53) clearly spelt out the norms for the appropriation of profit. The auditor should examine the appropriation made by the society and ensure that they are strictly in accordance with the provisions of the Act, Rules and Bylaws of the society. Also check whether the managing committee had approved the profit appropriation by a resolution. The appropriation should be brought into the books of accounts, mentioning the year for which the profit is appropriated. The expenditure on these funds should be made only after complying with the procedures and should be in accordance with the sub rules.

*1.2.29 Verification of payments of dividend to members:*

As per sn.56 (2) of KCS Act the dividend to members is payable based on their share capital (not exceeding 25%). The auditor should verify the calculation of dividend and ensure that the provisions of Act, Rules and By laws are properly complied. The dividend register shall be verified to ascertain the payment of dividend to members.

### *1.2.30 Verification of payment of Dividend to Government:*

The auditor has to ensure that the dividend to Government is paid promptly as and when the distribution of net profit is carried out. The auditor should verify it and make a report on the nonpayment if any.

### *1.2.31 Verification of Establishment:*

The audit work is not complete unless the establishment details of the society is scrutinized. The auditor shall verify whether the classification of the society is as per the Registrar's approval order and the staff strength/staff pattern is approved. Whether the feeder category rules has got approved and implemented and the number of branches are also in compliance with the Registrar's sanction order.

The latest pay revision order should be verified by the auditor. The auditor shall ensure that the provisions of KCS Act (sn.80&rules 182 to 201) the Bonus Act, the Gratuity Act and the directions of Registrar are complied with by the society in respect of human resources management. The following points with respect to the HR, Staff security, Employees Welfare Fund, Staff Provident Fund, Bonus, Gratuity and Pension Fund, should be verified by the auditor while auditing a Primary Agricultural Credit Society.

- 1) Classification of the Primary Agricultural Credit Society
- 2) Approved staff pattern
- 3) Feeder category Rules
- 4) Category wise list of staff working in the society
- 5) Educational qualification of employees
- 6) Service register of employees
- 7) Government orders sanctioning pay revision
- 8) Board resolutions in respect of appointment of staff, promotion, pay revision etc.
- 9) Board resolutions in respect of disciplinary action against employees.
- 10) Training needs of the employees, training provided by the management, Training gap to be made up

- 11) Provident fund of employees, its collection investment and repayment
  - 12) Employees welfare fund , the contributions made and repayment
  - 13) Bonus paid to the staff, during the year
  - 14) Gratuity paid and payable
  - 15) Pension fund contributions, liability outstanding
  - 16) Staff security deposit, its investment
  - 17) Office orders/Sub rules assigning duties to the employees
  - 18) Attendance registers
  - 19) job rotation chart if any
- (Refer to Chapter X of this manual for more details)

*1.2.32 Verification of other businesses of Primary Agricultural Co-operative Societies:*

A. The business activities undertaken by Primary Agricultural Co-operative Societies other than credit are:

- 1.2.32.(a).Consumer stores/Neethi stores
- 1.2.32.(b).Neethi Medicals
- 1.2.32.(c).Neethi Medical lab
- 1.2.32.(d).Home Appliances Depot
- 1.2.32.(e).Textiles Depot
- 1.2.32.(f).Fertilizer Depot
- 1.2.32.(g).Food/Beverages/Curry Powder Units
- 1.2.32.(h).Tea Factory Sales depot
- 1.2.32.(i).Garment making units
- 1.2.32.(j).Ambulance Service
- 1.2.32.(k).Auditoriums
- 1.2.32.(l). Dialysis units
- 1.2.32.(m).Educational institutions
- 1.2.32.(n).Farmers Service centers

## B. Generally applicable points to the Units

General points while auditing the various nonbanking business units.

1. Whether the unit is running profitably or not.
2. Whether the accounts of the units are incorporated in the main books of accounts of the society.
3. Whether the annual stock verification is carried out properly and the closing stock of each unit is incorporated in the annual closing stock and stock verification statement.

### *1.2.32.(a). Consumer stores / Neethi Stores*

The auditor of a Primary Agricultural Credit Co-operative Society has to verify the accounts of consumer stores or Neethi stores run by the Primary Agricultural Co-operative Societies. He should ensure that the consolidated amount of receipts and payments are incorporated in the society's accounts and receipts and payments on a daily basis. He has to verify whether the collection amount is remitted to the society in the same day itself and no money is misutilized. If salesman liability system is prevalent, the auditor has to verify the Liability Register and ensure that uneven balance is not kept as liability, if otherwise he should verify the cash book/sales register and ensure that sales amount is remitted to the society promptly, without any delay. The Stock Register of consumer items should also be verified by the auditor in order to examine the daily stock balance as well as the year end balances. He should also examine the annual stock verification statement and ensure that the verified Stock tally with the Stock Register balance. If any discrepancy is noticed, he should make a detailed checking so that the reason for such discrepancy can be pointed out.

### *1.2.32.(b). NeethiMedicals*

The auditor has to verify whether there is license from the Pharmacy Council and qualified pharmacist engaged in the Neethi Medicals. The auditor has to verify the accounts of Neethi medicals and ensure that the

daily transactions are incorporated in the books of accounts of the society. He should examine whether the medical store is following the salesman liability system or stock system. If salesmen liability system is followed, he should examine the Liability Register and ensure that the balance outstanding as salesman liability is normal and in accordance to the supply of medicines. He should verify the stock register, sales register and cash book. If there is stock system, he has to compare the annual stock verification statement and stock register to see that every purchase and sale is properly accounted and the balance stock is correctly arrived at. The auditor has to see that the medicines which have crossed the date of expiry is returned to the sellers and purchase return is accounted properly. The financial viability of the Neethi Medicals shall also be assessed and reported.

He shall ensure that the rate of margin of each medicine is as decided by the Board of Directors. He shall also verify the rate of discount allowed on medicines.

*1.2.32.(c). Neethi Medical Lab*

The auditor has to verify the charges collected from customers for various lab services and ensure that it is having the approval of the Board of Directors of the Primary Agricultural Cooperative societies. It is to be ensured that the lab has got necessary approvals from the authorities concerned. The auditor should ensure that the Receipts and Payments are incorporated in the society's accounts on a daily basis.

*1.2.32.(d). Home Appliances Depot*

Whether the purchases and sales are accounted correctly and brought into the main books of accounts of the society is to be verified by the auditor. The stock register/salesman liability register is to be verified by the auditor. Whether the society is getting reasonable amount of margin from each items is also to be verified. The per unit purchase price and per unit sales price may be compared in audit in order to ensure that the pricing mechanism is fair and reasonable.

*1.2.32.(e). Textiles Depot*

The auditor shall verify the following points with respect to the Textiles showroom:

1. Whether the sales in the sales depot is properly accounted.
2. Whether the sales depot is attractively arranged.
3. Whether the salesman is successful in managing the depot.
4. Whether the show room is making profit or loss.
5. Whether the textile show room is supervised/monitored by the Head Office.
6. Whether the annual stock verification is conducted properly and the stock value is incorporated in the stock verification statement.
7. Whether the sales turnover is remitted to the Head office regularly.
8. Whether the discount allowed on seasonal sales is in accordance with the approval of Board of Directors.

*1.2.32.(f). Fertilizer Depot*

The auditor has to verify the accounts of the fertilizer depot and ensure that the purchases, sales and the expenses are correctly accounted and the depot is running as a viable unit. If it is making losses, it should be reported by the auditor. The terms and conditions of agencies such as FACT, IFFCO, KRIBCO, and such other fertilizer manufactures should be verified by the auditor to ensure that the society is getting the prescribed level of sales commission. The stock register should also be verified for ascertaining the correctness of stock balances. He should also consider the stock in transit while calculating the balance of stock. The handling loss or normal loss shall be considered while calculating the closing stock.

*1.2.32.(g). Food/Beverages/Curry Powder Units*

The auditor of Primary Agricultural Co-operative society has to verify the accounts of these units and ensure that the revenue generated in the units is brought into the Books of accounts. Auditor shall check the receipts

and disbursements of the unit. Whether the unit has obtained food safety certification is to be verified. The expiry date of items shall also be checked. Any instance of sales of time barred items shall be reported. The disposal of time barred items shall be specified.

*1.2.32.(h). Tea Factory/Sales depot*

Tea Factory and the sales depot for the sale of Tea products is also another activity of some of the Primary Agricultural Cooperative Society in the Districts like Idukki/Wayanad. The profitability of such units are also to be examined in order to ensure the independent economic existence of such units. The processing of various tea products shall be verified and see that the out turn is in accordance with the stipulated rate and ratio.

*1.2.32.(i). Garments making Units*

Subsidiary units like garment making should be systematically organized so that it shall be making revenue and adding to the profit to the Primary agricultural credit cooperative societies rather than making losses. The auditor has to verify whether quality control measures are adopted in the unit and are complied with the quality criteria. He shall also examine whether the stock control is systematically followed. The conversion ratios and wastage on accounts of conversion shall also to be considered.

The auditor shall verify the production details with the Production Register and Stock Register. Pricing policy shall be examined and ensure that it is followed in the unit which is approved by the Board of Directors. The wages paid in piece rate system shall also be verified.

*1.2.32.(j). Ambulance Services*

The auditor shall verify the following points in respect of Ambulance Services:

- i). Whether the vehicle has valid registration/Permit from the Motor Vehicle Department.
- ii). Whether the vehicle/ambulance has been properly insured.
- iii). Whether the driver of the vehicle has valid driving license.



- iv). Whether the mileage test is carried out properly.
- v). Whether log book is maintained promptly.
- vi). Whether the income received from ambulance service is accounted in the books of accounts of the society.
- vii). Whether pollution test is carried out regularly.

*1.2.32.(k). Auditoriums*

The Investments made on account of auditorium shall be seen in the asset side of the Balance Sheet of the society. The auditor shall examine:

- (i) Whether the income received on account of rent is brought into the books of accounts of the society.
- (ii) Whether the furniture and fittings in the auditorium is verified by the Stock verification officer and included in the stock verification statement
- (iii) Whether the value of such items agree with purchase price/expenditure of such items.
- iv) Whether the repair and maintenance is carried out properly.
- v) Whether Stock Register of furniture, fittings and equipments are kept up to date

*1.2.32.(l). Dialysis units*

The Dialysis unit may be a new venture by the bank in respect of socio-medical intervention. The auditor shall examine the following points while auditing the unit.

- (i) Whether the unit has got the sanction of Registrar.
- (ii) Whether the unit has qualified and experienced paramedical staff to run the unit
- (iii) What is the unit capacity? Whether capacity utilization is satisfactory
- (iv) What is the rate charged for the services? Whether it is comparatively cheaper to that of private hospitals
- (v) Whether there is a system of documentation of all transactions in the unit.
- (vi) Whether the unit has got the necessary approvals where the LSGD department, Electrical Inspectorate and Pollution control board.

- (vii) Whether the unit is working with a Drug License.
- (viii) Whether the unit has gone the permission from Atomic Energy Regulatory Board, Government of India for procurement of X-ray equipment.
- (ix) Whether the dialysis unit obtained approval for radiography from Atomic Energy Regulatory Board Government of India
- (x) Whether the unit has got registration certificate from the Labour Department

*1.2.32.(m). Educational Institutions*

i. Whether there is provision in the bylaws for carrying on such educational institutions under the auspices of the Primary Agricultural Credit Society.

ii. Whether educational institutions functioning under the regulations of University/Board or authority concerned and complying all rules and statutes of the Government.

iii. Whether the management of the educational institutions is carried on by the Board of Directors.

*1.2.32.(n). Farmers Service Centers*

1. Whether the farmer's service centre is successful in attaining its objective of providing information to the farmers such as agricultural credit, rate of interest, mechanized methods of cultivation etc.

2. Whether the farmer's service center is able to provide modern farm machinery and equipment to the farmers such as tractors, trillers, threshing machines etc.

3. Whether the farmer's service centers are providing training and awareness to farmers with respect to the modern farming techniques and cropping pattern.

4. Whether the financial assistances received are utilized for the activities of the farmer's service centre.

5. Whether the functions of the farmer's service center is useful for the farmers of the locality.

*1.2.32.(o) Verification of any other business units*

Depending on the local nature, the Primary Agricultural Credit Society may be undertaking many other kind of business activities, such as IT/ Computer training centres, industrial units, farmers producer units etc, apart from the above mentioned units. The auditor is under obligation to verify the business transactions and to ensure that such accounts are incorporated in the main books of accounts. The economic viability of such units should also be examined by the auditor and a report should be included in the annual audit report.

*1.2.33 Verification of Risk fund Scheme:*

The auditor has to verify whether the society has enrolled in the Risk Fund Scheme framed as per Section. 57D of Kerala State Co-operative Societies Act. He should also verify whether premium collected as per the rate prescribed in the scheme from the loanee is being remitted in the Kerala Co-operative Development and Welfare Fund Board, without any delay. If failed, the Chief Executive Officer is to be held responsible and the auditor shall make his report accordingly. The auditor shall verify the rules of the scheme and see that the Primary Agricultural Credit Society is complying with the rules.

- Read: 1) G.O.(P)108/2000/Coop. dated 03/07/2000 (SRO No 616/2000)  
2) G.O.(P).No.249/2008/Coop.dated18/11/2008  
3) G O(P).No.33/2009 dated.11.2.2009  
4) G.O.(P). No. 42/2012/Coop. dated 30/03/2012  
5) G.O.(P).No. 96/2014/2008/Coop; dated 24/07/2014  
6) G.O.(Ord).No.56/20 dated 28.2.2016  
7) G.O.(P).No.35/2019 dated 20.09.2019  
8) Circular Number 12/19 dated 30.03.2009  
of Registrar of Co-operative societies  
9) Circular Number 33/2010 dated 25.06.2010  
of Registrar of Co-operative societies  
10) Circular Number 1/2012 dated 10.01.2012  
of Registrar of Co-operative societies  
11) Circular Number 25/2012 dated 16.07.2012  
of Registrar of Co-operative societies

- 12) Circular Number 28/2013 dated 20.04.2013  
of Registrar of Co-operative societies
- 13) Circular Number 63/2013 dated. 24.10,2013  
of Registrar of Co-operative societies
- 14) Circular Number 38/2017 dated 03.08.2017  
of Registrar of Co-operative societies
- 15) Circular Number 58/2019 dated 12.12.2019  
of Registrar of Co-operative societies

*1.2.34 Verification of Deposit Guarantee Scheme:*

Whether the society has enrolled and contributed to the deposit guarantee scheme is to be ascertained by the auditor. He shall go through the notification and ensure that the conditions stipulated are properly complied with by the society.

- Read: 1) SRO.No.28/2012. dated 11/01/2012  
 2) SRO.No.669/2014. dated 24/10/2014  
 3) SRO.No.695/2018. dated 22/09/2018  
 4) Regulations of the scheme. G.O.(Rt)575/2018/Coop.  
 dated 09/10/2018.  
 5) Circular No.29/2018 dated 05.05.2018  
 of Registrar of Co-operative societies  
 6) Circular No.09/2019 dated 27.02.2019  
 of Registrar of Co-operative societies  
 7) Circular No.45/2019 dated 01.11.2019  
 of Registrar of Co-operative societies

*1.2.35 Verification of Member Relief Fund Scheme:*

Rule 53 of the KCS Rules stipulates the constitution of a Member Relief Fund at the rate of 10% of net profit subject to the maximum of One lakh rupees, as contribution to the Cooperative Member Relief Fund. The auditor shall verify whether the society has made a profit appropriation as provided in the rule. He shall verify the minutes of the general body which has decided the profit appropriation to the member relief fund. (Read Circular.1).No.12/2013 of Director of Co-operative Audit 2).Number 24/2015 of Registrar of Co-operative Societies3).number.04/2020dated 20<sup>th</sup> January 2020 of Registrar of cooperative societies.4) GO NO.22/18 dated 22.06.2018 .5) GO Number 34/2018 dated 17.09.2018.

*1.2.36 Estimation of Bad and Doubtful Debts and assets of Primary Agricultural Credit Societies:*

Section.2 (ab) of Kerala Co-operative Societies Act as well as Section 64(1) of Kerala Co-operative Societies Act clearly spell out the need for estimation of bad and doubtful debts, necessitate the careful examination of overdue debts and valuation of assets and liabilities. The Reserve Bank of India had also circulated its views on the estimation of overdue debts and classification of loans into different categories. The valuation of assets and liabilities implies an estimation of the realisability of the loans and advances and other assets of the institution. Reserve Bank of India as per circular (ACD Plan 202/PR 264-64/65 dated 28/7/1964 and ACD Insp. 5085/F.15-70/71 dated 12/6/1971) had given some broad outlines regarding the valuation of assets of Primary Agricultural Credit Society. These guidelines have been modified later. The scope of audit of Primary Agricultural Credit Societies includes the items mentioned below:

- (i) Verification of cash, bank balance and securities
- (ii) Verification of balance at the credit of the depositors and creditors and the amounts due from the debtors of the society
- (iii) Examination of overdue debts if any
- (iv) Valuation of Assets and liabilities
- (v) Decisions regarding Reserves and Provisions required against erosion of assets
- (vi) Examination of the statements of Accounts and Balance Sheet.

The audit report should disclose accurately the financial results .Hence, an accurate calculation or estimation of bad and doubtful assets as well as provisioning is essential to depict a true financial picture of the institution. It is the auditors obligation to ensure that such kind of estimation is accomplished and it is auditor's duty to see that all assets shown in the books of accounts shows the appropriate value, that they exist in fact and that no assets have been disposed of or charged in any way without the transactions being recorded in the books of the society while scrutinizing the balance sheet. Hence, examination of all loans due and their classification in to good, bad or doubtful is significant in audit work. It is also necessary to verify the other assets including the amount shown under sundry debtors and see from the records available with the society whether any of the assets have become irrecoverable

or eroded in value either wholly or in part and determine the extent of such erosion on a rational basis with reference to all available information. The Profit and Loss account is to be prepared only after considering the erosion in assets and consequent provisions made. The erosion of assets may happen in the following cases.

Erosion of Assets with respect to cash Balance:

(a) Cash in hand

If the cash balance produced for verification includes currency notes and coins which have ceased to be legal tender for reasons such as with drawal of legal tender by Reserve Bank of India, or defective, torn, mutilated defaced etc, such amount could not be considered as good cash, instead should be treated as bad. Any shortage in cash balance i.e., difference between actual cash verified and the book balance, should be investigated in detail immediately. If the shortage is due to misappropriation, or fraud or defalcation by an office bearer, or on employee, of the society the amount that is to be recovered from the person concerned will have to be ascertained in the light of his financial standing and the security, if any, furnished to the society. The amount misappropriated and not covered by any insurance or security deposit or fidelity guarantee of the employee involved in misappropriation should be considered as bad. If the misappropriated amount is covered by insurance claims, security deposits or fidelity guarantee or attachment of property on obtaining awards they may be treated as good or doubtful depending upon the characteristics of each case. The amount that is not likely to be recovered will have to be treated as bad asset.

(b) Cash at Banks

The primary societies are keeping their funds with central bank to which they are affiliated. In certain cases with the prior approval of Registrar of Co-operative Societies, these societies may keep their funds in other commercial banks/cooperative banks. In case, if these banks with which the funds have been kept, have gone into liquidation, the auditor has to treat the deposit amount with such banks as doubtful in the first instance and after getting confirmation from the liquidator, the auditor may classify the unrealizable amount as bad assets.

(c) Investments

(i) Shares

The auditor shall verify the shares invested in Apex societies or other federal or primary societies and ascertain whether any of them have been liquidated or inoperative. The auditor has to make a proper assessment of such investment and instructions may be given to the societies with respect to the realizable value of such share investments.

(ii) Government and other Trustee Securities

Societies may have invested a part of their funds in government and other trustee securities. During the physical verification of securities, it should be examined whether they are held by in its own name, that the endorsements on the securities are in order and that interest is collected on them periodically. The investments in government and other trustee securities should be valued on the basis of their market price on the date with reference to which the audit is conducted and the market value or the book value whichever is lower should be taken as the realizable value.

(iii). Term Deposits

The auditor shall verify the term deposit receipts and ensure that the term deposit is realizable. The term/period of deposit, the rate of interest, financial condition of the bank/institution in which the deposit is made is to be ascertained.

(d) Other investments

The auditor has to examine other investments of primary societies such as land, buildings, plant and machinery, furniture and other equipment etc. and see whether adequate depreciation has been provided on such investments. If no depreciation is being charged, it should be worked out in accordance with the circulars of Registrar as follows.

Building – 2.5%		}	Circular No.26/72 dated 5/6/1972 of Registrar of Co-operative Societies.
Plant and machinery			
Furniture, fixtures and Fittings,			
Office equipments – 10%			
Motor vehicles	1 <sup>st</sup> year – 30%		
	2 <sup>nd</sup> Year 25%		
	3 <sup>rd</sup> Year 20%		
	4 <sup>th</sup> Year 15%		
	5 <sup>th</sup> Year 10%		
<u>Electronic items</u>			
Computer	34% in 1 <sup>st</sup> Year		
	33% in 2 <sup>nd</sup> Year		
	33% in 3 <sup>rd</sup> Year		

In the case of buildings and land acquired in satisfaction of claims, the title of the property will have to be carefully examined to see that the title is clear and free from encumbrances. With regard to the land acquired in satisfaction of claims, it should be ascertained if they are in the clear possession of the society or still in the possession of the debtor, whether they are offered for sale and if so, why they could not be sold. Where the lands so acquired are not in the possession of the society or there is difficulty in selling the land, then the debt in satisfaction of which the land was acquired together with costs has to be treated as doubtful.

(e) Loans and Advances

The major activity of an agricultural credit society relates to loans and advances, especially agricultural loans. The Auditor shall see that the classification of loans into good, bad or doubtful is properly done.

Bad and doubtful loans are defined as below.

“The bad debt is one which is considered as clearly not recoverable on the basis of available information”. Such a loan may have to be written off eventually since it is reckoned as bad debt after all possible methods of recovery have been tried and proven futile. “A doubtful debt is one the



recovery of which in whole or in part is uncertain. A prudent institution should make provision even against a doubtful debt. Two major considerations for the classification of debt as bad or doubtful are security behind the debt and the period of default which are uniformly considered for the estimation of bad or doubtful debts. Wherever it is possible to analyse the realisability of debts, in individual cases, with reference to the security offered, financial conditions of the principal borrower, his security and the past performance of repayment and the stage of legal action taken to recover the over-dues, should be attempted and the realisability and otherwise of each case has to be determined. But in actual practice, it is found that the number of cases of over-dues is quite large and there is no complete information about the financial conditions of individual borrowers except what is available on the records of the society by way of pronote executed, land or other assets offered as security, by mortgage or by creation of charge under Cooperative Societies Act with the result that it is very difficult to have complete and correct assessment of the realisability of dues in all cases. The following procedure may be followed in classifying the debts as good, bad, or doubtful.

