



**DEPARTMENT OF CO-OPERATION**

**GOVERNMENT OF KERALA**

# **KERALA CO-OPERATIVE AUDIT MANUAL**

## **PART - III**

## **PREFACE**

The Working Group, appointed by the Government of Kerala for revision of the Kerala Co-operative Audit Manual, has revised the Audit Manual. The revised Manual consists of three parts. The general audit guidelines are included in Part I and the guidelines for audit of credit co-operatives in Part II. The last part viz, Part III, contains the guidelines for audit of non-credit co-operatives, such as Marketing, Processing, Dairy, Fisheries, Coir, Weaver's, Labour contract, Education, Hospital and the like, besides Co-operative Unions and Welfare Boards under the administrative control of the Registrar of Co-operative Societies. Norms for audit classification of non-credit co-operative societies are also included in this part. It has been the attempt of the Working Group to incorporate almost all existing types of co-operatives under the coverage of the Manual.

It has to be admitted that the restrictions on account of Covid 19 protocols imposed restrictions on our endeavour. In spite of the odds against us, we are of the sincere belief that our attempt at presenting a reliable and up to date revised Manual have been fruitful.

We wish to place on record our deep felt gratitude to Sri Kadakampally Surendran, Hon Minister for Co-operation, Tourism and Devaswom for investing trust and confidence in us. We express our thankfulness to Smt. Mini Antony, IAS, Secretary, Co-operation, for the valuable guidance and support provided to us. Registrar of Co-operative Societies, Director of Co-operative Audit, Sri. P.S. Rajesh, Additional Secretary, Co-operation and all the officers of the Department of Co-operation deserve our special gratitude. We are much indebted to Dr. V.R. Chithra, Assistant Professor, Department of English, University College Thiruvananthapuram for undertaking the language editing of all the three Parts. The typing and page layout was done in a perfect and flawless manner by Sri A.S. Rejith, Office of the Director of Co-operative Audit, who deserves great appreciation for his untiring and dedicated service, throughout the period of preparation of this revised Manual. The revision of the Kerala Co-operative Audit Manual would not have been possible, but for the active involvement, co-operation and support provided by the officers and staff of the Department of Co-operation. In this respect, the auditors of the department deserve special mention. We acknowledge our gratitude to the officers and staff of the

Directorate of Co-operative Audit for their dedicated service in collecting a great wealth of information from the Co-operatives. The Chief Executives of all Apex Co-operatives, Federal Co-operatives and selected Primary Co-operatives deserve our appreciation for their co-operation and support.

The working Group expresses its sincere gratitude to all those who have co-operated with us for the successful completion of this academic work.

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Thiruvananthapuram  
16<sup>th</sup> February 2021

Jose Phillip  
CHAIRMAN

## **PART – III - AUDIT OF NON-CREDIT CO-OPERATIVES**

### **INDEX**

<b>Chapter I.</b>		<b>Page Number</b>
<b>Audit of Non Credit Co-operatives</b>		10
<b>Chapter II.</b>		
<b>Audit of Co-operative Marketing Societies</b>		
1.	Audit of Kerala State Co-operative Marketing Federation Ltd. (MARKETFED)	20
2.	Audit of Kerala State Co-operative Rubber Marketing Federation (RUBBERMARK)	27
3.	Audit of Primary Marketing Co-operative Societies	33
<b>Chapter III.</b>		
<b>Audit of Processing Co-operative Societies</b>		
<b>I.</b>	<b>Agricultural Processing</b>	
1.	Audit of Kerala Kera Karshaka Sahakarana Federation Ltd.(KERAFED)	40
2.	Audit of Co-operative Sugar Factories/mills	45
3.	Audit of Tea Factories	50
<b>II.</b>	<b>Industrial Processing</b>	
1.	Audit of Kerala State Co-operative Textile Federation ( TEXTFED)	54
2.	Audit of Kerala State Co-operative Cashew Workers Apex industrial Co-operative Society Ltd.(CAPEX)	60
3.	Audit of Co-operative Sericulture Federation.(SERIFED)	62
4.	Audit of Co-operative Spinning mills	63
5	Audit of Primary Sericulture Co-operative Societies	71