(a) The auditor has to satisfy that the overdue position of loans has been correctly calculated and the real position is clearly revealed that no attempt is made to conceal the real position by resorting to book adjustments or any kind of window dressing. The auditor should ensure that the exact age of every overdue loan is arrived at.

(b) Primary agricultural credit societies should maintain a register of overdue loans and the nature of security of each loan. On the basis of this register a statement should be prepared by the society at the end of each year showing over dues for 1 to 3 years, 3 to 6 years and above 6 years which should be checked by the auditor. The financing bank should ensure that the above register is prepared in all societies. The statement of over dues should be prepared and submitted for audit by the society. In the case of computerized PACs, it is easy for generating such a statement, of over dues classifying the loans in the period wise (age wise) classification as stated, which should be verified by the auditor.

The classification norms for the overdue loans based on the security as well as the age of loan shall be as follows:

(i) Loans which are overdue for less than one year need not be considered as bad or doubtful, since the borrower may be repaying the loan at the time of the next harvest.

(ii) The over dues of 1 year to 3 years of secured against mortgage or any of collateral security can be classified as good. Whereas, the overdue loans are against personal sureties, they will have to be treated as doubtful.

(iii) In the case of overdue loans exceeding 3 years, but below 6 years, if the borrower has provided tangible security, they will have to be treated as doubtful. If no tangible security is available for the overdue loans, they should be treated as bad.

(iv) All overdue loans for more than 6 years from the due date, whether they are secured or unsecured should be treated as bad.

(v) Apart from the treatment of overdue debts as bad or doubtful, based on the inadequate security and age, those overdue loans in which bonds, decrees or execution petitions have become time barred or documents lost and the borrowers refusing to execute fresh documents admitting their liability or where the debts has not been recovered even after award has been obtained and the execution proceedings have proved futile, they have to be treated as bad. Similarly where the borrower and his sureties are declared insolvent, or have died leaving no tangible assets to proceed against them or where the borrower had left the area of operation of the society leaving no property and his sureties have also no means to pay the dues, the debts may have to be considered as bad.

In general, the auditor has to see that classification is done as specified below :

*A. Bad debt:*

The debts which may be treated as bad under the following situations:

(i) The borrower and his sureties are declared insolvent, or have died leaving no tangible assets.

- (ii) The borrower had left the area of operation of the society, has no property and the sureties have also no properties or income to pay the dues.
- (iii) No tangible security is available for overdue loans of 3 to 6 years age.
- (iv) All loans over due for more than 6 years from the due date whether they are secured or unsecured.
- (v) Where a debt though not over due for more than 6 years, has not been recovered even after an award has been obtained and an execution petition, though moved has been proved futile.
- (vi) When the Pro-note and other documents have become time barred or the documents are lost and the borrower has refused to execute fresh documents admitting his liability.

#### *B. Doubtful debts*

When the loan is overdue for a period of more than one year, but less than 3 years and is issued against personal sureties and if, neither the borrower nor the surety has any land, it will have to be treated as doubtful. Similarly, loans over due for more than 3 years but less than 6 years have to be treated as doubtful notwithstanding provision of tangible security by the borrower.

When the bad and doubtful loans of a member are estimated, the share amount or any deposit in his credit should be considered and that much amount should be deducted from the overdue debt and the balance amount alone be considered as bad or doubtful debt.

#### (i) Interest Receivable

When the principal amount of loan is treated as bad or doubtful, the interest due on such loans may also become unrealizable and to be considered as bad/doubtful.

(Read circular No. 40/2007 dated 10-12-2007 of Registrar of Co-operative Societies)

#### (ii) Items under “adjusting heads due to” or sundry debtors

The amounts advanced by the society for various purposes may be pending under the heads sundry debtors or “adjusting heads due to” for want of proper settlement for long time may be treated as bad assets; i.e. the auditor has to

examine such accounts carefully and if it is found that those items are unrealizable, that amount has to be treated as bad.

(iii) Reserves and Provisions

It should be noted that, when a society has got bad debt reserve etc, such reserve should not be adjusted at the stage of working out realisability of the assets. It will however, be reckoned while working out the real and exchangeable value of the society's owned funds and determining the provision necessary to cover the estimated erosion in assets.

(Read Circular No. 40/2007 dated 10-12-2007 of Registrar of Co-operative Societies)

*1.2.37. Verification of subsidiary units:*

A primary agricultural credit co-operative society may start a subsidiary unit by a Resolution passed in the general body in accordance with Sn.14AA of Kerala Co-operative Societies Act with the prior approval of Registrar, for the furtherance of its objects. The society shall not be permitted to transfer or assign the substantive part of its business or activities to the subsidiary units. The Co-operative society shall be in control of the Board of Management or governing body of the subsidiary units. It should hold more than half of the nominal value of equity shares of the subsidiary units. The annual reports and accounts duly audited shall be placed every year before the general body of the promoting society. Hence, the auditor shall examine the following points:

(i) Whether subsidiary unit/units started by a Co-operative society is having the approval of General body and the Registrar.

(ii) Whether the subsidiary unit/units are working for the furtherance of the stated objects of the promoting society.

(iii) Whether the promoting society has transferred or assigned substantive portion of business or activities to the subsidiary unit/units.

(iv) Whether the promoting society have control over the Board of Management or governing body of the subsidiary units.

(v) Whether the promoting society hold more than half of the equity shares of the subsidiary units.

(vi) Whether the annual accounts of the units have been properly audited and the accounts along with annual working report have been placed before the General Body of the promoting society.

The auditor shall incorporate his observations of the above in the audit report of the promoting society.

*1.2.38. Rectification of defects pointed out in audit.*

As per sub Section.(12)(c)of section 64 of the Kerala Co-operative Societies Act, the society is obliged to rectify the defects pointed out by the auditor within 2 months of the date of receipt of Audit Certificate and Audit Memorandum. As per sub- section. (12) (b) of section64of the Audit Certificate in full is to be read over in the General body meeting. The auditor should examine whether there is a defect rectification register in the society which is properly monitored by the chief executive. The auditor shall see that replies for the audit queries are submitted by the chief executive promptly. He should also verify whether the defects are properly rectified and placed in the General body as stipulated.

Refer:

1. Circular No.27/68, dated. 12/08/68 of Registrar of Co-operative Societies.
2. Circular No.11/71, dated. 05/05/71 of Registrar of Co-operative Societies.
3. Circular No.65/82, dated. 26/11/82 of Registrar of Co-operative Societies.
4. Circular No.17/85, dated. 22/04/85 of Registrar of Co-operative Societies.
5. Circular No.12/97,dated 17/03/97 of Registrar of Co-operative Societies.

## Chapter I (3)

### AUDIT OF RURAL CO-OPERATIVE BANKS

#### **1.3. 1. Introduction**

The auditing guidelines prescribed for Primary Agricultural Co-operative Society is applicable to Rural Co-operative Banks also. The functions of rural banks are, similar to that of Primary Agricultural Credit Co-operative Societies. They undertake the businesses, depending on the requirement of the rural areas. Some of the Rural Co-operative Banks disburse long term agricultural loans as well as allied sector loans, in addition to, Short term and medium term agricultural loans. The auditor should go through the bylaws of the Rural Co-operative Banks and acquaint with the various provisions of the Bylaws, so that he may be able to audit the bank in a systematic, fool proof manner. The auditor should verify the objects of these banks and compare it with the actual working of the Rural Co-operative Banks. The auditor should verify the Individual Maximum Borrowing Power (IMBP) and ensure that it is not exceeded. Rural banks lending may be verified that, whether the project loans have been excluded from the limit prescribed. The auditor should verify the provisions of the Bylaw regarding the qualifications to be elected as a Board member. If any violation is noticed, that is to be reported by the auditor. Similarly the duties and powers of Board of Directors mentioned in the Bylaws, may also be verified by the auditor and commented in his report, whether they have failed in performing their duties and functions. The duties and powers of President, Vice President and Chief Executive described in the bylaws, may be scrutinized by the auditor, to see if there are any deviations.

#### *1.3. 2. Points to be verified*

The auditor shall verify the following points with respect to the Rural Co-operative banks:

- (i) Whether the Annual General Body is convened in accordance with the provisions of the Act, Rules and Bylaws

- (ii) Whether the election to the Board of Directors is carried out periodically.
- (iii) Whether the member's interests are protected by the society.
- (iv) Whether the Board of Directors is qualified to be elected to the posts.
- (v) Whether the employees are qualified to be posted
- (vi) Whether the classification is done in accordance with the circular of Registrar:

(Read . 1. Circular. No. 32/13 dated 2-4-13 of Registrar of  
Co-operative societies.

2. Circular. No. 10/14 dated 12-03-14 of Registrar of  
Co-operative societies.

## Chapter I (4)

### AUDIT OF FARMERS SERVICE CO-OPERATIVE BANKS.

#### **1.4. 1. Introduction**

The primary objective of Farmers Service Cooperative Banks is to provide credit and other service facilities to the marginal and small scale farmers, agricultural labourers, artisans, small scale traders and merchants. It is also intended for the collection of agricultural produces, processing and marketing of all such products and the distribution of consumption goods among its members. Farmers co-operative banks aim at disbursing short term, medium term as well as long term loans to the members for agricultural, non agricultural and allied sector too. They also provide credit facilities to cottage industries and village level small scale industries and fisheries. Popularisation and distribution of latest variety of seeds, organizing such kind of modern seed farms, and propagating modern agrarian practices are also some of the objectives of Farmers Service Co-operative Banks. Implementing lift irrigation schemes, organizing model agricultural farms and undertaking farmer's service centres are also envisaged as the objectives of Farmers Co-operative Banks. They also function as agents of marketing and processing Co-operative societies for the collection and distribution of agricultural produces, allied sector produces like milk, egg etc.

As it is evident from the objectives of the Farmers Service Co-operative Banks, that they undertake much more activities than the Primary Agricultural Credit Co-operative Societies, the auditor has to study the bylaw of the Farmers Service Co-operative Bank and plan his audit work accordingly. He should verify the activities of the bank. He should make an analysis with respect to the long term loans disbursed by the bank. How far the Farmers' Bank has succeeded in supporting the cottage industries and artisans is to be verified by the auditor. Also he should verify the business activities such as purchase and sales of agricultural products and allied sector products to know whether it has



been a gainful business to the bank and. He should examine the activities of Farmers Service Centres and include his assessment in the Audit Report. The auditor should be vigilant in checking the bank's transactions as an agency of marketing and processing co-operative societies, whether it has made any loss to the bank.

The general auditing guidelines prescribed for the Primary Agricultural Credit Societies are applicable to these Farmers Service Co-operative Banks too.

*1.4. 2. Points to be verified:*

The auditor shall verify the following points in respect of farmers Co-operative banks.

- (i) Whether the Farmers Bank is successful in providing agricultural credit to the farmers of the locality (area of operation).
- (ii) Whether the bank has been able to provide credit to the farmers at the time of seasonal agricultural operations.
- (iii) To what extent the farmer's bank has been able to meet the credit requirements of cottage and small scale industries and fisheries.
- (iv) Whether the bank is contributing for the propagation of modern agricultural practices.
- (v) To what extent bank is able to function as an agent for marketing activities.
- (vi) Whether the Annual General Body has been conducted as per the law.
- (vii) Whether the election to the bank has been conducted in accordance with the Kerala State Co-operative Societies Act and Rules.
- (viii) Whether the Board of Directors are qualified for holding the post.
- (ix) Whether the Bank is undertaking any activity based on the Cooperative Principle "Concern for Community".

## Chapter II (1)

### LONG TERM AGRICULTURAL CREDIT

#### **2.1. AUDIT OF KERALA STATE CO-OPERATIVE AGRICULTURAL AND RURAL DEVELOPMENT BANK LTD**

- 2.1.1 Introduction
- 2.1.2 Utilization of funds
- 2.1.3 Verification of the rate of interest
- 2.1.4 Refund of share capital and other dues to government
- 2.1.5 Payment of guarantee commission to Government of Kerala
- 2.1.6 Verification of Deposits
- 2.1.7 Disposal of Net profit
- 2.1.8 Payment of Dividend to Government of Kerala
- 2.1.9 Verification of loan operations
- 2.1.10 Recovery of the overdue loans
- 2.1.11 Provisioning for Bad debts
- 2.1.12 Safe custody of securities
- 2.1.13 Verification of Capital adequacy
- 2.1.14 Inspection of member societies/banks
- 2.1.15 Inspection of Regional offices/branches
- 2.1.16 Reconciliation of Accounts
- 2.1.17 Reconciliation of Accounts with primary banks
- 2.1.18 Verification of Establishment
- 2.1.19 Verification of debentures
- 2.1.20 Evaluation of Management
- 2.1.21 Evaluation of Objectives

### **2.1.1.Introduction**

Being an Apex Co-operative Federation, the Financial Audit as well as the Administrative Audit is to be performed by the bank. The audit guidelines on Administrative Audit provided in Kerala Cooperative Audit Manual part1 is applicable to the Administrative Audit of Kerala State Co-operative Agricultural and Rural Development Bank too.

The Bank disburses agricultural long term as well as medium term loans. The refinance facility made available by NABARD is the main source of funding to the apex bank. While auditing, the flow of funds as well as the utilisation should be scrutinised by the auditor. The following aspects shall also be examined by the auditor during the course of audit:

#### *2.1.2. Utilisation of the funds*

The utilisation of loans advanced by the bank to the farmers and other borrowers through the primaries shall be verified by the auditor and see that the funds are utilised for the purpose for which it is granted.

#### *2.1.3. Verification of the rate of interest*

The rate of interest on the loans in order to ensure that all the stake holders are treated equally to ensure that no favouritism is shown towards any of the borrowers.

#### *2.1.4. Refund of Share Capital and other dues to the Government*

The Government share capital assistance to the bank which is to be refunded periodically as per the terms and conditions stipulated in the sanction order. The auditor shall verify and ensure that the government money is repaid without any delay.

#### *2.1.5. Payment of Guarantee Commission to Government of Kerala*

As per circular no.27/87/Fin dated 20/04/1987, Government of Kerala had issued instruction regarding the levy of guarantee commission from the institution, to which state government stood guarantee for providing various types of financial assistances. The Institutions are required to maintain a Register of Guarantee Commission and remit the required amount to the Govt without any delay.

The refinance facility from NABARD is based on the condition of state government guarantee. The bank has to pay guarantee commission to the government. The auditor shall verify the payment of guarantee commission to the state government while auditing. Any laxity on the part of the bank should be reported by the Auditor. The auditor should verify the payment and shall make provisions for outstanding.

(Read Circular No. 48/93 dated. 02/08/93 of Registrar of Co-operative Societies).

#### *2.1.6. Verification of Deposits*

Government has permitted the bank to accept deposits through its primaries with effect from 31.12.2011. The auditor has to verify the deposit accounts with respect to the following points 1) the rate of interest paid on deposits in comparison with the rate fixed by the Registrar 2)the postings in the deposit ledger and the day book 3)the balance outstanding in deposit accounts as per personal ledger and general ledger 4)total deposit outstanding as per statements and Balance Sheet, 5)the KYC compliance in respect of depositors.

#### *2.1.7. Appropriation of Net Profit*

The profit appropriation stipulated in the Act and Rules is to be approved in the General Body. The auditor has to ensure that the appropriation is carried out as per rules and provisions of the Bylaws .He shall also see that the appropriation is carried over to the books of accounts of the bank.

#### *2.1.8. Payment of Dividend to the Government of Kerala*

Payment of dividend to the Government of Kerala is to be verified while auditing. Pending payment if any,shall be reported.

#### *2.1.9. Verification of the Loan Operations*

The auditor has to verify whether the bank has achieved the target in lending. Any shortage in lending should be investigated by the auditor and the reasons for the short fall should be reported.

#### *2.1.10. Recovery of the overdue loans*

Verify whether the bank has a perfect recovery mechanism and ensure that the bank has taken timely action for the realisation of over dues both at the apex bank level and the primary bank level.

#### *2.1.11. Provisioning for Bad debts*

The auditor has to assess the bad and doubtful debts at the end of the year and to see that adequate provisions are created to cover them.(Read Circular No. 2/2016 dated. 21/01/2016 of Registrar of Co-operative Societies)

#### *2.1.12. Safe Custody of Securities*

The auditor has to verify the securities held by the bank for the investment of sinking fund etc and to ensure that they are under safe custody.

#### *2.1.13. Verification of Capital adequacy*

The Capital adequacy may also be verified by the auditor in accordance with the circular of NABARD.

(Read Circular No.38/DoS-06/2012of NABARD.)

#### *2.1.14. Inspection of member societies/banks*

It has to be verified whether the bank has conducted periodical inspection of Primary Co-operative Agricultural Development Banks. The rectification of defects pointed out in the audit is also to be verified.

#### *2.1.15. Inspection of Regional Offices/Branches*

The Regional Offices are also to be inspected by the inspection team. The auditor has to see whether the inspection by the inspection team at the Head Office is being properly carried out.

#### *2.1.16. Reconciliation of accounts*

The reconciliation of accounts between Head office and Regional offices is to be done periodically. The auditor should verify the reconciliation statements and ensure that the accounts are properly reconciled, and rectification entries are passed by the bank.

#### *2.1.17. Reconciliation of accounts with Primary banks*

The loans, deposits, Share Capital and Suspense Accounts shall be reconciled, with the primary banks. The auditor has to take special care with respect to the reconciliation of above items with primary banks.

#### *2.1.18. Verification of Establishment*

The auditor has to verify the establishment details of the bank in order to ensure that the appointments, promotions, pay fixation and all other service matters are carried out in accordance with the rules and regulations and government directions.

#### *2.1.19. Verification of debentures*

Even though the bank has stopped the floating of debentures, the auditor has to verify the investment of debentures that had already been floated previously.

#### *2.1.20. Evaluation of Management*

The auditor has to verify the decisions taken by the Board of Directors and make an assessment with respect to the propriety of such resolutions and resultant actions. Whether the management has succeeded in planning the business of the bank is a crucial point, which the auditor has to ascertain. Whether any decision has adversely affected the profitability of the bank is also to be verified. The performance of the bank should be analysed by the auditor by comparing previous year's business performance. The efficiency of the management, Chief Executive Officer, second line management as well as the staff should be assessed in the audit. The cost effectiveness should also be verified by the auditor.

#### *2.1.21. Evaluation of objectives*

As these types of banks are organised with a specific objective of augmenting agricultural credit, the auditor has a duty to make a critical examination as to how far the objectives have been fulfilled. He should compare the agricultural credit disbursed with the total credit disbursement of the bank and make a comment in his report as to how far the objective of agricultural lending has been accomplished. If a severe shortfall is noticed, it should be specifically mentioned in the audit report.

## ChapterII (2)

### **2.2.AUDIT OF PRIMARY CO-OPERATIVE AGRICULTURAL AND RURAL DEVELOPMENT BANKS (PCARDBS)**

2.2.1 Introduction

2.2.2 Verification of the loan files

2.2.3 Borrowings from the Apex Bank

2.2.4 Utilization of the loans disbursed

2.2.5 Imbalance in loan outstanding

2.2.6 Recovery of loan instalments

2.2.7 Classification of Loan Accounts

2.2.8 Reconciliation of Accounts with Apex Bank

2.2.9 Verification of deposit accounts

2.2.10 Performance evaluation

### **2.2.1. Introduction.**

Primary Co-operative Agricultural and Rural Development Banks are the Taluk level primary banks established for the disbursement of long term agricultural credit to the farmers as well as for the rural development of the area. The auditor has to have a fair level of understanding of the objectives laid-down in the Bylaws of the Primary Co-operative Agricultural and Rural Development Banks. He should evaluate the working of the bank based on the objectives laid down in the bylaws. How far the bank has succeeded in the long term agricultural lending operations? How much money has been pumped into the farming operations by the Primary Co-operative Agricultural and Rural Development Banks? What is the impact of such lending in the development activities of the area? These are all the questions the auditor should raise and find answers to them. Based on the implications, he should make suggestions for the improvement of the Primary co-operative agricultural and Rural Development Bank's functions. He should also make an analysis of the levels of interest rate related to the long term agricultural credit sector. These banks are working under the provisions of Kerala State Co-operative Agricultural and Rural Development Act 1984 (Act 20 of 1984) as well as the Kerala Co-operative Societies Act 1969. Hence, the auditor shall be well versed with the provisions of these Acts as well as the Bylaws of the bank.

Besides the general audit aspects outlined in the first part of the Kerala Co-operative Audit Manual, the following points should also be examined by the auditor while auditing Primary Co-operative Agricultural and Rural Development banks.

1. Verification of loan files
2. Borrowings from Apex bank
3. Utilization of the loans disbursed
4. Imbalance in the loan outstanding
5. Recovery of loan instalments
6. Classification of loan accounts
7. Reconciliation of with accounts apex bank
8. Deposit accounts
9. Performance evaluation



### *2.2.2. Verification of the Loan files*

As the bank is disbursing medium term and long term loans, the auditor should check the loan files to see that all the documents prescribed are submitted along with the loan application. Loan application register should be verified by the auditor so that any delay in processing the loan application can be detected and reported. The following points shall be verified:

(a) Legal opinion: Whether legal opinion has been obtained as regards clear title, encumbrances, applicant's right to create a charge on the property, the marketability of the land etc.

(b) Possession and enjoyment certificate: Whether a certificate from the village officer with respect to the possession and enjoyment of the landed property is attached along with the loan application.

(c) Valuation report: The valuation of the property is to be made by the responsible officers, which should be realistic and based on the rate notified by the Government. The guide lines for the valuation of mortgage properties has been issued.

(d) Repayment capacity: There should be realistic assessment of the income and expenditure of the applicant, which should clearly indicate the borrower's repayment capacity.

(e) Approval of the Board: Whether Board/ Executive Committee of the bank has sanctioned the loan.

(f) Execution of agreement/bond; Whether the agreement/loan bond has been executed by the borrowers properly.

(g) "Gehan": Gehan executed by the borrowers is to be verified by the auditor in order to ascertain the correctness of the loan documentation.

(h) Project Report: In case of project loans, a Project Report is to be submitted along with loan application which shall be verified by the auditor to examine viability of the project.

(Refer. Circular.No.1.89/80dated 30-12-1980.

2.21/86, dated.7-6-86,

3.22/94 dated.14-7-94

4. 26/2004 dated 22-7-2004.

5.69/2011 dated.23-9-2011  
6. 43/2013 dated. 8-7-2013.  
7.8/2013 dated 19-09-2013 of Registrar of  
Co-operative societies.)

### *2.2.3. Borrowings from the Apex Bank*

The auditor should verify all the accounts and statements such as Day Book, Borrowings ledger loan sanction orders etc. He should ensure that all the loans sanctioned and disbursed by the Apex Bank are accounted in the books of accounts of the Primary Co-operative Agricultural and Rural Development Bank, by verifying the confirmation from the Apex Bank. Any discrepancy in the loan amount disbursed by the Apex bank should be examined and reported by the auditor.

### *2.2.4. Utilization of the loans disbursed*

The purpose for which the loans can be issued is clearly specified in the bylaws of the bank. The auditor should examine whether the loans has been utilized for the purpose for which it was disbursed. Any deviation should be reported.

### *2.2.5. Imbalance in loan outstanding*

The auditor shall compare the loan outstanding at the primary bank level with that of the Apex bank level. If there is a huge variation in the outstanding level, it should be closely studied and the reason for such imbalances should be mentioned in the audit report.

### *2.2.6. Recovery of loan installments*

There should be meticulous recovery mechanism in the bank so that the NPA can be kept at the minimum level. The Auditor has to verify the recovery particulars of loan installments. He should enquire into the collection of installments and, if any negligence in action is noticed on the part of the bank, it should be reported.

### *2.2.7. Classification of loan accounts*

The asset classification norms prescribed for Primary Co-operative Agricultural Rural Development Bank by National Bank for Agriculture and Rural Development are to be considered by the auditor while auditing Primary Co-operative Agricultural Rural Development Bank and should ensure that the classification is done strictly in accordance with the prescribed norms. He should also verify whether the provisioning has been done in accordance with the norms and ensure that adequate provision is being created.

(Read Circular No. 2/2016 dated. 21/01/2016 of Registrar of Co-operative Societies)

### *2.2.8.Reconciliation of accounts with Apex Bank*

It is essential that the transaction with the Apex Bank is reconciled periodically. The auditor should obtain a statement of accounts from central bank and check it with primary banks accounts and see that all the entries are being reconciled.

### *2.2.9. Verification of Deposit accounts*

The auditor shall verify the statement of deposit accounts with the confirmation statements of Apex Bank in order to ascertain the accuracy. He has to verify the rate of interest paid whether it is at par with the rate prescribed by the Registrar from time to time.

### *2.2.10. Performance evaluation*

The performance evaluation with respect to the bank compared to the previous years is to be made in the audit. The management's performance during the year should also be examined and commented in the report. The efficiency and effectiveness of the Chief Executive Officer, and other higher level employees are also to be evaluated and reported by the Auditor. Various financial ratios as mentioned in the first part of the Audit Manual are to be prepared and an analysis to be made in the report.

## Chapter III (1)

### NON AGRICULTURAL CREDIT SOCIETIES

#### 3.1. AUDIT OF URBAN CO-OPERATIVE BANKS.

- 3.1. 1 Introduction
- 3.1. 2 Maintenance of Cash Reserve Ratio under Section 18
- 3.1. 3 Maintenance of Statutory Liquidity Ratio under Sn.24
- 3.1.4 Regulatory Measures of RBI
- 3.1. 5 Returns to be submitted
- 3.1. 6 Posting
- 3.1. 7 Collection and Discounting of Bills
- 3.1. 8 Loans and Advances
- 3.1. 9 Books of Accounts and Records
- 3.1. 10 Profit and Loss Account and Balance Sheet
- 3.1. 11 Control System
- 3.1. 12 Capital Adequacy
- 3.1. 13 Opening of Branches
- 3.1. 14 Inspection and Supervision
- 3.1.15 Preparation of Long Form Audit Report
- 3.1.16 Audit Classification of Urban Cooperative Banks

### **3.1.1 Introduction**

The Primary Co-operative Urban Banks are regulated by the Banking Regulation Act 1949, clause (CCV) of Section 5 of BR Act which defines a Primary Co-operative Bank as cited below.

“Primary Co-operative Bank” means a Co-operative Society other than a Primary Agricultural Credit Society:

(1). The Primary object or principal business of which is the transaction of banking business

(2) The paid up share capital and reserves of which are not less than one lakh rupees and

(3) The Bylaw of which do not permit admission of any other cooperative society as a member. The auditor assigned the duty of audit of an urban cooperative bank should be well versed with the various provisions of the Banking Regulation Act. He shall ensure that the Urban Co-operative Banks comply, not only with the clauses of Banking Regulation Act (1949) as applicable to Co-operative Banks, but also the relevant provisions of Kerala Co-operative Societies Act (1969), Negotiable Instruments Act, Transfer of Property Act and such other Acts applicable to financial institutions. Section. 8 of Banking Regulations Act prohibits a Co-operative Bank from engaging in trading activities. The auditor has to verify whether the Urban Bank is complying with these regulations. While auditing an Urban Co-operative Bank, the auditor shall examine the following aspects too:

(i) Whether the bank has complied with all the provisions of Banking Regulation Act as applicable to Co-operative Banks.

(ii) Whether the bank has complied with Sn.9 of the BR Act by disposing all non banking assets.

(iii) Whether the bank is having a minimum capital of 1 lakh rupees (aggregate value of paid up share capital plus reserves)

### *3.1.2. Maintenance of Cash Reserve Ratio*

Every Primary Urban Co-operative Bank, as per Section 18(1) of Banking Regulation Act, is required to maintain in India, on a daily basis, a cash reserve equivalent to such percent as the Reserve Bank may specify by notification in the official Gazette from time to time, of its demand and Time liabilities (DTL) as on the last Friday of the second preceding fortnight. They have to submit to the Reserve Bank of India before 15<sup>th</sup> of every month a return showing the amount so held on alternate Fridays during a month. In terms of Notification dated 5th June 2014, the Cash Reserve Ratio required to be maintained by every Primary Urban Co-operative Bank shall be 4% of the total of demand and time liabilities from the fortnight beginning from July 12, 2014. The auditor should verify the calculation of Cash Reserve Ratio and ensure that returns are filed on or before the due date.

### *3.1.3. Maintenance of Statutory Liquidity Ratio*

As per Section 24 (2A) of Banking Regulations Act, (1949 (AACS) every Co-operative Bank, in addition to the Cash Reserve Ratio, required to be maintained under Section 18(1), shall maintain in India, liquid assets, the value of which shall not be less than such percentage as may be specified by Reserve Bank of India in the official Gazette from time to time. Urban banks are permitted to maintain Statutory Liquidity Ratio in 3 forms in cash, gold or approved securities.

The auditor has to verify the calculation of Statutory Liquidity Ratio and ensure that the provisions of Banking Regulation Act as well as the directions of Reserve Bank of India are complied with by the Urban Co-operative Banks. He should verify whether the bank had filed the returns in time with respect to the maintenance of Statutory Liquidity Ratio.

### *3.1.4. Regulatory Measures of RBI*

Section.19 of Banking Regulation Act imposes certain restrictions for holding shares in other Co-operative institutions. As per Reserve Bank of India guidelines it should not exceed 2% of its own funds.

As per Section.20, the bank is not permitted to sanction loans and advances on the security of its own shares. unsecured loans to Director Board members are subjected to the terms and conditions prescribed by Reserve Bank of India from time to time.

Under Section 21, Reserve Bank of India is empowered to issue directives for the credit disbursement, such as purpose of loans, margin to be maintained, the rate of interest, the maximum amount and other terms and conditions.

The most important regulatory weapon of Reserve Bank of India is the license. No Co-operative bank is permitted to carry on banking business unless it has a valid banking license from Reserve Bank of India.

The auditor shall be responsible to examine the above aspects and shall make a detailed report in respect of the compliance of the statutory provisions and circulars of the Regulators.

### *3.1.5. Returns to be submitted*

The auditor should verify whether the bank had filed all the returns stipulated in the Banking Regulation Act and by the Reserve Bank of India such as

- (i) Maintenance of Cash Reserve Ratio (Sn.18)
- (ii) Maintenance of Statutory Liquidating Ratio(Sn.24)
- (iii) Loans and advance granted to companies in which any of the Directors have interest (Sn.20)
- (iv) Return of unclaimed deposits (Sn.26)
- (v) Return showing assets and liabilities as at the close of business on the last Friday of every month (Sn.27)
- (vi) Profit and Loss Account and Balance Sheet (Sn.29)
- (vi) Monthly return of the place of business (Sn.23)

### *3.1.6. Checking of Postings*

Before effecting payment of cheques, it should be ensured whether they have been checked in respect of date, amount, signature, balance available in the account, endorsement etc. and passed by an officer and duly entered in the customer's account. All persons taking part in the checking viz, the ledger clerks, accountant comparing the signature, and passing cheque for payment should have signed the document. All postings should be checked independently by persons other than ledger clerks with the original voucher. Interest credited or debited in the customer's account should be checked by at least two officers.

### *3.1.7. Collection and discounting of Bills*

(a) All bills and details of its accompanying documents should be entered in the Bills Register. When these bills are sent out for collection it should be ensured that all such documents are also attached along with the bills.

(b) Where bills are purchased or discounted from approved parties, a responsible officer should ensure that all documents of title issued have been properly assigned to the bank.

(c) Unless credit limit have been sanctioned, the account of the customer should be credited only after the bills have been collected or advice received from branch/collecting bank.

(d) Accounts of all customers, to whom credit limit has been sanctioned, should be examined to ascertain the number and frequency of dishonoured bills. In the case of erring constituents, notices should be issued, requesting to regularise the accounts.

### *3.1.8. Loans and Advances*

Before the sanctioning of loans, the Board of Directors should make appropriate enquiries regarding the creditworthiness of the applicant. The repayment capacity and the purpose of loan have also to be verified by the management. The loan policy of the bank is to be scrutinized by the auditor so as to ensure that the loan application is in tune with bank's polices. He should



ensure that necessary documents such as agreement/bond, promissory notes, letter of hypothecation, other documents supporting the pledge/hypothecation, are collected from the applicant and the agreement/bond is executed before disbursing the loan amount.

#### *3.1.9. Books of accounts and Records*

Maintenance of accounts by every Primary Co-operative Urban Bank is a pre-requisite/mandatory requirement to carry on banking business properly. Nowadays most of the Primary Co-operative Urban Banks have computerized and automated their offices and hence core banking enables the banks to prepare any type of accounts accurately. Discrepancies in postings are absent in the core banking environment, provided the data entry is correct and prompt. The auditor has to verify whether the data entry is correct and carried out promptly. The auditor has to verify whether the bank has prepared and maintained the books of accounts and records as prescribed in the Banking Regulation Act/circular of Reserve Bank of India/Registrar of Co-operative Societies. The auditor should verify the books of accounts and statements to ensure that the transactions are taken to the books of accounts as well as the statements to see that the balance outstanding is correct or not.

#### *3.1.10. Profit and Loss Account and Balance Sheet*

Every Co-operative bank is required to prepare a Profit and Loss account and Balance Sheet at the end of the financial year in the Proforma prescribed, certified by the Chief Executive Officer and the Board of Directors, as per Sn.29 of Banking Regulations Act. The bank has to submit the Profit and Loss Account and Balance Sheet to the Reserve Bank of India and publish in the news paper in circulation in, the place where the bank has its principal office, as per section.31 before 31<sup>st</sup> December every year. The auditor should verify the Balance Sheet and Profit and Loss Account and ensure that the mandatory requirements are fulfilled.

### *3.1.11. Control System*

There should be a control mechanism in the bank in order to avoid any kind of errors, omissions and frauds. The management of the bank should adopt a perfect system of internal control so as to ensure perfect banking service to the customers. The auditor has to enquire about the control mechanism, including control over cash, and if it reveals any deficiency he should make suggestions for its rectification. He has to make a detailed verification if the control mechanism is inadequate. There should be a sound system of internal control over cash as mentioned below. (a) The safe in which cash is kept should have an inner chest, in which all cash in excess of normal requirement should be kept. The inner chest as well as the outer chamber should be in the joint custody of the Manager/Secretary and the Accountant/Cashier (b) The closing balance of cash should be physically verified and certified by the responsible officers periodically (c) The cashier should not have access to the customer's ledgers and pass books (d) Pay in slips should be checked and signed by the Accountant/ Accounts Officer in-addition to cashier (e) At the end of the day, the ledger entries should be compared with the petty cash book and after ensuring the accuracy, it may be carried over to the Day Book.(f) Counter Clerks should not have any access to the main cash book or Day Book.

The auditor can check the system followed by the bank and point out the defects and give suggestions for improvement.

### *3.1.12. Capital Adequacy*

Reserve Bank of India has prescribed the minimum requirement of capital adequacy ratios, CRAR(Capital to Risk weighted Assets Ratio) for the Primary Co-operative Urban Banks. Auditor shall examine whether the prescription has been complied with. In case of failure to achieve the minimum capital adequacy ratio, he shall suggest the management measures for achieving the minimum level of CRAR.

### *3.1.13. Opening of Branches*

As per section. 23 of BR Act a Primary Co-operative Bank can open a branch with the permission of RBI. Considering the financial condition, general character of management and capital structure and earning prospects, the RBI shall permit to open branches. As per the Rule 178 A of KCS Act, a Primary Co-operative Urban Bank shall submit application for opening Branches, accompanied by challan receipt for the fees prescribed, to the Registrar of Co-operative Societies. As per circular No.40/2003, the procedures for the detailed study in the area of the proposed branch are prescribed by the Registrar of co-operative Societies. The survey report prepared by the institutions mentioned in the circular should be verified by the auditor. The auditor has to satisfy that these sanctions are obtained before the opening of the branch. He should also make an assessment regarding the viability of the branch, whether the newly opened branch is deputed with qualified employees, and the business is going on smoothly and perfectly. Every branch should maintain its own accounts and records and at the end of the accounting year, the accounts of all branches shall be incorporated with that of the Head office and a consolidated Profit and Loss account and Balance sheet is to be prepared by the Head Office. These consolidated statement of accounts shall be checked by the auditor and satisfy that all branch accounts are incorporated in the consolidated statement. He shall also verify the reconciliation of statements of accounts with the branches. He has to make an assessment with reference to the profitability of the branch and it should be included in his report.

### *3.1.14. Inspection and Supervision*

Since the Primary Co-operative Urban Banks are registered under the provisions of State Co-operative Law, they have to comply with the provisions of such laws. With respect to banking business, they have to follow the provisions of Banking Regulation Act as applicable to Co-operative Banks.

Hence, there is a system of supervision and inspection by the Co-operation Department as well as the Reserve Bank of India. The auditor shall go through the inspection reports and verify whether the defects pointed out by the Regulators are rectified and suggestions implemented.

### *3.1.15.Preparation of Long Form Audit Report (LFAR)*

The preparation of Long Form Audit Report (LFAR) is the duty of an auditor of a Primary Co-operative Urban Bank. The auditor has to verify the previous year's audit report as well as Long Form Audit Report, so that he shall be able to prepare the LFAR for the current year. The net worth of the Bank is to be worked out. Capital to Risk Assets Ratio (CRAR) is also to be calculated and commented on it. Compliance with Sn.11 of BR Act is to be verified and reported. Credit appraisal system, Appraisal of loan transactions, documentation, sanction, disbursement and evaluation of credit are also to be included in the LFAR. He should make a report on investments of the bank, and other assets. The auditor has to enquire into the implementation of prudential norms and if found satisfactory, he has to certify it; otherwise the short comings may be reported. Another important area in which the auditor has to concentrate is the performance of the management. He should make an appraisal regarding the management functions and include it in the report. The performance of Chief Executive Officer and senior officers (Second line management) are also to be evaluated and reported. He should make an analysis of income and expenditure with respect to increase or decrease in comparison with that of the previous year. The Long Form Audit Report shall not be complete without the verification of the maintenance of SLR/CRR. With respect to the borrowings the auditor has to verify the MBP, the types of borrowings, cost of borrowings and the Register of borrowings. The deposits are also to be verified and large movement of aggregate deposits shall be reported. The auditor has to verify whether there is any window dressing and with respect to insurance coverage of

deposits it is also to be verified and reported. The compositions of deposits, the deposit mix, the cost of deposits are to be examined and reported. The system and controls are to be analyzed and reported. He should make a report of the Risk Management System, Fraud prevention and monitoring and control and the compliance of the bank with respect to the defects during the inspections conducted by RBI/NABARD/RCS are also to be included in the LFAR. 3.1.16. Audit classification of urban cooperative banks. The norms for the audit classification of urban cooperative banks had been specified by the Reserve Bank of India and based on the RBI communication dated 4-12-1984. The Registrar of co-operative societies had issued a circular, No.37/85 dated 2-11-1985 which is given below.

## CIRCULAR No. 37/85

Sub:- Audit-Audit Classification of Primary Urban Co-operative Banks-  
Standards prescribed by the Reserve Bank of India- Instructions  
issued-

Ref:- No. UBD/P & O/719/UB. 29-84/85 dated 4-12-1984 from the  
Reserve Bank of India, Bombay.

The Standing Advisory Committee of Reserve Bank of India for Urban Co-operative Banks in its third meeting held on 20-8-1981 after considering the views of State Governments and Federations, has accepted certain norms for audit classification of primary Urban Co-operative Banks excluding salary earners' Co-operative Societies and the Reserve Bank of India has communicated the details as per the letter under reference. As it is considered desirable to follow the standard norms communicated by the Reserve Bank of India, the audit classification of Primary Urban Co-op. Banks in this state (excluding salary earners Cooperative Societies) shall hereafter be arrived at on the basis of the following standards as suggested by the Reserve Bank of India.

*Norms:*

The assessment of the working of Primary Urban Co-operative Bank may be made under the following heads and marks given on the basis of the norms indicated under each head.

1. *Deposit Mobilisation* 10 Marks

The marks under this head may be given taking into account the extent of increase in deposits achieved by the banks over its previous year's level on the basis of the following norms.

*Increase in total deposits over the previous year*

20% or More	10
Between 15% and up to 20%	8
Between 10% and up to 15%	5
Between 5% and up to 10%	3
Below 5%	1
No increase	Nil

2. *Performance under priority sector/weaker section advances*

15 Marks

Marks under this head may be given on the basis of the level of priority sector /weaker section advances outstanding in relation to the total advances/ priority sector advances of the bank on the last day of the Co-operative year as indicated below:

(i) Percentage of priority sector advances to total advances at the end of the year.

60% and above	10
Between 50% and up to 60%	7
Between 40% and up to 50%	5
Below 40%	Nil

(ii) Percentage of weaker section advances to total priority sector advances at the end of the year.

25% and above	5
Between 15% and upto 25%	3
Less than 15%	Nil

3. *Recovery performance*

20 Marks

Marks may be given on the basis of the percentage of overdues to the loans and advances outstanding at the end of the Co-operative year and also the steps taken by the bank to recover the overdues with legal action. It may be noted that the bank would be deemed to have taken effective steps if the entire overdues over one year are covered by arbitration proceedings, awards, execution petitions etc. The marks may be awarded as under:

(i) *Percentage of overdues to loans and advances outstanding at the end of the co-operative year.*

Upto 5%	15
Above 5% and up to 10%	12
Above 10% and up to 15%	10
Above 15% and up to 20%	8
Above 20% and up to 25%	5
Above 25% and up to 30%	3
Above 30%	Nil

(ii) *Performance of the bank in taking effective legal action-*

All overdues over 1 year are covered by legal action.	5
50% or more are covered by legal action	3
Less than 50%	Nil

Note:-The performance of the bank under this head is proposed to be related to the demand instead of outstanding as suggested by Standing Advisory Committee after ascertaining the position regarding the maintenance of D. C. B. registers by Urban Co-operative banks.

4. *Reserves provisions to cover erosion in the value of assets*

*5 Marks*

The banks are required to make full provision in respect of the estimated erosion in the value of their assets, comprising bad and doubtful debts and other assets. Depending upon the extent to which the erosion in the value of assets is covered by corresponding reserves and provisions marks may be given on the following basis.

Extent to which erosion is covered by Reserve/Provisions:

100%	5
50% and above but less than 100%	3
Less than 50%	Nil

5. *Maintenance of cash reserves/liquid assets*

*10 Marks*

Cash Reserves	5
Liquid assets	3

Full marks may be given under each aspect, if the bank has maintained the required cash reserves/liquid assets throughout the year. No marks should be given if there are defaults.

Note:-Defaults due to cash in transit may be ignored, similarly defaults not exceeding 6 occasions (but not continuous even in respect of such 6 occasions) in a year may be ignored.



6. *Management of funds*

5 Marks

Urban Co-operative banks are expected to make judicious use of funds. The banks should ensure that the surplus in cash reserves and liquid assets does not exceed the optimum levels which is 6% in case cash reserve and 30% in case of liquid assets and 33% for total cash reserve and liquid assets taken together. The percentages are in relation to total of demand and time liabilities reckoned under section 18 and 24 of the Banking Regulation Act, 1949 (as applicable to Co-operative Societies). Marks under this aspect may be given on the following basis.

- |  |     |
|--|-----|
| (i) Maintenance of cash reserve/liquid assets below the optimum level throughout the year  | 5   |
| (ii) Surplus over the optimum level either under cash reserve or liquid assets or both sporadically observed for short periods not exceeding 3 days at a stretch and not exceeding 10 occasions in a year. | 3   |
| (iii) If surplus noticed in cash reserve and or liquid Assets over and above the optimum level for long stretches of period and for more than 10 occasions.  | Nil |

7. *Loans and Advances*

10 Marks

The bank should have modified loan rules properly or its loan policy should have been incorporated in its bylaws duly approved by the Registrar of Co-operative Societies. Such a loan policy should cover the types of loans to be granted, period, margin, sanctioning powers, etc. The loan portfolio should have been managed with strict adherence to loan rules and within the frame work of the loan policy and without any serious defects to entitle the bank for being awarded marks to the full extent.

Minor procedural irregularities in documentation which do not impair the realisation of advances can be overlooked while awarding marks under this head.

8. *Working results* 10 Marks

Marks may be given under this head on the following basis:

(i) The bank has attained norms of viability in respect of

- |  |   |
|--|---|
| (a) Paid up share capital  | 1 |
| (b) Deposits   | 2 |
| (c) Loans and advances   | 2 |
| (ii) The bank has earned profits   | 2 |
| (iii) The bank has made appropriate allocations to various reserves/ provisions.                         | 1 |
| (iv) The bank has declared a reasonable dividend a say at least 3%                                       | 1 |
| (v) The bank's cost of management was notmore than 2% of its working capitalor 30% of its gross profits. | 1 |

9. *Operational efficiency* 10 Marks

Marks under this head may be given on the following basis:

- |   |   |
|---|---|
| (i) Compliance with RBI directives  | 4 |
| (ii) No defaults in the repayment of borrowings from higher financing agencies.   | 2 |
| (iii) No defaults in the submission of various returns prescribed under the Banking Regulation Act, 1949 and the State Co-operative Societies Act, throughout the year. | 2 |
| (iv) Submission of satisfactory compliance On or before due date to the inspection report of RBI and to the last audit report.  | 2 |

10. *Efficiency of Management*

5 Marks

Marks under this head may be given on the following basis:

- |   |   |
|---|---|
| (i) The meetings of the board/committees<br>general body held regularly               | 1 |
| (ii) Regularity in reviewing the bank's working                                       | 1 |
| (iii) Proper maintenance of books of accounts   | 1 |
| (iv) Proper system of internal checks and branch<br>control introduced and observed   | 1 |
| (v) Proper system for recruitment of qualified staff<br>and their training introduced | 1 |

11. *Audit Classification*

100 Marks

Depending upon the aggregate marks secured by the bank basis of the above 10 norms, audit classification may be given on the following basis:

<i>Marks secured</i>	<i>Audit Classification</i>
60 and above	A
45 and above but less than 60	B
30 and above but less than 45	C
Less than 30	D

Audit classification norms prescribed by Reserve Bank of India for Urban Cooperative Banks.

The Reserve Bank of India vide Circular No. UBD.No.POT.27/09.06.00/93-94, dated 17<sup>th</sup> August 1993 has issued revised guidelines of norms for audit classification of urban banks.

**NORMS FOR AUDIT CLASSIFICATION OF URBAN COOPERATIVE BANKS**

An assessment of the working of Urban Cooperative Banks excluding salary earner's societies may be made under the following broad heads and marks given on the basis of specific norms 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.	DEPOSIT MOBILISATION	5 Marks
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The marks under this head may be given taking into account the extent of increase in deposits achieved by the bank over its previous year's level on the basis of the following norms:

Increase in total deposits over the previous year

- |                             |         |
|-----------------------------|---------|
| a. 20% or more              | 5 Marks |
| b. Between 15% and upto 20% | 4 Marks |
| c. Between 10% and upto 15% | 3 Marks |
| d. Below 10%                | Nil     |

*Note:* If the percentage of institutional deposits in the increase is above 40%, reduce 1 mark for every percent above 40%.

2.	PERFORMANCE UNDER PRIORITY SECTOR/ WEAKER SECTION ADVANCES	15 MARKS
----	--	----------

Marks under this head may be given on the basis of level of priority sector/weaker section advances outstanding in relation to the total advances/priority sector advances of the bank on the last day of the cooperative year as indicated below:

i. PERCENTAGE OF PRIORITY SECTOR ADVANCES TO TOTAL ADVANCES AT THE END OF THE YEAR

- |                              |          |
|------------------------------|----------|
| a. 60% and above             | 10 marks |
| b. Between 50% and up to 60% | 7 marks  |
| c. Between 40% and up to 50% | 5 marks  |
| d. Below 40%                 | Nil      |

ii. PERCENTAGE OF WEAKER SECTION ADVANCES TO TOTAL PRIORITY SECTOR ADVANCES AT THE END OF THE YEAR

- |                              |         |
|------------------------------|---------|
| a. 25% and above             | 5 marks |
| b. Between 15% and up to 25% | 3 marks |
| c. Less than 15%             | Nil     |

3.	RECOVERY PERFORMANCE	25 marks
----	----------------------	----------

Marks may be given on the basis of the percentage of overdue to the loans and advances outstanding at the end of the cooperative year and also steps taken by the Bank to cover the overdue with legal action.

i. PERCENTAGE OF OVERDUES TO LOANS AND ADVANCES OUTSTANDING AT THE END OF THE COOPERATIVE YEAR

a. Overdues upto 5% 20 marks

b. For every increase of 1.5% or fraction over 5% reduce 1 mark each

ii. PERFORMANCE OF THE BANK IN TAKING EFFECTIVE LEGAL ACTION Cases under Section 101 filed 5 marks

a. Above 75% of overdues over one year 5 marks

b. 50% to 75% of overdues over one year 3 marks

c. Less than 50% overdues over one year Nil

*Note:* The performance of the bank under this head is to be related to the demand instead of outstanding after ascertaining of DCB Registers by Urban Cooperative Bank.

4.	RESERVES/ PROVISIONS TO COVER EROSION IN THE VALUE OF ASSETS	5 marks
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The banks are required to make full provision in respect of the estimated erosion in the value of their assets comprising Bad and Doubtful Debts and other assets depending upon the extent to which the erosion in the value of assets is covered by corresponding reserves and provisions, marks may be given on the following basis:

EXTENT TO WHICH EROSION IS COVERED BY RESERVES/ PROVISION

a. 100% 5 marks

b. 50% and above but less than 100% 3 marks

c. Less than 50% Nil

5.	MAINTENANCE OF CASH RESERVE/ LIQUID ASSETS	10 marks
----	--	----------

- |    |               |         |
|----|---------------|---------|
| a. | Cash Reserve  | 5 marks |
| b. | Liquid Assets | 5 marks |

Full marks may be given under each aspect, if the bank has maintained the required Cash Reserve/ Liquid Assets throughout the year. No marks should be given if there are defaults.

*Note:* Defaults due to Cash in Transit may be ignored. Similarly, defaults not exceeding 6 occasions (but not continuous even in respect of such 6 occasions) in a year may be ignored.

6.	MANAGEMENT OF FUNDS	5 marks
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Urban Cooperative Banks are expected to make judicious use of funds. The banks should ensure that the surplus in Cash Reserve and Liquid Assets does not exceed the optimum level which is 6% in case of Cash Reserve and 30% in case of Liquid Assets and 33% for total Cash Reserve & Liquid Assets taken together. The percentages are in relation to total of Demand & Time Liabilities reckoned under Section 18 & 24 of the Banking Regulation Act, 1949 (As applicable to Cooperative Societies). Marks under this aspect may be given on the following basis:

- |    |   |         |
|----|---|---------|
| a. | Maintenance of Cash Reserve/ Liquid Assets below the optimum level throughout the year.   | 5 marks |
| b. | Surplus over the optimum level either under Cash Reserve or Liquid Assets or both sporadically observed for short periods not exceeding 3 days at a stretch and not exceeding 10 occasions in a year. | 3 marks |
| c. | If surplus noticed in Cash Reserve and / or Liquid Assets over and above the optimum level for long stretches of period and for more than 10 occasions.   | Nil     |

7.	LOANS AND ADVANCES	10 marks
----	--------------------	----------

The auditor should scrutinize loan cases falling under different categories on a ample or random basis. It should be verified whether, in these cases, the loan application has been complete in all respects, proper scrutiny has been done, sanction has been done by the proper authority after following all due

procedures and whether proper documentation has been done in terms of securities etc, before disbursement. It will be advisable for the auditor to take up particularly bigger loan cases for scrutiny. The auditor may give a mark in the range 0 to 10 depending upon irregularities detected.

8.	WORKING RESULTS	8 marks
----	-----------------	---------

Marks under this head may be given on the following basis:

- |      |  |         |
|------|--|---------|
| i.   | Bank has earned Profit (on Net Worth profitability)  | 3 marks |
| a.   | 0 to 0.50  | 1 mark  |
| b.   | 0.50 to 0.75   | 2 marks |
| c.   | 0.75 to 1 or above   | 3 marks |
| ii.  | The bank has made appropriate allocations to various Reserves/ Provisions  | 1 Mark  |
| iii. | The bank has declared dividend at least 9%   | 2 Mark  |
| iv.  | The bank's Cost of Management was not more than 2% of its Working Capital or 20% of its Gross Profit whichever is less | 1 mark  |

9.	OPERATIONAL EFFICIENCY	12 marks
----	------------------------	----------

Marks under this head may be given on the following basis:

- |      |   |         |
|------|---|---------|
| i.   | Compliance with RBI directives  | 2 marks |
| ii.  | No defaults in the repayment of borrowings from higher financing agencies   | 2 marks |
| iii. | No default in the submission of various returns prescribed under the Banking regulation Act 1949 and the Maharashtra Cooperative Societies Act through out the year | 2 marks |
| iv.  | Submission of satisfactory compliance on or before due date to the Inspection Report of RBI and to the last audit report  | 6 marks |

10.	EFFICIENCY OF MANAGEMENT	5 marks
-----	--------------------------	---------

Marks under this head may be given on the following basis:

- |      |  |        |
|------|--|--------|
| i.   | The meetings of the Board/ Committees/ General Body held regularly             | 1 mark |
| ii.  | Proper maintenance of Books of Accounts  | 1 mark |
| iii. | Proper system of internal checks and branch control introduced and observed    | 1 mark |
| iv.  | Proper system for recruitment of qualified staff and their training introduced | 2 mark |

**AUDIT CLASSIFICATION:**

Depending upon the aggregate marks secured by the bank on the basis of the above 10 norms Audit Classification may be made on the following basis:

Sl.No	Marks Secured	Audit Classification
a.	70 and above	A
b.	55 and above but less than 70	B
c.	40 and above but less than 55	C
d.	Less than 40	D

*Notes:*

- If the overdues are above 35% the Audit Classification should be reduced by one step below.
- 2 to 5 marks be reduced if fraud/ misappropriation is detected but no action is taken by bank.
- The banks which are under rehabilitation may be classified as 'C'. The banks which are not satisfying the provisions of Section 11 of the Banking Regulation Act 1949 (as applicable to Cooperative Societies) may be classified under 'D'.



## Chapter III (2)

### **3.2. AUDIT OF EMPLOYEES CREDIT CO-OPERATIVE SOCIETIES**

3.2. 1 Introduction

3.2. 2 Verification of Deposits

3.2. 3 Loans and advances

3.2.4 Management of the Society

#### **3.2.1. Introduction**

Employees Co-operative Societies are organized to Cater to the credit needs of employees. The activities of employees Co-operative Societies are mainly, collection of deposits from members, disbursement of loans and advances to its members and undertaking other kind of financial businesses such as Monthly Deposit Schemes/Daily Deposit Schemes or Mutual Benefit Schemes etc. The auditor should study the bye-laws of the society and should acquaint with the provisions of the bylaws.

#### *3.2.2. Verification of Deposits*

While auditing the accounts of employees Co-operative Credit Societies, the auditor should check the deposit accounts with reference to the bylaw for accepting deposits, the rate of interest in comparison with the Circulars of Registrar and Reserve Bank of India, if it is under the purview of Banking Regulation Act. He should also ensure the accuracy of outstanding Balances by checking the deposit statement and ledger of deposits. The Deposit Ledgers should be verified to see that the calculation of interest is correct.

### 3.2.3. Loans and Advances

(a) Sanction of Loans. The auditor should verify whether all the loan applications received from the applicants have been entered in the register of loan applications. He has to examine the applications with reference to its eligibility, credit worthiness, repayment capacity etc. The applicant should have taken sufficient number of shares and it should be ensured that the share amount is remitted in the society as per the circular of Registrar (2% as per circular No.37/2013, dated. 06.06.2013 of Registrar of Co-operative Societies). The prescribed limit for loans and advances to individuals may also be verified to ensure the Individual Maximum Borrowing Power limit. He should also verify whether the Board of Directors have sanctioned the loans, wherever required.

(b) Loan documents :The auditor should verify the documents attached with the loan application such as:

- (i) Agreement/bond with the society
- (ii) Salary / recovery certificate
- (iii) Surety's salary and employment certificates

(c) Disbursement of Loans: The auditor should verify whether the disbursement is made only after the Board's resolutions and the amount is the same that is sanctioned by the Board of Directors

(d) Rate of Interest :The auditor has to check the loan receipts, loan ledger and Cash book/Day book to ascertain whether the interest on loans and advances are properly recovered and accounted. The rate collected should be compared with the circulars of the Registrar of cooperative societies.

(e) Recovery of dues :The pay disbursing officer is authorized to recover any dues of loan outstanding as per Sn.37 of KCS Act and remit the same to the employees society, provided that the borrower had executed an agreement of recovery with the society, authorizing the pay disbursing officer to recover the dues. Monthly recovery statement, sent to the pay disbursing officer should be verified by the auditor to see that the amount shown in the statement is fully recovered and remitted to the society. Loan receipts should also be verified with the recovery statement. The loan ledger postings may also be verified by the auditor.

(f)Overdue debts: The auditor should verify the loan overdue statement with loan ledger and ensure that the society has taken adequate legal steps to recover the loan outstanding from members. Arbitration Register is to be verified. Statement of loan classification statement shall also be examined so as to ensure that the classification is made as per norms.

#### *3.2.4. Management of the Society*

- a) Verification of Minutes
- b) Appropriation of profit
- c) Distribution of dividend
- d) Verification of sub rules
- e) Verification of employee's performance

##### (a) Verification of Minutes

The auditor shall verify the Minutes of the society and see that the Board of Directors have attended the Board meeting and taken part in the activities of the society. He shall verify whether all the Board members are qualified to continue in the Board without any disqualification as stipulated in Sn.28(2) and R.44 of Kerala Co-operative Societies Act and Rules.

##### (b) Appropriation of Profit

Whether the society had convened general body meeting and appropriated the profit as per Sn.56 of Kerala Co-operative Societies Act and Rule.53 of KCS Rules is to be ascertained. He shall check the entries in the Day Book to see that the appropriation passed through the Books of Accounts of the society.

##### (c) Distribution of Dividend

The Dividend Register shall be verified by the auditor to see that the dividend is distributed to the members strictly in accordance with the provisions of the bylaw.

(d) Verification of Sub Rules.

The sub rules for the various schemes such as MDS/MBS/GDS etc should be verified by the auditor.

(e) Verification of Employee's Performance

The auditor shall verify whether there is a performance evaluation system in the society. The evaluation, if available, shall be verified and suitable suggestions with respect to the improvement of their performance. The audit guidelines specified in the first part of the Kerala Cooperative Audit Manual is binding and should be followed in the audit of Employee's cooperative societies.

## Chapter III (3)

### **3.3. AUDIT OF URBAN CO-OPERATIVE SOCIETIES**

- 3.3. 1 Introduction
- 3.3. 2 Deposits
- 3.3. 3 Loans and Advances
- 3.3.4 Other Business
- 33.5 General
- 3.3.6 Business Analysis.

#### ***3.3.1. Introduction***

Urban Co-operative Societies are usually operating in one or more Grama Panchayats or Municipalities.

These type of co-operative societies are organized with the object of providing finance or credit to the sectors like Industries, Labour, Education and other Service sectors. They also aim at financing Cottage and Small scale/ Household Industries in the rural areas. These type of societies are registered under the provisions of Kerala Co-operative Societies Act and Rules and not governed, regulated by Banking Regulation Act. Hence, the auditor of the Urban Co-operative Societies shall ascertain the objectives of such societies and ensure that they are accomplished. Whether the targeted sectors like Industries, Labour, Education, Cottage Industries and Small Scale Industries are benefitted by the activities of the Urban Co-operative Societies. “Urban co-operative society” is defined in sub section (taa) of Sn.2 of Kerala Co-operative Societies Act and the principal object of an urban co-operative society is specified as “financing of the non credit activities” and to raise funds to be lent to its members.

The Auditor shall have to verify whether the principal object is fulfilled and whether the members are getting the credit facilities from the society. As far as Urban co-operative societies are concerned, though they bear the name of 'Urban in fact these societies function in the Grama Panchayats and Municipalities also. With respect to the functioning of these type of co-operative societies detailed guidelines has been issued as per Circular No.4/2003 of the Registrar of Co-operative Societies.

He shall verify the provisions of the Bylaws and ensure that the activities undertaken by the society are in accordance with the provisions of the Bylaws. The general provisions enshrined in the Kerala Co-operative Societies Act and Rules are applicable to Urban Cooperative Societies, unless specified for a particular type of society. Hence, the auditor shall make an enquiry in to the activities of the society to see that they are in accordance with the provisions of Act and Rules. Before commencing the audit, the auditor shall gather the details of the institution, such as branches, depots or outlets, subsidiary institutions, partnerships, consortium agreements etc, so that he will be able to plan the audit in a time bound manner and able to execute it perfectly.

He shall verify the Admission Register and ascertain whether all members are qualified to become members in the Urban Co-operative Societies. The transfer or the refund of shares shall be verified to satisfy that the transactions are in conformity with Act, Rules and Bylaws. The individual maximum borrowing power (IMBP) shall be verified to ensure that the prescribed limit is complied with.

### *3.3.2. Deposits*

The following points shall be verified in respect of deposits collected:

- i) Whether the society has a provision in the Bylaw for the collection of deposits
- ii) Whether Registrar has given approval for such deposit collection

- iii) Whether the rate of interest paid on deposits are in agreement with the rate prescribed by the Registrar
- iv) Whether the deposits collected is properly invested
- v) What is the credit deposit ratio and whether it is satisfactory?
- vi) What is the deposit mix and whether it is satisfactory?
- vii) What is the cost of deposit and how does it affect the financial position of the society?

### *3.3.3. Loans and Advances*

- (i) Whether there is an approved loan policy
- (ii) Whether the society complies with the policy
- (iii) Whether there is a proper mechanism for loan recovery
- (iv) Whether there is loan overdues
- (v) What is the NPA position?
- (vi) What is the step taken by the society to reduce the NPA?
- (vii) Whether the members of Board of Directors have loan over dues.

The auditor shall verify the above points and also obtain confirmations from borrowers on a random basis. He has to check the loan ledger and outstanding statements with the Day Book and General Ledger in order to ensure the correctness in the loan outstanding at the end of the year.

### *3.3.4. Other businesses*

All other businesses of the society shall be accounted properly in the Books of Accounts and the auditors shall check it thoroughly.

### *3.3.5. General*

The auditor shall verify the classification of the society and see that the number of employees appointed is in accordance with the sanctioned staff strength and complying with the approved feeder category rules.

He shall also verify the minutes of the board meetings as well as the general body meeting and see that the resolutions are in tune with the Kerala Co-operative Societies Act, Rules and Bylaws. Whether the society has convened the Annual General Body meeting as per Sn.29 of the Kerala Cooperative Societies Act and businesses specified there are carried out or not is a major subject to be reported by the auditor. He has to check whether the election to the Board of Directors of the society is taking place periodically.

### *3.3.6. Business Analysis*

The auditor has to make comprehensive analysis of the business activities based on various ratios relevant for the society. The performance of the Chief Executive and other employees may be evaluated and reported. The financial position of the society shall be put under scrutiny and suitable suggestions to be made. The rectification of defects pointed out in audit and its compliance may also be verified.

The Balance Sheet and Profit and Loss Account shall be studied carefully and inferences based on the ratios shall be made in the Audit Report.



## Chapter III (4)

### **3.4. AUDIT OF RURAL CO-OPERATIVE SOCIETIES**

3.4.1 Introduction

3.4.2 Verification of bylaws

3.4.3 Verification of credit activities

3.4.4 Verification of allied activities

3.4.5 Verification of marketing activities

3.4.6 Verification of collection facilities

3.4.7 Availability of modern agricultural implements and machinery

3.4.8 Verification of agency businesses

3.4.9 Verification of all other activities

#### **3.4.1 *Introduction***

The primary objective of Rural Co-operative Societies is the development of the rural area by providing agricultural credit to the rural people at a reasonable rate of interest. Hence, before proceeding with the audit of accounts of a rural co-operative society, the auditor should study the bylaws of the Rural Co-operative Society and bear in mind the major objectives of it.

#### **3.4.2. *Verification of by laws***

He should examine whether the activities are in conformity with the provisions of the bylaws.

#### **3.4.3. *Verification of credit activities***

Whether the society had disbursed agricultural short term or medium term loans, whether the rate of interest charged is within the limits prescribed by the Registrar of Co-operative Societies, whether adequate security had been obtained from the borrowers, whether the loans had been disbursed to the rural people in accordance with the loan policy of the society, whether the instalments had been recovered promptly, whether any default had been dealt with prompt legal actions, are the points that should be examined.

#### *3.4.4. Verification of allied activities*

The Rural Co-operative Societies usually lay emphasis on the agricultural allied activities such as distribution of seeds, fertilizers and agricultural implements, etc. The auditor should examine whether these kind of activities were sufficient and helpful for the rural people.

#### *3.4.5. Verification of marketing activities*

The success of agricultural production primarily depends on suitable marketing strategies. Hence, the auditor should make an examination of such strategies and comment upon it based on the statistical figures and facts.

#### *3.4.6. Verification of collection facilities*

The seasonal agricultural production warrants the facilitation of collection centres for agricultural produces. The Godown facility to keep the produces without damage is also required. The auditor should verify these facilities and arrangements and comment in his report regarding the adequacy or inadequacy with respect to the collection and preservation facilities.

#### *3.4.7. Availability of modern agricultural implements and machinery*

Agricultural practices had become automated and for most of the activities, machines are utilised in place of human labour. If the society had purchased such agricultural implements like power tiller, tractor, seed drill, etc, the auditor has to verify the stock register of such machines and the capacity utilization, AMC, etc shall be verified.

#### *3.4.8. Verification of agency businesses*

For the welfare and growth of members, the rural societies may be taking up different kind of agency businesses such as fertilizer, bio-fertilizer, seeds, agricultural tools and equipment, etc. The auditor has to verify the contract deeds or agreements so as to ensure the optimization of such agency deals.

#### *3.4.9. Verification of other activities*

The Rural Co-operative Societies undertake most of the activities of Primary Agricultural Credit Societies. The auditor should follow the guidelines prescribed in the first part of the Audit Manual while auditing a Rural Co-operative Society.

## Chapter III (5)

### **3.5. AUDIT OF AGRICULTURAL IMPROVEMENT CO-OPERATIVE SOCIETIES**

Agricultural Improvement Cooperative Societies are a new generation cooperative models for the augmentation of agricultural activities and agrarian production through various agricultural promotional activities. These type of co-operatives are organized with the area of operation of two or three or more wards in a Panchayat or Municipality. The major objectives of Agricultural Improvement societies include, providing agricultural short term as well as medium term credit to the members, organizing various programs for the development of agricultural allied activities, issue of self employment loans, develop and propagate high yielding seeds among farmers and organizing farmer's welfare programs. While auditing the accounts of an Agricultural Improvement Cooperative Society, the Auditor should be well versed with the above objectives of such Agricultural Improvement Cooperative Societies, as well as the functional aspects of such societies. He should make an evaluation with respect to the activities of the society and include in his report. As the functions of the Agricultural Improvement Co-operative Societies are similar to that of Primary Agricultural Credit Co-operative Societies (PACS) the auditor should follow the general audit guidelines as well as the audit guide lines of Primary Agricultural Cooperative Societies also. The Auditor should verify the Bylaw clauses and ensure that the society is strictly complying with its Bylaws, which is approved by the Registrar. He should also examine whether the society is functioning in accordance with the Co-operative Principles, Kerala Co-operative Societies Act Rules, and Circulars of Registrar and Director of Co-operative Audit. He has to verify whether the society has adequate working space and contributes to the welfare of the members as well as the agricultural improvement of the area . The Auditor shall focus on the following points while auditing Agricultural Improvement Cooperative Society.

1. Whether the area of operation is in compliance with section 7(1) (c) of the Kerala Cooperative Societies Act.
2. Whether the activities of the society are contributing for the improvement of agricultural development of the area.
3. Whether the society has convened the General Body as per rule 8A of KCS Rules during the year.
4. Whether the society has maintained the Books of Accounts as per Rule 29 of the KCS Rules.
5. Whether the annual stock verification was conducted in the society by the authorised officers of the Government.
6. Whether the society has filed the returns before the Registrar as per Rule 33 of KCS Rules.
7. Whether the election to the Board of Directors of the society is conducted in accordance with Rule 35A of KCS Rules.
8. Whether the society has appointed qualified employees in the society as per Rule 186 of KCS Rules.
9. Whether all the members of the Board of Directors are qualified as per Rule 44 of KCS Rules.
10. Whether there are any dues to the Government such as audit fees, taxes, dividend, interest on loans and guarantee commission etc.
11. Whether the defects pointed out in previous audit and inspection has been rectified properly and rectification report submitted to the Registrar.
12. Whether the profit appropriation is approved by the General Body and brought to the Books of Accounts of the society.

## Chapter IV (1)

### **HOUSING CO-OPERATIVE SOCIETIES**

#### **4.1. AUDIT OF KERALA STATE CO-OPERATIVE HOUSING FEDERATION LTD**

- 4.1.1 Introduction
- 4.1.2 Verification of Bylaws
- 4.1.3 Verification of Share Capital
- 4.1.4 Maximum Borrowing Power
- 4.1.5 Verification of loan accounts
- 4.1.6 Verification of rate of interest
- 4.1.7 Verification of insurance schemes
- 4.1.8 Verification of the loan accounts of the Board of Directors
- 4.1.9 Subscription to NCUI
- 4.1.10 Verification of Borrowings
- 4.1.11 Verification of loans from Government
- 4.1.12 Verification of deposit accounts
- 4.1.13 Verification of flow of funds
- 4.1.14 Repayment of Government loans
- 4.1.15 Appropriation of Net Profit
- 4.1.16 Payment of Dividend to the Government
- 4.1.17 Payment of Guarantee commission to the Government
- 4.1.18 Verification of investments
- 4.1.19 Verification of shares with other Institutions
- 4.1.20 Verification of fixed assets
- 4.1.21 Verification of Debt waiver schemes
- 4.1.22 Performance evaluation of the Apex Federation

### **4.1.1. Introduction**

Kerala State Co-operative Housing Federation Ltd popularly known as “Housefed” is the apex society of Primary Housing Co-operative Societies in the State. It enables the Primary Societies to disburse housing loans to members by utilizing funds from various financial agencies, such as NHB, LIC, and other banks. The auditor of the federation shall pay attention to the following points while auditing the Apex institution. Being a cooperative apex institution, the procedures of Administrative Audit as well as the Financial Audit are to be followed.

*4.1.2. Verification of Bylaws*

Before beginning the vouching process the auditor shall study the provisions of the Bylaws so that he shall be able to ascertain whether the objectives of the Federation are accomplished.

### *4.1.3. Verification of Share Capital*

The Authorized Share Capital may be compared with the Paid up Share Capital and examine whether the Paid up Share Capital exceeded the Authorized share capital. If exceeded he shall advise the Federation to amend the bylaws.

### *4.1.4. Maximum Borrowing Power*

Examine whether the maximum borrowing power is exceeded and if so it shall be reported by the auditor with suitable remedial suggestions.

### *4.1.5. Verification of Loan Accounts*

The funds arranged from LIC and other financial agencies are utilized for issuing loans to the members of primary housing society. Since the rate of interest varies from time to time, the auditor has to verify the original sanction order and agreement executed between the LIC and apex society and ensure that the borrower is not charged excessively.

#### *4.1.6.Verification of rate of interest*

The Apex society maintains separate loan account for each loan. The auditor should go through the individual loan account and see that the interest and penal interest charged are within the permissible limit.

#### *4.1.7.Verification of insurance scheme*

Compulsory insurance scheme has been implemented for the benefit of the borrowers, as per the instructions of LIC. The auditor has to verify whether there is group insurance scheme, and the Apex society collects the premium promptly from the primary housing societies.

#### *4.1.8.Verification of the loan accounts of the Board of Directors*

The auditor has to check whether any of the Board of Directors of the Apex society is in default to primary society with respect to his own loan or whether the primary society concerned has at any time defaulted to the Apex society.

#### *4.1.9.Subscription to NCUI*

The Apex society is a member of the National Co-operative Union of India. Hence, when statutory reserves are made out of the net profit, 1% of the profit should be provided for giving annual subscription to NCUI.

#### *4.1.10.Verification of borrowings*

The auditor has to verify the borrowing accounts and to ensure that the loan amount received from National Housing Bank, LIC of India and other financial institutions are repaid without any default. The rate of interest on different loan accounts may be verified.

#### *4.1.11. Verification of loans from Government*

The auditor should verify the sanction order of the interest free loan sanctioned to the Apex Federation and ensure that the amount has been utilized for the purpose for which it was sanctioned.

#### *4.1.12. Verification of deposit accounts*

Whether deposit scheme implemented by the Apex Federation has been approved by the Registrar and whether it is in tune with the terms and conditions laid down in the model sub rule for deposits, is to be ascertained in audit

#### *4.1.13. Verification of flow of funds*

Whether the apex federation is able to cater to the credit needs of its member societies is to be verified. He shall make a detailed analysis of the flow of funds and make his report based on the analysis.

#### *4.1.14. Repayment of Government Loans*

The repayment schedule, the rate of interest as well as the balance outstanding shall be verified and if any dues is noticed it should be reported with direction to remit the dues.

#### *4.1.15. Appropriation of Net Profit*

Examine whether the Net Profit is appropriated in accordance with the provisions of the bylaw in the General body, and brought to the books of accounts of the Federation.

#### *4.1.16. Payment of Dividend to the Government*

The auditor shall verify whether the dividend due to the Government is paid in time.



#### *4.1.17. Payment of Guarantee Commission*

Whether the Guarantee Commission payable to the State Government is paid or not is to be checked in the audit.

#### *4.1.18. Verification of Investments*

The funds invested in government securities or bonds shall be verified. The earning on account of that investment shall be compared with the market rate and ensure that the rate of return is optimum.

#### *4.1.19. Verification of Shares with other Institutions.*

The Share Certificates of Investments with other Cooperative Institutions shall be verified with particular reference to the rate of return.

#### *4.1.20. Verification of Fixed Assets*

The title deeds in respect of the land and building owned by the federation shall be verified and ensured that the properties are in the actual possession and enjoyment of the Federation.

#### *4.1.21. Verification of Debt Waiver Schemes.*

The debt waiver schemes for various groups such as Fishermen, Scheduled Castes/Scheduled Tribes etc should be considered while auditing and the accounts related to such waiver schemes shall be scrutinized and satisfy that the provisions of the schemes are properly implemented for awarding the benefits to the incumbents.

#### *4.1.22. Performance Evaluation of the Apex Federation*

The Apex Federation is expected to provide various types of housing finance to the members of the Primary Housing Societies in the state. The auditor should verify the average number of housing loans disbursed during the year and the average amount available to a primary housing society. The auditor

has to ascertain how far the Apex Federation has succeeded in providing the loan requirements of primary housing societies whether the Federation has succeeded in its objectives, whether it is able to cater to the needs of all primary housing societies and its members. The auditor has to make a critical examination of the business activities of the Apex Federation and make comment on the market share of the Federation with respect to housing finance.

## Chapter IV (2)

### **4.2. AUDIT OF PRIMARY HOUSING CO-OPERATIVE SOCIETIES**

4.2.1 Introduction

4.2. 2 Source of finance

4.2. 3 Sanction of loans

4.2. 4 Verification of mortgage deed and tax receipts

4.2. 5 Disbursement of loans

4.2. 6 Release of loan installments

4.2. 7 Recovery of loan installments

4.2. 8 Repayment of loan installments to the apex society

4.2. 9 Loans for repairs of house

4.2.10 Collection of Group Insurance Scheme

4.2.11 Valuation of Building

4.2.12 Insurance

#### **4.2.1. Introduction**

Primary Housing Co-operative Societies grant medium term as well as long term loans to its members for construction of new houses or for repairs of old houses. Some of the Housing Co-operatives issue loans for the construction of houses. Some other House Construction Cooperative Societies undertake the construction of houses. They purchase land and construct villas/flats and sell them out.

#### *4.2.2. Source of Finance*

The Primary Housing societies usually get finance from the Apex Housing society, which raises funds from LIC by floating debentures on government guarantee. Another source of finance is by way of share capital from members. As the rate of interest on finance granted by LIC varies from time to time, such variation has to be reflected in the rates charged by the societies too. The

Primary societies are permitted to retain not more than 1% margin of interest on funds received from LIC. The auditor has to ensure that the margin of interest charged on loans does not exceed the limit prescribed. The society can charge interest as prescribed in the circular of Registrar of Co-operative Societies.

#### *4.2.2 Sanction of loans*

Where the loans are sanctioned for acquisition of house or house site for the construction of houses on land owned by the borrower, the society should examine the documents of the property such as title deed, tax receipts, encumbrance certificate, etc. The legal opinion obtained from the legal adviser shall also be verified by the auditor.

#### *4.2.4. Verification of mortgage deed and tax receipts*

The mortgage deed executed by the borrowers and the other documents in the loan file should be verified with the loan ledger, minute's book, etc. It should be ensured that the borrower remits the tax of the building, or land promptly and the receipts are produced in the society for verification and filing.

#### *4.2.5. Disbursement of loans*

It should be ensured that the loans received from the apex society are disbursed to the members concerned on whose behalf the loans are sanctioned. Any deviation should be verified and reported.

#### *4.2.6. Release of loan installments*

Loans are released by the Apex society in installments according to the stages of construction. Stage certificate from the qualified engineer should be obtained before the release of each installment. Therefore, the auditor should examine the connected documents and ensure that the Board of Directors have approved the loan proposal and sanctioned the loan and each installment released only after verifying the stages of construction through certification.

#### *4.2.7. Recovery of loan installments*

The auditor should verify the repayment of loan installments and defaults should be closely examined and ensured that legal action is initiated against the defaulters.

#### *4.2.8. Repayment of loan installments to the Apex Society*

The Primary housing societies have to repay the loan installments to the apex society as per agreement, within the period stipulated. It is the duty of the auditor to verify whether the primary society has remitted the installments to the Apex Society within the due date.

#### *4.2.9. Loans for repairs of houses*

The Primary Housing Societies which have own funds, shall disburse loans for repair or extension of houses based on their provisions of the bylaw. The auditor has to ascertain the utilization of loan, for which it has been sanctioned.

#### *4.2.10. Collection of Group Insurance Premium*

LIC collects from the Apex society 1% of the loan sanctioned to it by way of premium under the group insurance scheme. The Apex society collects this premium from the Primary Society along with interest on loans. The auditor has to check whether the society collects the premium from its members along with the interest on loans.

#### *4.2.11. Valuation of Building*

In the case of House Construction Societies, as soon as the construction is completed, they should be got valued through a competent Engineer and the valuation certificate kept in the loan file. The auditor should verify whether the society has obtained and filed valuation certificates.

#### 4.2.12. Insurance

Every house, constructed out of loans availed from the housing society, should be got insured against fire, earthquake and other natural calamities. The insurance policy is to be assigned in favour of the housing society. The auditor shall enquire whether such policies are renewed periodically. He has to see that the insurance cover is sufficient for the loan outstanding.

## Chapter IV (3)

### **4.3. AUDIT OF PRIMARY HOUSE CONSTRUCTION CO-OPERATIVE SOCIETIES.**

4.3.1 Introduction

4.3.2 Affiliation of the Society

4.3.3 Membership and Share capital

4.3.4 Maximum Borrowing Power

4.3.5 Verification of Bylaws

4.3.6 Verification of Sub rules

4.3.7 Verification and Valuation of assets

(a) Loans and Advances (b) Assets acquired (c) Other assets

4.3.8 Verification of Suspense Assets

4.3.9 Verification of House Building projects

4.3.10 Verification of Interest received and Receivable

4.3.11 Verification and Valuation of liabilities

4.3.12 Verification of Interest paid and payable

4.3.13 Verification of Depreciation

4.3.14 Verification of Reserve and Provisions

4.3.15 Verification of Establishment

4.3.16 Verification of Profit appropriation

4.3.17 Rectification of the defects noticed in audit

### **4.3.1 Introduction**

A Primary House construction cooperative society undertakes construction activities than the usual lending activities undertaken by a Primary Housing Cooperative Society. The area of operation shall be one or more taluks. Usually these types of house construction cooperative societies acquire land by purchase or lease and construct buildings such as villas/flats for residential purposes. They also give loans to the members for acquiring land for house construction purposes at the rate of interest prescribed by the Government from time to time. The auditor shall verify the objectives of the society and shall satisfy that they are being accomplished.

### *4.3.2 Affiliation of the Society*

It shall be the duty of the auditor to verify whether the society is affiliated to the Co-operative Union and the Apex Housing Federation.

### *4.3.3 Membership and Share Capital*

The membership and share capital details shall be verified with the Admission Register, Share Register, Day Book, General Ledger and Minutes Book. The annual statements/schedules may also be verified.

### **4.3.4 Maximum Borrowing Power**

This should be verified with the provisions of the Bye-law and ensure that it does not exceed the limit prescribed in the Bylaws.

### *4.3.5 Verification of Bylaws.*

The objectives, the functions, the management criteria are set out in the Bye-laws. Hence, before starting the audit, the auditor shall examine the Bylaws which shall enable him to make a fruitful enquiry and verification in respect of the functions of the society.



#### *4.3.6 Verification of Sub Rules*

Examine whether there are sub rules for various activities of the society. If available, the auditor shall go through them and see that the activities are in tune with the provisions of sub rules.

#### *4.3.7 Verification and Valuation of Assets*

##### **a) Verification and Valuation of Loans and Advances**

The auditor shall verify the loans and advances made by the society in line with the guidelines laid down in the first part of the Kerala Cooperative Audit Manual.

##### **b) Verification and Valuation of assets acquired**

The land purchased, the building constructed and the flats bought etc for own business shall be verified and valued by the auditor to see that the principles of propriety and financial discipline have been strictly complied with.

##### **c) Verification and valuation of other assets.**

The auditor shall verify the other assets of the society acquired and owned by it in the course of business.

#### *4.3.8 Verification of Suspense Assets*

The auditor shall verify the suspense assets/advances due to the society by checking the Suspense Assets Ledgers and annual statements.

#### *4.3.9 Verification of House Building Projects*

The auditor shall verify the house building projects undertaken by the society in detail in accordance to the following points. (i) Whether the amount spent for purchase of land is in tune with the rate notified by the Government or the market rate, (ii) Whether the construction is in tune with the rules and procedures laid down by the Government/Registrar (iii) Whether the allotment of houses/flats to the members is based on the terms and conditions prescribed

in the Bylaw/ sub rules (iv) Whether the price/rate fixed by the society on Houses/Flats are in accordance with the terms/conditions/provisions of / sub rules/bylaws

(v) Whether the price amount/ loan amount is realized from the allottees promptly.

(vi) Whether the interest on loan is collected periodically and regularly.

(vii) Whether the rates of interest collected is in tune with circulars of Registrar.

(viii) Whether the taxes /rates payable to the government remitted promptly.

(ix) Whether the register of houses/flats/building constructed/owned by the society is maintained properly.

(x) Whether all the transactions in respect of these projects are entered in the books of accounts of the society.

(xi) Whether there is Board resolution for each and every purchase /construction of land /building

#### *4.3.10. Verification of interest Received and Receivable*

The auditor shall scrutinize the accounts of interest received and receivable on loans and advances and see that the same is properly accounted and the rate prescribed is complied with.

#### *4.3.11. Verification and Valuation of Liabilities*

##### *a) Deposits*

The Auditor has to verify whether the society has a provision in its bylaws empowering the collection of deposits. Whether the rate of interest paid is in accordance with the circular issued by the Registrar, whether interest payable is properly accounted and brought to the Profit and Loss Account are the points to be checked by the auditor.

#### *b) Borrowings*

The Auditor has to check the rate of borrowing, the utilization of borrowed fund, the repayment, the balance outstanding and the maximum borrowing power of the society, while auditing the borrowings.

#### *c) Other Liabilities*

Employees provident Funds, Staff Security deposits, Dividend payable, Establishment and Contingencies due are the other liability items. Before finalizing the statements of accounts, the Auditor shall verify all these items and ensure that all these are properly assessed and accounted.

#### *d) Suspense Liability - Advances Due by*

The ledger of suspense liability items shall be closely verified by the auditor to see that proper receipts and vouchers are kept for all the transactions. The annual schedules/statements shall be verified with the personal ledger to ensure the correctness of the account.

#### *4.3.12. Verification of Interest Paid and Payable*

Interest paid and payable shall be verified in the audit in order to see that the rate of interest paid on deposits and borrowings are in line with the prescribed rate. The amount taken to Profit and Loss Account and Balance Sheet shall match with the statements/schedules and the Personal Ledgers.

#### *4.3.13. Verification of Depreciation.*

The depreciation charged shall be verified by the auditor in accordance with the circulars of Registrar from time to time.

#### *4.3.14. Verification of Reserves and Provisions*

The verification of assets and liabilities shall/may reveal the deficiencies or discrepancies in the amount of assets or liabilities. The auditor shall verify the creation of reserves/provisions based on the directions of the Registrar.

#### 4.3.15. Verification of Establishment

The auditor shall verify the details of human resources, with reference to the Act (Section.80) Rules (182 to 199 and 201) Bylaws, orders of Registrar and the Government. The Service Registers of staff shall be verified to ensure that all entries in respect of pay fixation, promotion, leave, transfer annual increment, disciplinary action etc are properly entered in it. The consolidated statement of employees shall be obtained and verified by the auditor.

#### 4.3.16. Verification of Profit appropriation

The auditor shall verify the profit appropriation, if the society is working on net profit and see that the profit appropriation has been done in accordance with Section.56 and Rule 53 of KCS Act and Rules.

#### *4.3.17. Rectification of the defects specified in audit*

The rectification of defects specified in audit is to be reported in the annual General Body of the society. The Auditor shall check whether the defects pointed out in the previous audits had been rectified properly.

## Chapter V

### 5. AUDIT OF CHITTY/MDS/MBS/GDS ACCOUNTS

- 5.1 Introduction
- 5.2 Starting of the Scheme
- 5.3 Deposit of Security Amount
- 5.4 MDS/MBS/GDS Transactions
- 5.5 Procedure in Audit
- 5.6 Checking of Receipts with Day Book
- 5.7 Vouching
- 5.8 Checking of DB with MDS/MBS ledgers and General Ledger etc
- 5.9 Bank Account
- 5.10 Auction of MDS
- 5.11. Distinction between prized subscribers and Non prized subscribers
- 5.12. Substitution of subscribers, in the place of defaulters
- 5.13 Filing of Minutes
- 5.14 Payment of prized amount
- 5.15 Verification of Pass Books
- 5.16 Verification of outstanding and valuation of overdue
- 5.17 Action against defaulters
- 5.18. Books of Accounts to be maintained
- 5.19. Preparation of Receipts and Disbursements Account
- 5.20. Preparation of Balance Sheet
- 5.21. Audit of MDS/GDS/MBS accounts
- 5.22. Incorporating the MDS/GDS/MBS accounts in to General Account
- 5.23. Special points in Audit

## 5.1 Introduction

The Primary Agricultural Credit Co-operative Societies and other Co-operative Societies have been conducting chitty as a source of fund. Nowadays the practice of chitty have been shifted to other similar type of deposit schemes such as Monthly Deposit Scheme (MDS) Group Deposit Scheme (GDS) Mutual Benefit Scheme (MBS) etc. Whatever its name be, the auditor has to verify the scheme in toto and ensure that the accounts of such schemes are incorporated in the main Books of accounts and statement of accounts of the society.

Before proceeding with the audit of accounts of such MDS/MBS/GDS, the auditor has to see that there are specific provisions in the bylaws for conducting such schemes. He should verify the provisions in the bylaws and satisfy with respect to maximum limit prescribed for each number of MDS/MBS/GDS (Sala). The sub rules for the schemes should be got approved by the society from the Joint Registrar concerned. The auditor should verify the terms and conditions of the schemes such as minimum number of persons required to start an MDS/MBS/GDS etc,. The period of the scheme, the maximum number of MDS that a member can subscribe, periodicity, drawal of prize amount, furnishing of security, execution of bond etc. The auditor has to verify all the documents related to the conduct of such schemes and ensure that the terms and conditions are complied with. The auditor shall verify the following details with respect to each number of MDS/MBS/GDS etc.

- i Sanction order from the Registrar
- ii Number of the scheme. Name and address of the foreman
- iii MDS/MBS/GDS amount and number of tickets
- iv Duration of deposit schemes
- v Bid/auction details
- vi Particulars of security deposited
- vii Mode of conducting the scheme
- viii Mode of payment of installments
- ix Procedure for receiving the prize amount by a prized subscriber
- x Disbursement of Discount/Bonus/Veethapalisa
- xi Foreman's commission and installment in which Foreman gets the prize
- xii Details of banks in which the money is deposited

- xiii Maintenance of accounts and Balance Sheet
- xiv Subscribers right to examine the accounts and records
- xv Minutes of each MDS/GDS/MBS
- xvi Any other details related to the deposit scheme

The auditor has to study the important clauses of the sub rules of the schemes, while auditing such accounts.

(Read Circular No.36/12 dated 14/8/2012 of Registrar of Co-operative Societies.)

### *5.2 Starting of the Scheme*

The Auditor has to ensure that the deposit scheme has been started by the society in accordance with the sub-rules approved by the Registrar and also ensure that the MDS/GDS has been started with the prior approval of the Registrar.

### *5.3 Deposit of Security Amount*

Every Foreman shall before the drawal/auction of the MDS/MBS/GDS furnish security of immovable property equivalent to double the prize amount of the deposit scheme or deposit in an approved bank an amount equal to the deposit scheme or invest in government securities of the face value of not less than one and a half times the deposit scheme, amount and transfer the amount so deposited to the government securities in favour of the Registrar to be held in trust by him as security for the conduct of the deposit scheme. The auditor should ensure that remittance of security amount by verifying the original challan receipt and passbook/deposit receipt.

### *5.4 MDS/MBS/GDS transactions*

Most of the cooperative societies conduct special deposit schemes such as MDS/MBS/GDS etc. Usually the period of such schemes shall vary from 20 to 100 months. The auditor shall have a close look on the sub rules, before starting the audit in order to ascertain the following.

- (i) The Foreman's commission
- (ii) The maximum amount up to which a subscriber is permitted to bid
- (iii) The auditor should ensure that the conduct of these schemes are in accordance with the sub rules and the directions of the Registrar from time to time.

### *5.5 Procedure in audit*

- (i) Ensure that the opening balances agree with the previous year's closing balances in the Audit Report.
- (ii) Verify whether the receipts are properly accounted with the exact head of account in the appropriate schemes itself.
- (iii) Receipts/Challans as well as payment vouchers for each number of MDS/MBS/GDS should be serially numbered and kept separately.
- (iv) Separate subsidiary Day Books should be used for each number of MDS/MBS/GDS.

### *5.6 Checking of Receipts with Day Book*

The amount in the challan/receipts shall be checked with the corresponding entries in the MDS/MBS/GDS Day Book. The amount to be remitted in cash and veethapalisa/ discount/ bonus as the case may be allowed for each class of scheme and for each installment can be verified from the schedule prepared by the society, after each monthly bid. The auditor shall ensure that amounts realized and veethapalisa/discount/bonus allowed penal interest/ forfeited bonus are correct and that they are entered in the Day Book as shown in the receipt.

When the society is also a member of the MDS/MBS/GDS, the auditor shall be more careful in checking such receipts. He shall see that the installments as credited in the General Ledger/ Day Book are actually debited in the subsidiary Day Book for MDS/MBS/GDS on the same date itself. He shall also verify the bonus payment of each installment with the bid amount. The entry in respect of commission and bonus shall be made in the Day Book in the bid date itself.

### *5.7 Vouching*

The auditor shall see that all expenses/ payments are supported with proper vouchers which are serially numbered and filed. The expenses include the registration fee (at prescribed rate) bid amount paid, securities deposited, bank remittances, expenses for records, stationery and other contingencies.



The auditor shall verify the challans or bank pay in slips in respect of deposits with banks. As far as security deposit is concerned, the auditor has to see how the amount is raised, say by collection from chittals or by advance from the society. In the case of prize amount not claimed by the bidder before the next auction, the auditor shall verify the minutes also and ensure that necessary entries are made therein about for undisbursed amount. While checking the expenses like TA, Postage, stationery, etc the auditor shall ensure that these vouchers are not again debited in the general accounts of the society.

#### *5.8 Checking of Day Book with MDS/MBS/GDS ledgers and General ledger etc*

After checking the receipts and vouchers, the auditor shall cross check the subsidiary Day Book with subsidiary ledgers (Personal ledgers) and ensure that all classified receipts and payments as entered in the MDS/MBS/GDS/ Day Book (subsidiary DB) are correctly entered in the ledger. If advances are paid/ received, to/from MDS Day Book to the General Day Book, the auditor shall see that the entries in both the books are entered on the same date. Delay in recording any such transactions in any one of the books audited in detail should be reported .

The postings in the MDS Day Book is to be checked with MDS Ledger. The consolidated receipts of all MDS ledger will be the “MDS Day book advance”, found on the receipt side in the consolidated receipts and payments statement of the society. Similarly the consolidated payments will be shown on the payment side of the Receipts and Payment statement as MDS Day Book advance”. A statement consolidating receipts and payments under the classified heads in MDS ledger will help to arrive at the correctness of MDS Day Book advance on the two sides of the general statement of Receipts and Disbursement. The daily consolidated total of receipts and payments are taken to General Day Book of the society, on each day when there is a transaction of MDS/MBS/GDS. These figures which are transferred to the General Day Book

and from there to the General ledger constitute the respective “MDS Day book advance” receipts and payments for the year, in the general Receipts and Disbursement statement.

### *5.9 Bank Account*

It is desirable that the society maintains separate bank account for each MDS/MBS/GDS. This will avoid diversion of funds. The auditor should examine the pass books and obtain confirmation from the banks and reconcile the outstanding balances.

### *5.10 Auction of MDS/MBS/GDS*

As per the terms laid down in the sub rule, Foreman has to conduct the auction/bidding at the time and place and date specified for the purpose. The subscriber who is to get the prize at any installment shall be determined by lot or auction. In case, the prize amount is determined by auction, every prized subscriber or a person authorized by him in writing shall sign the minutes of the proceedings related to the drawing at which he obtains his prize.

### *5.11 Distinction between Prized Subscribers and Non Prized Subscribers*

Distinction between prized subscribers and non prized subscribers has much importance while preparing the Balance Sheet. The subscribers who had auctioned or bid the MDS are termed as prized and others as non prized. The entire prized amounts are treated as loans and recoveries made by way of installments from prized subscribers are adjusted towards the prize amounts. The installments collected from the non prized subscribers are treated as deposits. On termination of the MDS, wherein complete payments and recoveries have been made, there will not be any loan amount under asset due from prized subscribers and deposits under liability collected from non prized subscribers.

### *5.12 Substitution of subscribers in the place of defaulters*

There may be instances wherein some of the subscribers may make defaults in remittances of the installments in time, and hence, they may be removed and substitutes may be admitted in their place. In such cases, the defaulters or discontinued subscribers are eligible to get back the amount they have subscribed, (after the completion of the MDS) less commission due to the society and loss if any sustained by it by such discontinuance. In such cases, the auditor should ensure that the sub rules are being followed and that no amount is paid in excess by the society.

### *5.13. Verification of Minutes*

The auditor should verify the minutes of each drawal of MDS/GDS/MBS installments and satisfy that the procedures laid down in the sub rules are strictly adhered to.

### *5.14. Payment of prized amount*

The minutes and the auction bid proceedings may be verified to ascertain the bidder, the bid amount, as well as the bona fides of the auction conducted. The prized amount is to be paid to the bidder within the time prescribed in the sub rules on furnishing reasonable security and on his executing the necessary agreement. If the prized amount is paid, the auditor shall verify the voucher and the bond executed therefore. He should also verify the resolution of the managing committee authorizing the payment of the bid amount. In case, the prized subscriber or his nominee fails to receive the amount within a month, the foreman shall deposit the prize amount in an approved bank specified in the MDS sub rules. The auditor should therefore verify the connected records to satisfy whether the remittances are done promptly. The auditor should also verify as to whether payment of bid amount has been made out of MDS collection or by diverting from owned funds or borrowing of the society, which should be reported promptly.

### *5.15 Verification of Pass Books*

The auditor may call for some of the pass books of the subscribers and verify the entries therein with the MDS /Ledgers.

### *5.16 Verification of outstanding and valuation of Overdue*

The outstanding statement of MDS is to be checked by the auditor with the personal ledgers and the outstanding figures in the Balance Sheet and see whether it is reconciled. A statement of prize amount to be paid to the subscribers at the end of the year and a statement of arrears under prized, and non prized subscribers should be prepared and reconciled with the figures in the balance sheet.

### *5.17 Action against defaulters*

After preparing the statement of arrears of prized and non prized subscribers, the auditor should ascertain whether the society has taken timely action against the defaulters. The over dues are to be verified carefully to see whether amounts under good, doubtful and bad are properly classified and adequate reserve created.

### *5.18 Books of Accounts to be maintained*

- (1) A register containing (i) the name and address of subscribers together with the number of shares held by each subscriber.
  - (ii) The dates on which the subscribers signed the agreement and
  - (iii) In case of assignment by a subscriber, the name and full address of the assignee with the date of assignment and the date on which the assignment has been recognized by the foreman.
- (2) A book containing the minutes of the proceedings of the drawing of MDS.
- (3) A ledger containing
  - (i) The amount paid by subscribers and the dates of such payment.
  - (ii) The amount paid by the prized subscribers with the dates of such payment and
  - (iii) In case of deposit in bank, the date and amount of such deposit.

- (4) MDS Day Book
- (5) Registrar of defaulted subscribers
- (6) Any other books and records as may be prescribed by the Government/  
Registrar

#### *5.19. Preparation of Receipts and Disbursements account*

The auditor should ensure that the Receipts and Disbursements for each MDS/MBS/GDS is prepared for each year and total receipts and payments to be included in the general R and D of the society.

#### *5.20. Preparation of Balance Sheet*

Separate Balance Sheet should be prepared for every MDS/MBS/GDS whether it is terminated or not.

#### *5.21. Audit of MDS/MBS/GDS Accounts*

The MDS accounts should be audited as per the guidelines issued by the Registrar from time to time.

#### *5.22. Incorporating the MDS accounts in to General account*

After preparing the Profit and Loss account, and Balance Sheet of each MDS/MBS/GDS, the auditor shall see that, the profit or loss of the MDS/MBS/GDS account is carried over to the General Balance Sheet of the society under liabilities and assets respectively.

The outstanding liabilities and assets of each MDS/MBS/GDS should be included in the General Balance Sheet of the society under “Adjusting Heads”

#### *5.23. Profit appropriation*

The net profit of MDS/MBS/GDS has to be appropriated as per rules and circulars. Usually the MDS sub rules specify the mode of distribution of profit. (Refer Circular No. 23/76 dated 11-04-1976 Of Registrar of Co-operative societies.)

5.24. *The auditor shall pay special attention to the following points while auditing the MDS/MBS/GDS.*

1. The terms and conditions/sub rules of various schemes
2. Ensure that the applicable rate of commission is accounted by the society.
3. The rate of bonus is to be ascertained and see whether each prized subscriber is paid as per rules.
4. Verify the rate of interest on loan, sanctioned on the security of the MDS scheme.
5. Verify whether the defaulter has been charged interest on the defaulted amount.
6. Verify whether the defaulters have been charged interest at the specified rate on defaulted amount.
7. Verify whether the bonus amount has been properly adjusted in the subscribers account.
8. Verify whether proper legal action has been initiated against the defaulters (especially those who have received the prize money and defaulted the installments)
9. Verify whether the loan sanctioned is in accordance with the sub rule provisions.
10. Whether adequate security has been obtained for the loan or the prize money.
11. Verify the whole transactions to see that all transactions including adjustment are properly accounted.
12. Verify whether the sub rules and circulars of Registrar have been followed in the conduct of MDS/MBS/GDS scheme.
13. Verify whether all the books of accounts are maintained and the consolidated amount under the scheme is brought in to the main accounts.
14. Whether Receipts and Disbursement, Profit and Loss accounts and Balance Sheet have been prepared for each MDS/MBS/GDS.
15. Verify whether arbitration case has been filed promptly/timely against the defaulters.
16. Verify whether any defaulter has participated in the auction.

## Chapter VI

### **6. AUDIT CLASSIFICATION OF CREDIT COOPERATIVES**

1. Circulars. No. 86562/ADL (1) Dated 04/01/1963.of Registrar of Co-operative societies
2. Circular. No. 10872/63, ADL (4) dated 24/10/1963.ofRegistrar of Co-operative societies
3. Circular. No. 6/77 dated 19/01/1977.ofRegistrar of Co-operative Societies
4. Circular. No. 36/79 dated 7/7/1979.ofRegistrar of Co-operative societies
5. Circular. No. 31/81dated 23/7/1981.of Registrar of Co-operative societies
6. Circular. No. 37/85 dated 2/11/1985.of Registrar of Co-operative societies)
7. Circular. No. 02/2014 dated 21/02/2014.of Registrar of Co-operative societies)

#### **6.1. Introduction**

The classification of a society on completion of audit is the final stage of audit which should be carried out strictly based on the guidelines issued by the Registrar of Co-operatives and or Reserve Bank of India from time to time. The audit classification norms for Urban Co-operative Banks and District/Central Co-operative Banks are being issued by the Reserve Bank of India. The Registrar of Co-operative Societies had issued guidelines for the audit classification of Primary agricultural cooperative societies (circular dated 24.10.1963) for primary cooperative societies (6/77 dated 19/1/1977) Central cooperative Banks (36/79, 31/81) Urban cooperative Banks (37/85). Classification is a duty vested on the auditor and therefore, it should be performed with care and diligence. The auditor should bear in mind that wrong classification into lower classes may lead to weaken the enthusiasm of the office bearers of the society. At the same time, there should be maximum care not to give any higher classification than it is actually eligible or deserved. The classification is based on the following distinct facts:

- (i) The financial stability, economic viability soundness etc.
- (ii) The administrative efficiency, general performance etc of the society.

The All India Rural Credit survey committee stressed the need for uniform standards of audit classification for cooperatives on an all India basis for different type of cooperatives, since the “existing standards are so varying as to cause a great deal of confusion”. Accordingly the Agricultural Credit Department of Reserve Bank of India in conjunction with the Advisory Committee on Agricultural Credit have evolved some standards, to be followed in the states for audit classification of cooperative societies. The conference of Registrar’s of States in 1976 had laid down certain standards which are adopted by the states with some modifications depending on local requirements.

### 6.2 Broad Principles of Classification

The general standards prescribed for the classification of agricultural credit societies and rural banks are

- (1) Capital structure:- The progress made in strengthening the capital structure, own funds, and deposit collection in comparison with previous years.
- (2) Credit and financial stability, economic viability etc.
- (3) Management efficiency, maintenance of accounts etc.
- (4) General working including marketing and processing activities.

6.3. *The following is the norms generally adopted for credit societies:*

#### (A) CREDIT CO-OPERATIVE SOCIETIES.

Particulars	Max. Marks allotted	Marks awarded
(1)Capital Structure The sum total of share capital and deposits at the end of the year is compared with the loans outstanding against members at the end of the year. If the proportion is 10% and less no marks will be awarded. One mark willbeawardedforeach10% increase over 10	(20)	



(2)Credit and financial stability

i.Credit (Loans to members)(30)

(a)Work out the % of the total volume of loans issued during the year to the total amount of loans required by members as per normal credit limit. Statements or proportion of the average loan issued per member to individual credit limit: Award one mark for each 5% (6)

(b)There should be a time lag of at least a fortnight between the date of repayment of a loan by a member and the issue of fresh loan. Marks will have to be awarded on the basis of the usual time lag noticed.(4)

(c) Percentage of over dues to demand under principal for the year.(10)

(If the percentage of over dues to demand is 30, no marks. If it is less than 30,one mark for each 3% reduction. If the percentage is more than 30. Minus one mark for each 6% increase up to a maximum of 5 marks).

(d) If the percentage of over dues to demand is 20, no marks, if it is less than 20,one mark for each 4% decrease. If the percentage is more than 20, minus one mark for each 8% increase up to a maximum of 5 marks). (5)

(e) Percentage of number of defaulters to total number of borrowers. (5)

(If the percentage of defaulters to total number of borrowers is 20 or more no marks. If the percentage is less than 20, one mark for each 4% reduction.

(40)

<p><b>ii. Financial stability cover for bad and doubtful debts.(10)</b>  The total of the reserve fund and bad debts reserve should completely cover 100% of the Bad debts plus 50% of the doubtful debts. Work out the percentage of the former to the latter and award marks at the rate of 1 mark for each 6%.</p> <p>(3) Management</p> <p>(a)Rectification of defects pointed out in audit.(4)  (b)Effective action against defaulting members including legal steps) (3)  (c) Holding of meeting once a month at least to discuss the ways and means to develop the business of the society (4)  (d)Maintenance of Accounts. Ledgers should be properly posted correctly up to date, monthly and quarterly Receipts and Disbursements prepared promptly and placed before the Board (4)</p>	<p>(15)</p>	
<p>(4) General Working.</p> <p>General Working of the society including supply marketing and processing functions. Trained office bearers of , committee members and educational activities. Marks to be awarded in the assessment made by the auditor.</p>	<p>(25)</p>	
<p><b>TOTAL</b></p>	<p><b>100</b></p>	

Based on the marks obtained the societies may be classified as A, B, C or D.

Marks between 60 and above - A class  
Marks between 50 and 60 - B class  
Between 40 and 50 - C class  
And below 40 - D class

- Class A. The society which requires no help for its working comes under class A. A class society does not want any supervision from the cooperative union or Apex Bank. Overdue of loans with members should be less than 10% of the total loan outstanding. The society maintains its own paid and qualified staff. It must also be working at net profit.
- Class B. The over dues should be less than 25%. The general cooperative viability of the society must be reasonably high. Its management should be one that takes keen interest on rectifying its defects.
- Class C. Over dues should be less than 40%.Financial position should be ultimately sound.
- Class D. The over dues of societies which exceeds 40%.If a society remains in “D”class for 2 or 3 years continuously, it will have to be liquidated.

## Chapter VII

### **7. PREPARATION APPROVAL AND ISSUE OF AUDIT REPORT, AUDIT MEMORANDUM AND AUDIT CERTIFICATE**

- 7.1 Preparation of Audit Report, Audit Memorandum and Audit Certificate.
- 7.2 Certification of Balance Sheet and Profit and Loss account.
- 7.3 Schedules or statements required in the audit memorandum
- 7.4 Summary of Defects
- 7.5 Approval and issue of Audit Report
- 7.6 Checking of Audit Report.
- 7.7 Approval of Audit certificate and Audit Memorandum.
- 7.8 Publication of Audit Certificate.
- 7.9 Preparation and submission of work diary of Auditors

#### *7.1. Preparation of Audit Report, Audit Memorandum and Audit Certificate*

The sub rule (1) of Rule 64 B of Kerala Co-operative Societies Act and Rules lays down that the auditor shall submit an Audit Memorandum in the form specified by the audit Director. He should specify whether in his opinion, the Balance Sheet and the accounts give a true and fair view of the financial position of the society. It should be his obligation to examine the profit and loss of the society and ensure its genuineness. He should clearly specify whether he has got all the information and explanations necessary for the purpose of audit. The auditor should prepare the audit memorandum very carefully and all the details should be mentioned clearly without any ambiguity. It should be enriched with necessary supporting statements, summary of defects, Auditor's report and special report if any. The auditor should submit sufficient copies of draft audit certificates also along with the Audit Report.

(Read Circular No. 18/2008. dated. 19/03/2008 of Registrar of Co-operative Societies.)

## *7.2.Certification of Balance Sheet and Profit and Loss Account*

Rule 64 B, sub rule (1) requires the auditor to submit the audit memorandum in the form prescribed by the Director of Co-operative Audit, on the accounts examined by him and on the Balance Sheet and final accounts which have been audited and shall state whether in his opinion or to the best of his information and according to the explanations given to him, the said accounts depict a true and fair view of the financial position of the society

- (a) In the case of Balance Sheet, the society's affairs as at the end of the year or subsequent date to which the accounts are made up and examined by him and
- (b) In the case of Profit and Loss account, of the profit or loss for the year or the period covered by the audit as the case may be.

The auditor has to state, as per rule, whether he has got all the information and explanations which to the best of his knowledge and belief are necessary for the purpose of his audit.

He should also state, whether the society has kept proper Books of Accounts and records as required by Act, Rules and Bylaws of the society and maintained regularly.

And whether the and Profit and Loss account Balance Sheet examined by him are in agreement with the Books of Accounts and records maintained by the society. The auditor should furnish a certificate in the form of a report which is to be attached to the audit report. The form of report of the auditor is as follows:

### REPORT OF THE AUDITOR.

I, the undersigned auditor of the .....Co-operative Society/Bank Ltd No.....report on the Balance Sheet and Accounts of the society/ bank as at 31<sup>st</sup> March....., I have examined the foregoing Balance Sheet of the ..... Co-operative Society/Bank

Ltd. No.....as at 31<sup>st</sup>March.....and the Profit and Loss Account of the co-operative society/Bank for the year ended upon that date with the accounts relating to the Head office and with the returns certified and submitted by the Branch Managers, which returns have been incorporated in the foregoing Balance Sheet and Accounts.

I, report that,

(i) I have examined the overdue debts, have verified the cash balance and securities and have valued the assets and liabilities of the co-operative society/bank as required in Sn.64 of the Kerala Co-operative Societies Act, 1969.

(ii) In my 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 fair view of the affairs of the co-operative society/bank according to the best of my information and explanations given to me and shown by the Books of Accounts of the society/bank.

(iii) Where I have called for any explanation or information, such explanation or information have been given to me and have been found satisfactory.

(iv) The transactions of the society/bank which has come to my notice have been within the competence of the society/bank.

(v)The returns received from the branches of the society/bank have been found adequate for the purpose of audit.

(vi)The profit and loss account shows a true balance of profit for the year covered by such an account.

(vii) In my opinion, the balance sheet and profit and loss account are drawn up in conformity with the law and

(Viii) In my opinion, the Books of Accounts have been kept and maintained regularly by the cooperative society/bank as required by the law.

Signature

Name of Auditor

Designation

Place

Date

### *7.3. Schedule or statements required in the Audit Memorandum*

The sub rule (4) of Rule 64 of Kerala Cooperative Society Rules requires the auditor to submit along with the audit memorandum, schedules /statements with full particulars of:

- i) All the transactions which appear to be in contrary to the provisions of the KCS Act, Rules or the bylaws of the society/banks.
- ii) All sums which ought to have been but not brought into account, by the society/bank.
- iii) Any material impropriety or irregularity in the expenditure or the realization of amounts due to the society.
- iv) An audit classification statement prepared in accordance with the instructions issued by the Registrar from time to time.
- v) Any other matter specified by the Registrar on this behalf.

### *7.4. Summary of Defects*

Along with the audit report/audit memorandum, the auditor shall furnish the summary of defects noticed during the audit. It should contain the observations of the auditor regarding the functions of the society, the accounts of which he has audited, the irregularities if any, noticed with specific examples and suggestions for improvement. The summary of defects should be very clear and unambiguous as it should not lead to any doubt. The auditor's observations should be specific, clear and precise as well as detailed. Every paragraph should begin with a headline, like failure in the collection of overdue, in adequacy of supervision or control etc.

The summary of defects should be prepared and submitted in two parts. Part A and Part B. Part A should contain serious defects requiring immediate attention and warranting quick action by the competent authority. Part B should be of comparatively minor defects. In case of misappropriation of funds, destruction of records, disappearance of a responsible officer of society or any instance of serious nature, the auditor has to report the matter immediately to the competent authorities by way of special reports or confidential reports.

In the societies/banks, where audit is performed on a concurrent basis, there should be a defect rectification register, in which the auditor shall record his observations and findings, which shall be replied by the Chief Executive of the society. The Defects of routine nature can be rectified then and there. The defects which remain unrectified even after sufficient opportunities at the time of finalization of audit report shall be included in the audit report as summary of defects.

Before finalization of audit report, the auditor shall discuss with the Board of Directors regarding the summary of defects. Such a discussion will definitely help the auditor to establish the report as well to improve the managerial functions of the society. The Board of Directors shall be able to get a clear picture about the society as well as offer their suggestions for improvement.

The summary of defects shall be prepared very carefully by the auditor so as to enable some standards in the content as well as the language. Unnecessary personal references should be avoided.

- (Read Circulars: 1) 27/68 dated 12/8/1968 of RCS  
2) 1/71 dated 5/5/1971 of RCS  
3) 65/82 dated 25/11/1982 of RCS  
4) 17/85 dated 22/4/1985 of RCS  
5) 12/97 dated 17/3/1997 of RCS  
6) 05/2013 of Director of Co-operative Audit



### *7.5. Approval and issue of Audit Report*

The audit will be deemed to be completed only when Audit Report along with audit certificate and enclosures are received by the Director of Co-operative audit. The auditor has to call for the statements required for audit. The report and certificate have to be prepared and finalized by the auditor on completion of audit of society. The auditor has to certify the closing balance as on the last day of the year under audit, in the cash/day book of the society. He will also certify as “checked for final audit” (with years) and affix his signature underneath. The Registrar has prescribed the period within which the Audit Report and the certificates have to be submitted to the appropriate authority as per circular 21/75 dated 21/3/1975.

As per the sub section 4 B of section.64 of KCS Act, the Director of Co-operative Audit has to issue the Audit Certificate, within 3 months of the date of receipt of the audit report, to the society concerned with a copy of the audit memorandum as prescribed.

1. Read circular No.58/70 dated 07/10/1970 of RCS
2. Read circular No. 21/75 dated.21/03/1975 of RCS

### *7.6. Checking of Audit Reports*

The Audit Report, before approval, has to be scrutinized very carefully in order to avoid any factual errors and mistakes. Usually the auditors, other than those who have prepared the audit report shall be assigned the duty of checking. The checking should be carried out with utmost care and in comparison with the previous year’s report and it should be ensured that the opening balance in the current year’s report are in agreement with the closing balances of the previous report. The procedure of verifying various items may be as follows. All the statements/schedules/abstracts are to be certified by the chief executive of the society as well as the Auditor.

### *7.6.1 Share Capital*

Check the correctness of details furnished under share capital comparing it with the schedule/statements attached with the audit report. Whether the paid up share capital has exceeded the authorized share capital is to be verified. The confirmation certificates, including government share contribution, in respect of share capital may also be verified.

### *7.6.2. Deposits*

The balance outstanding, the current year's receipts and payments, may be examined by checking the statement/schedule of deposit, with the Receipts and Disbursement statement and Balance Sheet enclosed. Confirmation of balances may also be verified.

### *7.6.3. Borrowings*

Confirmation from the financing bank, government or any other agency may be obtained and the interest due for payment may be taken to the Profit and Loss Account and correctness of outstanding balance in respect of borrowings at the end of the year should be ensured.

### *7.6.4 Interest paid and Due*

#### (a) On deposits

Interest paid and pending payment is to be verified in the checking and ensure that it is calculated and brought to the accounts correctly.

#### (b) On borrowings

The confirmation certificates from the financing bank, government or any other agency may be verified while checking the report.

### *7.6.5 Loans*

Statement/Schedules of loan outstanding should be checked with the outstanding in the report in order to ensure the correctness of loan outstanding. Confirmations may be verified in respect of high value loans.

#### *7.6.6 Interest Received and Receivable*

The statement/schedule in respect of interest received and receivable is to be verified while checking the Audit Report.

#### *7.6.7. Miscellaneous income*

The confirmation or the statement in respect of miscellaneous income realizable has to be checked. The realisability certificate from the Board of Directors is also to be verified.

#### *7.6.8. Establishment and Contingencies*

The statement in respect of establishment and contingent items pending payment may be checked.

#### *7.6.9. Staff security*

The statement/schedule of staff security is to be verified in order to ensure the correctness of outstanding balance in the audit report.

#### *7.6.10. Provident fund*

The outstanding in respect of provident fund is to be verified with the statement attached along with the audit report.

#### *7.6.11. Welfare Fund*

The welfare fund amount collected and remitted by the society is to be checked with the statement.

#### *7.6.12. Distribution of Profit*

Examine whether statutory reserves have been provided as stipulated under section. 56 of the KCS Act and Rules and as per the bylaws.

#### *7.6.13. Reserves and Provisions*

Special attention is required while checking this item. The correctness of creation and removal of reserves and provisions made during the year, either by charging the profit and loss account or by giving additional credit in the balance sheet is to be verified. It should also be ensured whether full reserves have been provided for interest accrued and overdue. So also, reserves for bad and

doubtful debts have also to be created in accordance with the circular of Registrar/Reserve Bank of India. For un renewed cash credits also, reserves are to be created. In respect of the reserves created out of profits, which are not contemplated in the Act or the bylaws, necessary authorization of the Board of Directors may be verified.

#### *7.6.14. Investment*

##### (i) Reserve Fund

The confirmation of the bank/financial institution in which RF invested may be verified.

##### (ii) Shares with other institutions

Confirmation or the Auditors certificate regarding the verification of original certificates may be checked.

##### (iii) Government Bonds/Debentures

Confirmation or auditor's certificate with the respect to the verification of original of the bonds/debentures, may be seen. If the bonds/debentures are pledged with other banks/financing agencies, their confirmation with respect to possession is to be enclosed with the audit note.

##### (iv) Movable and Immovable Properties.

###### (a) Movable Properties

Verify the asset certificate of the custodian of such assets and the verification report of the stock verification officer.

###### (b) Immovable Properties

The possession and enjoyment certificate issued by competent authority title deeds and other related documents are to be verified.

#### *7.6.15. Depreciation*

Examine whether depreciations or depreciation fund is created as per the directions of the Registrar of Cooperative Societies/ RBI.

#### *7.6.16. Bank accounts*

Confirmation certificate from the Banks concerned and the reconciliation statements are to be verified to ensure the accuracy of the balance outstanding in each account.

#### *7.6.17. Maintenance of fluid resources*

Examine whether fluid resources have been maintained in accordance with the provisions of the statute. Verify whether the auditor has certified the matter.

#### *7.6.18. Advances due to Society*

##### (a) Advances

Statement duly certified by the management and verified by the auditor.

##### (b) Sundry debtors

Statement duly certified by the management and verified by the auditor along with confirmation certificate of the debtors.

#### *7.6.(19) Advances due by*

While checking the audit report, it should be ensured that there is a statement of sundry creditors, duly certified by the Board of Directors and verified by the auditor, attached with the audit report.

#### *7.6.20. Reserve for Bad and Doubtful Debts*

The statement of Bad and Doubtful debts and reasons for classifying bad/doubtful debts may be verified. The auditor has to follow the norms prescribed by Reserve Bank of India in respect of Co-operative Banks coming under Banking Regulations Act.

#### *7.6.21. MDS/MBS or other Deposit Schemes*

Examine whether the auditor has verified the Profit and Loss Account and Balance Sheet of the various deposit schemes such as MDS, GDS or MBS, which are conducted with the approval of Registrar of Co-operative Societies.

Confirmation of deposits, with treasury or banks may be verified which are kept as security deposit for the scheme.

### *7.6.22. Trading Account*

The societies which have trading transactions have to prepare trading account. Ensure that whether the closing stock value arrived at from the annual stock verification statement has been taken to trading account as closing stock.

#### (a) Closing stock valuation

(i) Verify whether the stock statement are duly certified by the stock verification officer, custodian of stock in trade, Board of Directors and the Chief Executive of the Society.

(ii) Ensure that the value of stock is calculated at cost price or market price, whichever is less. In respect of stocks held by Hantex/Handloom weaver's co-operative societies, valuation is to be done in accordance with the norms laid down by the Reserve Bank of India.

(iii) Verify whether the stocks contain damaged or dead stock, if so ensure that necessary reserves have been created for such damaged/dead stock.

(iv) See whether there is any deficit or excess stock. If there is excess, stock ensure that necessary provision is created so that such excess is not charged to the profit and loss account and profit distributed among the members.

(v) The trading activities of the society is to be examined in detail and see whether it has resulted in trade profit. If so, whether the profit earned has any bearing on the average profit margin charged by the society on trade items. In case of trade loss, the reasons for such loss have to be verified and remedial measures suggested.

### 7.6.23. General

(a) Calculation of working capital: Calculation of working capital should be done in accordance with the circular of the Registrar (Read. Circular 2/71, 17/2011)

(b) Assessment of audit fees: Exemptions and concessions of audit fees to the societies are to be ensured. The norms for calculations are to be strictly complied with.

(c) Audit classification: Examine whether marks have been awarded in accordance with the guidelines issued by the government. In the case of Co-operative banks coming under Banking Regulations Act and controlled by Reserve Bank of India, audit classification has to be done following the guidelines issued by Reserve Bank of India from time to time.

No audit classification is to be made for the societies which have not completed two years.

(d) While checking the first years audit report, a copy of the bylaw of the society is to be obtained and the basic information such as name, area of operation, authorized share capital are to be verified.

(e) Also verify the audit report of the previous year to see whether any defects have been noted in the check memo for rectification in the next audit and whether such defects have been fully got rectified in the current year.

#### (f) Miscellaneous

(i) Verify whether provision has been made for the payment of affiliation fees in respect of societies which are not affiliated till the period under audit.

(ii) Verify whether the auditor has filled all the columns of audit report and signed wherever necessary.

(iii) Verify whether authentications of office bearers have obtained wherever needed.

(iv) Verify the arithmetical accuracy.

(v) Verify whether all the statements have been attached as required.

### *7.7 Approval of Audit Certificate and Audit Memorandum*

After checking the audit report, the errors and mistakes pointed out in checking shall be corrected by the auditor and sufficient number of audit certificates should also be attached with the audit report. According to sub rule (5) of Rule 64B of KCS Rules, the Director of Co-operative audit shall have to approve and issue the audit report and certificates within 3 months from the date of receipt of audit report. A copy of the audit certificate along with audit memorandum shall be given to the society concerned.

### *7.8. Publication of Audit Certificate*

The society shall publish or exhibit the audit certificate, in the notice board of the society, which shall contain the statement of Receipts and Payments, Profit and Loss account and Balance Sheet in the manner specified by the Director of Co-operative audit and shall also keep them open for inspection by any member of the society.

Rule 64 necessitates the placing of audit report before the annual general body meeting, within 6 months from the close of the financial year. The summary of audit memorandum shall also be read out at the general body meeting of the society.

### *7.9 Preparation and submission of work diary of Auditors*

The auditors have to prepare and submit a work diary indicating the work done by him, in detail, during a particular period. It should contain the full details of work done by him each day specifying clearly the receipts, vouchers, registrars etc., checked and the quantum of work turned out. The diary should reveal clearly the details of transactions examined by him and the ledgers checked in connection with the same. The diary should be prepared in the proforma prescribed for the purpose and should be signed by him.



### *7.10. Stoppage of Audit*

In the following circumstances, audit cannot be performed as envisaged in the Act and Rules. (Read: Circular No. 26/71, 56/74 and 64/76 of the Registrar of Co-operative Societies)

- (i) Records under police custody or in the Court
- (ii) Records not produced and partly missing
- (iii) Records not written up to date

#### (i) Records under the Police custody or in the Court

In the event of records with Court or Police custody, the matter has to be intimated to the Joint Director of Co-operative Audit, who will approach the Court or Police authorities concerned, seeking permission to audit the accounts keeping the records under their control. If the records could not be so obtained for audit, the audit can be taken up only after the disposal of the case.

#### (ii) Records not produced and partly missing

In the case of societies which fail to produce the records for audit and where the records are partly missing, the concerned head of the department/office may institute an enquiry under section 65 of the KCS Act and wind up the affairs of the societies which are beyond revival. If there is any possibility of revival of the society, the auditor shall follow the guidelines in the circular No. 56/74 and 64/76 of RCS and complete the audit in accordance with the directions of the Registrar.

(iii) Records not written up: In these cases, the Board of Directors may be superseded by invoking section 32 of KCS Act and an administrator or administrative committee may be appointed to manage the affairs of the society. The administrator or administrative Committee shall arrange to write up the accounts up to date and produce it for audit (Read: Circular No. 56/74 dated 21/11/1974 of the Registrar of Co-operative Societies).

## Chapter VIII

### **8. AUDIT FEES OF CO-OPERATIVES**

- 8.1 Introduction
- 8.2 Procedure for charging of audit fees
- 8.3 Rate of audit fees
- 8.4 Exemption from audit fees.

#### **8.1. Introduction**

The sub section (6), (7) and (8) of Section 64 of KCS Act empowers the Director of Co-operative audit charge the audit fees or audit cost for the audit of accounts of cooperative societies. Rule 65 of KCS Rules stipulates the procedures charging audit fees. Every cooperative society, whose accounts are audited by the cooperative department auditors, is required to remit the audit fee in the government treasury according to the scale fixed under the provisions of Kerala Co-operative Societies Rules. Audit fees is calculated and shown in the Audit Certificate as payable.

#### *8.2. Procedure for charging of audit fees*

The criteria of levying of audit fees for different type of societies according to Rule 65 of KCS Rules:

“Every cooperative society shall pay to government within one month of receipt of the annual audit certificate an audit fee calculated on the working capital as on the last day of the year to which the audit relates or on the total sales during the year or on the gross income during the year as the case may be as shown below.”

(i)Credit Societies: (Excluding PCARDBS, Housing Societies and House Mortgage Banks	On Working Capital
(ii)PCARDBS: Housing Societies and House Mortgage Banks.	On the aggregate of loans issued and that recovered during the year under audit
(iii)Societies having Credit and Non Credit activities	On working capital or sale proceeds, whichever is higher
(iv)Societies dealing in goods except coir and consumer societies	On sale proceeds of goods
(v)Coir Cooperatives societies  v(a) i. Primary consumer Co-operative societies ii. District whole sale Co-operative consumer stores and Apex consumer Co-operative societies	On proceeds of coir sold as owner as well as on the commission realised on goods sold as agents. On sale proceeds of goods  On working capital or sales proceeds of goods, whichever, is higher
(vi) Transport Societies.	On hire charges collected and sale proceeds of articles
(A) Farming Societies which accept deposits and Grant loans advances (B)Social welfare societies which accept deposits and grant loans	On working capital
(vii).Other Societies	On Gross income

### 8.3. Rate of audit fees

The audit fees shall be calculated at the rate of 50 paise for every 100 rupees or part thereof on the working capital, the value of sales or the gross income, as the case may be. The maximum audit fee payable by the society shall not exceed one lakh rupees. Sub rule A of Rule 65 of KCS Rules provides for the upper limit of audit fees for different type of cooperative societies as shown below.

(i)	Credit Societies having working capital up to ten crore rupees (Except PCARDB, Housing Society and House mortgage banks)	Fifty thousand
(ii)	Credit societies having working capital above ten crore rupees (Except PCARDB, Housing Society and House mortgage banks)	One lakh

(iii)	PCARDBS, Housing societies and House Mortgage Banks – where aggregate of loans issued and that recovered during the year under audit is up to Ten crore rupees	Fifty thousand
(iv)	PCARDBS, Housing Societies, House Mortgage Banks where aggregate of loans issued and the recovered during the year under audit exceeds Ten crore rupees	One lakh
(v)	Societies having credit and non credit activities, where the working capital or sales proceeds of goods whichever is higher is up to ten crore rupees.	Fifty thousand
(vi)	Societies having credit and Non credit activities , where the working capital or sales proceeds of goods, whichever is higher exceeds ten crore rupees	One lakh
(vii)	Societies dealing in goods (except coir and consumer societies) where the sale proceeds is up to ten crore rupees	Fifty thousand
(viii)	Societies dealing in goods (except coir and consumer societies) where the sale proceeds exceeds ten crore rupees	One lakh
(ix)	Primary Consumer Societies	Ten thousand
(x)	District wholesale stores and Apex Consumer society	One lakh
(xi)	Transport Societies	Twenty Five thousand
(xii)	Farming societies which accept deposits only from members and grant loans and advances	Fifty thousand
(xiii)	Social Welfare societies which accept deposits only from members and grant loans	Fifty thousand.
(xiv)	Weaver's Cooperative societies	Twenty Five thousand
(xv)	Hospital Cooperative societies	Twenty Five thousand
(xvi)	Dairy Cooperatives	Twenty Five thousand
(xvii)	Vanitha Cooperatives which do not accept deposits and do not grant loans	Ten thousand
(xviii)	Vanitha Cooperatives which accepts deposit, only from members and grant loans	Fifty thousand
(xix)	Other societies	Fifty thousand

The Director of Cooperative Audit shall be competent to decide upon a matter of doubt or dispute with respect to the charging of audit fees of any type of cooperative society.

*8.4. Exemption from audit fees.*

- (1) All Cooperative societies of which all or majority of members belongs to Schedules Caste or Scheduled Tribes, including its apex society.
- (2) All farming societies which do not accept deposits and do not grant loans and advances.
- (3) All social welfare societies which do not accept deposits and do not grant loans.
- (4) All Coir Cooperative Societies.
- (5) All Primary fishermen Cooperative Societies.
- (6) All Khadi Cooperative Societies and other traditional Cooperatives such as Pottery, Bamboos, Jaggery, Washermen, Chethuthozhilali, Lime shell cooperatives.
- (7) Any society or group of societies which has its accounts audited at its own expense.
- (8) Every society for the first year audit.
- (9) Any weavers' society, until it has completed the sixth year after its commencement of business.

Apex Coir Society, Vanitha Cooperative Societies and Dairy Cooperative Societies are required to pay only fifty percent of the rate of audit fees chargeable.

## Chapter IX

### **9. RECTIFICATION OF DEFECTS POINTED OUT IN AUDIT**

The rectification or compliance of audit defects or observations by the cooperative society/institution is of great significance. The audit completion is a task and the rectification or compliance on the points is the basis of the future prospects of the Institution. Usually the Concurrent Auditors shall maintain a Defects Rectification Register and make their observations in the Defects Rectification Register, which shall be handed over to the Chief Executive Officer on a daily basis for explanations or reply. If the explanation/reply is satisfactory, the auditor shall drop his comment and only those items which are not replied/rectified satisfactorily are brought to the Audit Report.

If the audit discloses serious defects in the working of the society, the Director of Cooperative Audit shall bring such defects to the notice of the society as well as to the affiliated apex/central society. The Director of Co-operative Audit or the person authorized by him shall communicate the defects to the Registrar for immediate action.

The Director of Co-operative Audit shall direct the society or its office bearers to take necessary action by an order specifying the action to be taken as well as the time limit for rectifying the defects. The Board of Directors of one society/institution is duty bound to place the audit certificate in full before the General Body or Representative General Body and to read the defects mentioned in the audit certificate. They are also required to furnish rectification reports too before the General Body or Representative General Body along with the audit defects/observation. The Board of Directors has an obligation to submit the rectification report on the defects pointed out in the Audit Report to the Director of Co-operative Audit or to the Registrar, within two months of the receipt of the Audit Certificate.

The rectification of audit defects shall be examined by the auditor while performing the next years audit and if not rectified properly and completely, the matter shall be reported to the Director of Co-operative Audit and the Registrar of Co-operative Societies for further necessary action.

The Registrar of Co-operative Societies had issued detailed directions regarding the rectification of defects; follow up action on audit defects etc as per circular No.38/2010. Though the responsibility of follow up action on audit defects rests with the administrative department, the auditor shall verify the rectification or compliance and make necessary comments.

Read (1) Circular No.27/68 dated 12-08-1968 of Registrar of Co-op. societies  
(2). Circular No.11/71 dated 05-05-1971 of Registrar of Co-op. societies  
(3). Circular No.65/82 dated 26-11-1982 of Registrar of Co-op. societies  
(4). Circular No.17/85 dated 22-04-1985 of Registrar of Co-op. societies  
(5). Circular No.12/97 dated 17-03-1997 of Registrar of Co-op. societies

## Chapter X

### **10. AUDIT OF ESTABLISHMENT MATTERS**

- 10.1 Introduction
- 10.2 Classification of Co-operative Societies
- 10.3 Recruitment of Employees
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- 10.6 Duties and responsibilities and Conduct
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- 10.22 Suspension and Subsistence Allowance
- 10.23 Pension and Retirement
- 10.24 Employees Welfare fund



## **10.1. Introduction.**

The Establishment matters of employees of Cooperative societies are carried out based on the provisions of the Kerala Cooperative Societies Act (Section 80) Rules (181 to 201) and circulars of Registrar from time to time. The auditor shall verify all these provisions and guidelines and circulars while auditing the Cooperative societies as the Act and Rules provide for general guidelines for all type of cooperatives, such as qualification, pay fixation, age limit, probation, promotion etc. The specific issues such as staff pattern, pay revision etc are guided by Government notifications or orders and circular of Registrar concerned. The Auditor shall rely on the directives of functional Registrars depending on the type of society he is auditing.

As per the sub clause (8) of Rule 190 of KCS Rules, leave rules as prescribed under the KSR are applicable to employees of Cooperative societies. In case of travelling allowance, the Rule 199 of Kerala Cooperative Societies Rules lays down that the TA rules prescribed under KSR shall be applicable to employees of Co-operative institutions. The auditor shall check whether the society has obtained sanction for the posts in the subsidiary units/ institutions.

## *10.2. Classification of Cooperative Societies*

### Co-operative Societies included in Appendix III

- (i). Kerala State Co-operative Bank
- (ii) Kerala State Co-operative Agricultural and Rural development Bank
- (iii) District Co-operative Banks. (Now amalgamated with Kerala State Co-operative Bank)
- (iv) Primary Agricultural Credit Societies/Banks, Farmers Service Co-operative Banks, Employees Credit Societies Regional Banks, Rural Banks
- (v) Urban Co-operative Banks
- (vi) Urban Co-operative Societies
- (vii) Primary Co-operative Agricultural and Rural Development Banks

- (viii) Apex Marketing Society
- (ix) Primary Marketing Societies
- (x) Apex Consumer Federation – Department Stores
- (xi) Primary Consumer Stores Societies – Neethi Stores – Neethi Medical Stores.
- (xii) District Whole Sale Stores
- (xiii) Processing Societies
- (xiv) Primary Societies
- (xv) Apex Housing Society (House Fed)
- (xvi) Primary Housing Societies
- (xvii) Hospital Cooperative Societies
- (xviii) Fisheries – Apex Federation
- (xix) Fisheries – Primary Societies
- (xx) Dairy – Primary Co-operative Milk Societies
- (xxi) Miscellaneous – Motor transport Societies
- (xxii) Miscellaneous – Co-operative Printing Press
- (xxiii) All other Societies under the Administrative control of Registrar.

The auditor shall verify the classification of the Cooperative society and ensure that the number of posts sanctioned and appointments made are within the limit prescribed in the Appendix III.

1. Whether the society has been classified by the Government as per Sn.80 (1) and (2) and Rule 182 (1).
2. The auditor shall verify whether the recruitment of employees of the societies mentioned in schedule I are made from Kerala Public Service Commission as per rule 182(3).
3. Whether the society has remitted the prescribed fees for reclassification.
4. Whether the recruitment made are in compliance with the classification order.
5. Whether the pay scales allowed are in compliance with the classification allowed.
6. Whether the society is eligible for such a classification as per the norms fixed.

(Read Circular No. 32/2013 dated 02/04/2013 of Registrar of Co-operative Societies)

### *10.3 Recruitment of employees*

The recruitment to the societies may be either through Kerala Public Service Commission or through Kerala Co-operative Service Examination Board. Whether the terms and conditions stipulated are complied with and whether the procedures are followed while making the recruitment is a major concern of the auditor. He shall examine the recruitment process and satisfy that the statutory provisions are complied with for all kind of recruitments.

Read:- (1) Sub rule (4) of Rule 182 of KCS Rules.

- (2) Circular No. 66/89 dated 29/11/ 89 of Registrar of Co-operative Societies.
- (3) Circular No.6/91 Dated 15/02.1991 of Registrar of Co-operative Societies.
- (4) Circular No. 18/91 dated 07/06/1991 of Registrar of Co-operative Societies.
- (5) Circular -14/2010 dated 19/03/2010 of Registrar of Co-operative Societies.
- (6) Circular No.79/11 dated 09.11.2011 of Registrar of Co-operative Societies.

### *10.4. Reservation of Posts*

(i) As per the Sub Section (4) of Sn.80, 10% of the posts are reserved for Scheduled Castes and Scheduled Tribes.

(ii) As per Sub Section (5) of Sn.80, 3% of posts are reserved for Physically Handicapped candidates/Differently abled candidates

The auditor shall verify whether the society has complied with the stipulations, if not, it shall be reported.

(Read circulars 1. No.46/89 dated 27/07/1989 of the Registrar of cooperative societies

2. No.19/10 dated 31/03/2010 of the Registrar of Co-operative societies
3. No.54/2011 dated 14/07/2011 of the Registrar of Co-operative societies
4. No. 11/2013 dated 28/02/2013 of Registrar of Co-operative societies)

### *10.5. Qualification of various posts*

The qualification for various posts are prescribed as per Section 80(3) and rule 186 of KCS rules. The Auditor shall go through Rules 185 and 186 and circulars and exemption orders of the Registrar while auditing.

(Read (1) Circular No.54/82 dated 26/11/82 of the Registrar of Co-operative societies

(2) Circular No.5/89 dated 23/01/1989 of the RCS

(3) EM (3) 16628/09 K.dis. dated 25/02/2011 of the RCS

(4) Circular No.31/13 dated 20/04/2013 of the RCS

(5) Circular No.5/2017 dated. 09/01/2017 of Registrar of Co-operative societies)

### *10.6. Duties, Responsibilities and Conduct.*

As per Rule 193 of KCS rules the conduct duties and responsibilities are specified. Usually the Bylaws shall have a detailed prescription of duties and responsibilities of employees. The auditor shall verify the Bylaw and see that the performance of employees are in accordance with the Rules and Bylaws.

### *10.7 Pay fixation*

#### *10.7.1 Pay Fixation Rules*

1. On joining duty– pay is fixed at the minimum of the scale of pay of the post.
2. When promoted from a lower post to a higher post pay is fixed by granting a notional increment due in the lower scale and even if the pay so arrived is a stage, next higher stage is fixed.
3. In Co-operative institutions, on the basis of the progress in the work, the institutions are classified on the basis of the norms fixed by the Registrar of Co-operative societies which enables a shift in the pay scales of its employees and in such cases, fixation is granted to its employees on the upgraded pay scale applicable to the classification ordered. In such cases, pay in the new scale is fixed by granting a notional increment and the pay is fixed at the stage so arrived. Here next higher stage fixation is not allowed. Being a master running scale, there will not be any difference in the stage.

Next increment will be granted on the completion of one year from the date of such fixation.

4. When a pay revision order is issued – On change of pay scales through a government order the pay will be fixed in the revised scales after adhering to the norms fixed therein.

#### *10.7.2 Points to be remembered in pay fixation*

1. Notional increment is allowed under Rule 28A Part I KSR.
2. Broken periods of service for granting increments will count for fixation of pay.
3. Special pay granted if any will be counted for fixation of pay provided the person has been drawing it for a minimum period of 3 years on the date of promotion. Special allowances will not be taken for fixation of pay.
4. The rate of increment last drawn will be the rate of notional increment when promoted/appointed while drawing the maximum of a time scale of pay.
5. If promoted to more than one post on the same date, or given promotion direct to the higher post without officiating in the intermediary post, pay in the higher post will be fixed after giving notional fixation in the intermediary posts. But no re-fixation is allowed.
6. If there are a series of increment bar, the first order will be given effect first and then give effect to the next increments.
7. Since 30/9/1993, stagnation increment is to be reckoned for fixing pay in the regular as well as time bound promotions.

#### *10.8.1. Granting of increments*

1. Increase in basic pay is granted once in 12 months.
2. Increment is granted from the first day of the month. Even if it is so, there is an exception. Increment on declaration of probation shall be drawn only on the date of declaration of probation. But subsequent increments shall be drawn on the first day of the month in which they fall due.

Eg: An employee placed under probation for 2 years from the date of joining duty, date of joining duty being 01.01.2013, his probation is said to have

completed on 31.12.2014 AN and declared w.e.f., 01.01.2015 FN. So he will get the second increment on 01.01.2015. If, in this case he has availed 15 days half pay leave, then the probation is extended by 15 days and gets completed on 15.01.2015AN and declared the same wef.,16.01.2015 FN. Hence, the second increment will fall due on 16.01.2015 and further increments on the normal date ie., on 01.01.2016, 01.01.2017 and so on.

#### *10.8.2. Periods counted for increments*

1. All duty periods in a post on a time scale.
2. Service in another post with the same pay on the same or identical scale.
3. Period of deputation.
4. Period of leave inclusive of LWA on medical certificate and LWA up to 60 days without medical certificate in continuation to Maternity Leave.
5. Period of in- service training.
6. Period of joining time.
7. Period of suspension treated as duty.
8. Period of dies-non.
9. Previous service when re-appointed after thrown out for want of vacancy in the same post or another post carrying the same/identical time scale of pay.

#### *10.8.3. Periods not counted for granting increment*

1. LWA taken by employees for undergoing training courses for promotion or their prospects.
2. Suspension period not treated as duty or treated as LWA and LWA without Medical Certificate.
3. Previous service of re-employed after resignation, removal, dismissal and the period of withholding increments with cumulative effect.
4. Increment date will be changed permanently when any leave not counting for increments is availed, and the same is ending in another month.
5. If the leave (not coming) for counting for increment is for a part of a month, the increment due will be granted from the first date of that month.
6. No sanction order is necessary for granting increments.

7. Even if the date of joining falls on a date other than the first day of the month, the increment will be granted on the first day of the month in which he completes 12 months of duty.

8. Except in the case of LWA, the increase in pay on the accrual of increment during leave is to be paid during the leave period itself.

9. Barring of increments will be done only with prospective effect. That is, the barring of increments can be enforced only on increments due after the date of order of barring of increments is issued.

10. Increment barring can be effected only on the scale of pay of the officer who is holding at that time and not in the lower or higher scale.

#### *10.9 Age limit for appointment*

The age limit for appointment by direct recruitment as well as to the society category are stipulated in Rule 183 of KCS Rules. Age relaxation is available for various categories such as Scheduled Castes and Tribes, other backward classes, Ex- servicemen and physically disabled persons. The auditor shall verify the service records and ensure that these stipulations are properly complied with.

#### *10.10 Probation*

While auditing the establishment matters, the auditor shall verify whether the permanent employees have completed the probation satisfactorily and an order declaring the probation is issued by the competent authority in the case of each permanent employee after complying with the terms and conditions laid down in Rule.184 of KCS Rules.

#### *10.11 Promotion, Time Bound Higher Grade*

The guide lines for promotion of employees of Cooperative institutions are prescribed in Rule 185 of KCS Rules. The auditor shall verify the following with respect to the promotions:

- i. Whether the promotions are made from a common seniority list.
- ii. Whether in accordance with the approved feeder category rules.
- iii. Whether the sub staff promoted to the post of Junior Clerk is having necessary educational qualification and minimum prescribed experience.
- iv. Whether the employee has successfully completed the short term training programme/course prescribed.
- v. Whether the ratio prescribed for promotion and direct recruitments is maintained.
- vi. Whether the conditions prescribed as per sub rule (8) (b) of Rule 185 is complied with while granting exemption in qualifications.
- vii. Whether the prescriptions as per sub rule (8) (c) (d), (e) (f) and (g) and provisos thereof and (b) of Rule 185 are considered while granting exemption to educational qualification of employees.
- viii. Whether time bound higher grade promotion is sanctioned in accordance with the guidelines issued by Registrar.

1. Read Circular No. 44/82 dated 28/09/1982 of the Registrar of Co-operative societies
2. Read Circular No. 37/84 dated 25/08/1984 of the RCS
3. Read Circular No. 37A/84 dated 13/09/1984 of the RCS
4. Read Circular No. 5/89 dated 23/01/1989 of the RCS
5. Read Circular No. 15/97 dated 30/04/1997 of the RCS
6. Read Circular No. 21/2000 dated 02/05/2000 of the RCS
7. Read Circular No. 57/03 dated 07/11/2003 of the RCS
8. Read Circular No. 49/05 dated 15/11/2005 of the RCS
9. Read Circular No. 44/06 dated 09/10/2006 of the RCS
10. Read Circular No. 15/2011 dated 09/02/2011 of the RCS
11. Read Circular No. 20/2011 dated 25/02/2011 of the RCS
12. Read Circular No. 31/11 dated 20/04/2011 of the RCS
13. Read Circular No. 31/2013 dated 20/04/2013 of the RCS
14. Read Circular No. 16/2018 dated 13/03/2018 of the Registrar of Co-operative societies.



### *10.12 Feeder Category Rules*

The feeder category rules of every society shall be verified to see that the promotion and appointments are made based on the posts sanctioned by the Registrar and approved category sub rules as per rule 185 (1) of KCS Rules.

(Read Circular No. 50/98 dated 24/11/98 of Registrar of Co-operative Societies)

### *10.13. Staff Pattern*

The staff pattern adopted by the Cooperative institution shall be verified by the auditor and to be satisfied that the change in staff pattern is made with the prior approval of Registrar of Co-operative societies. He shall also verify the staff pattern adopted by the institutions with the appendix III of Rules 188 in respect of each category of employees, no. of posts, scale of pay adopted.

### *10.14 Remuneration and allowances*

While auditing the expenditure on pay and allowances, the auditor shall verify the following:

- a) Pay revision orders for employees various types/categories and Cooperative societies
- b) Appendix III to Rule 188 of KCS Rules
- c) Sub section (6) of Sn.80 and Rule 189 of KCS Rules
- d) Government orders revising the DA of Government employees from time to time
- e) The Service Register of each employees.

### *10.15. Dying- in –Harness – Appointment of dependents*

The appointment made as employment assistance to the dependents of deceased employees shall be verified by the auditor to satisfy the following:

- (i) Employment assistance is given to one dependent only of the deceased employee.
- (ii) The application for appointment has been made within one year of the date of death of the employee.
- (iii) Appointment is made only to the lowest grade of the particular category.

- (iv) The age limit and qualifications are as prescribed.
- (v) The appointment is made with the prior permission of Registrar.
- (vi) The applicant, who is the widow/widower of the deceased employee, shall not have remarried on the date of application.
- (vii) The Board of directors have made a resolution for the appointment of the dependent of the deceased employee.
- (viii) The applicant has produced a certificate from Tahsildar to the effect that he is having no income and has been dependent on the employee.

#### *10.16. Verification of Leave*

As per sub rule (8) of Rule 190 of KCS Rules, every employee of a Cooperative society shall be eligible for different kinds of leave as in the case of Government employees as prescribed under the Kerala Service Rules or any order issued by the Government from time to time. The auditor shall verify the leave particulars of the employees with respect to the following:

- i)** Whether there is proper written application for leave.
- ii)** Whether the leave is sanctioned by competent authority.
- iii)** Whether there is register for recording casual leaves of employees.
- iv)** Whether the leave such as casual leave and half pay leave/commuted leave are recorded in the service register and the balances arrived at periodically.
- v)** Whether alternate arrangements have been made/written permission obtained from competent authority before proceeding to leave in the case of employees who are handling cash.
- vi)** Whether any employee who is on leave have accepted other employment, without obtaining the prior written sanction of the appointing authority.

#### *10.17 Verification of Medical allowance*

The auditor shall verify the payment of medical allowance to check whether it is in accordance with the rate notified by the Government from time to time. He shall also see that no employee is paid medical allowance, of those societies which come under the ESI scheme. The auditor shall verify the pay revision order to ascertain the rate of medical allowance payable.

### *10.18. Verification of staff security*

The security to be furnished by the employees of cooperative societies is prescribed by the Registrar as per rule 192 of KCS Rules. The auditor shall verify the standards prescribed and the amount collected by the societies, and the registers maintained. The investment made out of the amount and the repayment of such security amount at the time of superannuation or retirement of the employee, shall be verified.

### *10.19. Verification of Service Register.*

Since the Service Register is the service history of every employee, it shall be maintained properly showing the date of birth, qualifications, date of appointment, etc. The auditor has to check whether the Service Register is kept in accordance with the directions of the Registrar. He shall also verify whether all the entries are authenticated by the Chairman/President, Chief executive/ just subordinate offices to the Chief Executive. He shall check the following also:

i) Whether the personal details such as date of birth and age, educational qualification, experience, permanent residential address, date of appointment, date of joining, details of appointment order, designation are entered in the Service Register and authenticated by the authority.

ii) Whether the pay fixation details are entered in the service register and authenticated by the authorized officer.

iii) Whether the sanction of annual increment is recorded in the service register.

iv) Whether the probation and promotion details are recorded in the service register and authenticated.

v) Whether the leave particulars are recorded in the Service Register.

vi) Whether the awards/rewards to the employee on extra ordinary performance are recorded in the Service Register.

viii. Whether the disciplinary action against the employee on misconduct or misbehavior or indiscipline is recorded in the Service Register.

### *10.20. Travelling Allowances*

As per the rule 199, the employees of cooperative societies are eligible for travelling allowances in accordance with the provisions of Kerala Service Rules. Hence, the auditor shall go through the KSR provisions and the Government orders in this respect from time to time.

### *10.21. Disciplinary action against employees*

Any punishment as per rule 198 of KCS Rules as a part of disciplinary action against an employee, such as withholding of promotion, barring of increment, censure, compulsory retirement etc shall be recorded in his Service Register. With respect to disciplinary action the auditor shall verify the following:

- i) Whether show cause notice/Memo of charges has been served to the accused employee and opportunity is provided for personal hearing.
- ii) Whether there was a disciplinary committee as specified in the Rules.
- iii) Whether there was a domestic enquiry report with respect to the charges against the employees.
- iv) Whether the penalties imposed were in accordance to sub rule (3) of Rule 198 of KCS Rules.
- v) Whether the employee has provided with subsistence allowance in accordance with the Kerala payment of Subsistence Allowance Act 1972 at the rate admissible to State Government employees.
- vi) Whether any retirement benefit has been disbursed to any employee during the pendency of disciplinary proceedings.
- vii) Whether non liability certificate as prescribed in sub rule (8) of Rule 198 has been obtained before sanctioning the retirement benefits.
- viii. Whether the doctrine of proportionality is followed by the employer while taking disciplinary action against the employee.

Read. 1. Circular No.83/93 dated 29-12-1993 Of Registrar of Co-op. societies.

2. Circular No. 34/2010 dated 03-7-2010 Of Registrar of Co-op. societies.

### *10.22. Suspension and Subsistence Allowance*

An officer under suspension is eligible to subsistence allowance as detailed below:

1. An amount equal to half pay leave salary as if the person is on HPL instead of suspension.
2. DA admissible to the above.
3. Any other compensatory allowance like HRA etc. received at the time of suspension which is restricted to 180 days.

### *10.23. Retirement and Pension*

The retirement age is specified as 58 years in sub rule (2) of Rule 183 of KCS Rules. A pension scheme was implemented as per in Sn. 80A of KCS Act by the Government. The auditor shall verify whether the retirement is effected as specified in the rules. He shall also examine whether the society /institution has enrolled in the pension scheme and remitting the contribution regularly. (Ref. 1. SRO No.323/95 dated 14/03/1995 of the Government of Kerala.

2. SRO No.772/95 dated 16/06/95of the Government of Kerala.
3. SRO No.258/2003 dated 24/03/2003 of the Government of Kerala.
4. 578/2006 dated 12/07/2006 of the Government of Kerala.
5. SRO No.486/2006 dated 19/6/2006 the Government of Kerala).

### *10.24. Employees Welfare Fund Scheme*

The auditor shall examine the rates of contribution paid by the employees as well as the societies to the Fund constituted as per Section80C and 80D of the KCS Act, in order to ensure that regular remittances are made by the employees and societies.

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## **ABREVIATIONS**

KCS Act	- Kerala Co-operative Societies Act 1969
KCS Rules	- Kerala Co-operative Societies Rules 1969
BR Act	- Banking Regulations Act
CRR	- Cash Reserve Ratio
SLR	- Statutory Liquidity Ratio
KYC	- Know Your Customer
CBS	- Core Banking Solutions
LFAR	- Long Form Audit Report
DEAF	- Depositor Education and Awareness Fund
NABARD	- National Bank for Agriculture and Rural Development
MSF	- Marginal Standing Facility
LAF	- Liquidity Adjustment Facility
IS Audit	- Information Systems Audit
DICGC	- Deposit Insurance and Credit Guarantee Corporation
IT Act 2000	- Information Technology Act 2000
IT Act 1961	- Income Tax Act 1961
PMLA 2002	- Prevention of Money Laundering Act 2002
RBI	- Reserve Bank of India
RCS	- Registrar of Co-operative Societies, Kerala
NDTL	- Net Demand and Time Liabilities
DTL	- Demand and Time liabilities
ATM	- Automated Teller Machine
SBI	- State Bank of India
SDLS	- State Development Loans
CRAR	- Capital to Risk Weighted Assets Ratio
ACS Fund	- Agricultural Credit Stabilization Fund.
GST	- Goods and Services Tax
CDM	- Cash Deposit Machine
OTS	- One Time Settlement
NPA	- Non Performing Assets
SARFAESI	- Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act.
CD Ratio	- Credit Deposit Ratio
AMC	- Annual Maintenance Contract
EDP	- Electronic Data Processing
MIS	- Management Information System
CEO	- Chief Executive Officer
TDS	- Tax Deducted at Source
RF	- Reserve Fund
IRAC	- Income Recognition and Asset Classification
OSS	- Offset Surveillance
MAP	- Monitorable Action Plan
FMOD	- Financial Markets Operation Department

AML	- Anti Money Laundering
CFT	- Combating the Financing of Terrorism
PACS	- Primary Agricultural Credit Society
R & D	- Receipts and Disbursements
P & L a/c	- Profit and Loss account
DCA	- Director of Co-operative Audit
KSCB	- Kerala State Co-operative Bank
IFFCO	- Indian Farmers Fertilizers Co-operative Ltd
KRIBCO	- KrishakBharathi Co-operative Ltd
FACT	- Fertilizers and Chemicals Travancore Ltd
IMBP	- Individual Maximum Borrowing Power
KSCARDB	- Kerala State Co-operative Agricultural and Rural Development Bank
PCARDB	- Primary Co-operative Agricultural and Rural Development Bank.
NCUI	- National Co-operative Union of India
NHB	- National Housing Bank
LIC of India	- Life Insurance Corporation of India
SCU	- State Co-operative Union
MDS	- Monthly Deposit Scheme
MBS	- Mutual Benefit Scheme
DB	- Day Book
GL	- General Ledger
TA	- Travelling Allowance
UCBs	- Urban Co-operative Banks
CS	- Co-operative Society
KSR	- Kerala Service Rules
LWA	- Leave without Allowance
SR	- Service Register
SB	- Service Book
HPL	- Half Pay Leave
HRA	- House Rent Allowance
DA	- Dearness Allowance/Daily Allowance
CERSAI	- Central Registry of Securitisation Asset Reconstruction and Security Interest.

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