III.	Audit of other Processing Co-operatives		
	1.	Agro Industrial Co-operative Societies – Audit of Regional Agro Industrial Development Co-operative of Kerala Ltd.(RAIDCO)	73
	2.	Audit of Kerala State Rubber Co-operative Ltd. (RUBCO)	77
	3.	Audit of Dinesh Beedi Workers Central Co-Operative Society Ltd.	81
Chapter IV.			
Audit of Consumer Co-operative Societies			
	1.	Audit of Kerala State Co-operative Consumer Federation Ltd. (CONSUMERFED)	88
	2.	Audit of District Whole Sale Consumers Stores.	101
	3.	Audit of Primary Consumer Stores	105
Chapter V.			118
Farming Co-operative Societies			
Chapter VI.			
Audit of Producers Co-operative Societies			
	1.	Audit of Kerala State Co-operative Handloom Weavers Co-operative Societies Ltd (HANTEK)	125
	2.	Audit of Primary Weavers Co-operative Societies	132
	3.	Audit of Kerala State Co-operative Coir Marketing Federation Ltd. (COIRFED)	138
	4.	Audit of Primary Coir Co-operative Societies	146
	5.	Audit of Mat Weaving Co-operative Societies	150
	6.	Audit of Kerala State Co-operative Federation for Fisheries Development (MATSYAFED)	155
	7.	Audit of Primary Fisheries Co-operative Societies	165
	8.	Audit of Kerala State Co-operative Milk Marketing Federation Ltd. (MILMA)	173
	9.	Audit of Regional Milk Producers Union	185
	10.	Audit of Anand Pattern Co-operative Societies.	193

11.	Audit of Kerala State Handicrafts Apex Co-Operative Society Ltd (SURABHI)	212
12.	Audit of Poultry Co-operative Societies	215
13.	Audit of Kerala State Rural Women's Electronic Industrial Co-operative Societies Ltd (RUTRONIX)	218
<b>Chapter VII.</b>		
<b>Audit of Hospital Co-operative Societies</b>		
1.	Audit of Kerala State Co-operative Hospital Federation Ltd.(HOSPITAL FED)	221
2.	Audit of Hospital and Dispensary Co-operative Societies	224
<b>Chapter VIII.</b>		
<b>Audit of SC/ST Co-operative Societies</b>		
1.	Audit of Kerala State Co-operative SC/ST Federation Ltd.(SC/ST FED)	227
2.	Audit of Primary SC Co-operative Societies / Audit of Primary ST Co-operative Societies	235
<b>Chapter IX.</b>		
<b>Audit of Educational Co-operative Societies</b>		
1.	Audit of Educational Co-operative Societies	239
2.	Audit of Primary School/Colleges Co-operative Societies	242
<b>Chapter X.</b>		
<b>Audit of Labour Contract Co-operative societies</b>		
1.	Audit of Kerala State Labour Co-operative Federation Ltd.(LABOURFED)	244
2.	Audit of Labour Contract Co-operative Societies	246
<b>Chapter XI.</b>		
<b>Audit of Women Co-operative Societies</b>		
1.	Audit of Kerala State Co-operative Women Co-operative Federation Ltd (VANITHA FED)	254
2.	Audit of Primary Women Co-operative Societies	257

<b>Chapter XII.</b>		
<b>Audit of Tourism Cooperatives</b>		
1.	Audit of Kerala State Co-operative Tourism Federation Ltd.(TOURFED)	262
2.	Audit of Primary Tourism Co-operative Societies	264
<b>Chapter XIII.</b>		
<b>Miscellaneous Co-operative Societies</b>		
1.	Audit of Social Welfare Co-operative Societies	267
2.	Audit of Insurance Co-operative Societies	271
3.	Audit of Motor Transport Co-operative Societies	273
4.	Audit of Auto Rickshaw Co-operative Societies	275
5.	Audit of Co-operative Printing Press	277
6.	Audit of Literary Co-operative Societies	278
7.	Audit of Lift Irrigation Co-operative Societies	283
<b>Chapter XIV.</b>		
<b>Audit of other Types of Co-operative Societies</b>		
1.	Audit of Industrial Co-operative Societies	284
2.	Audit of Rubber Karshaka Co-operative Societies	288
3.	Audit of Lime Shell Co-operative Societies	290
4.	Audit of Washermen Co-operative Societies	292
5.	Audit of Toddy Tappers/Producers Co-Operative Societies	294
6.	Audit of Canteen Co-operatives Societies	298

7.	Audit of Indian Coffee Workers Co-operative Ltd	301
8.	Audit of Tailors Co-operative Societies	304
9.	COSTECH	307
10	KETCO	309
11.	ARTCO	311
12.	KEISCO	313
13.	Audit of Kerala State Homeopathic Co-operative Pharmacy Ltd (HOMCOS)	314
<b>Chapter XV.</b> Audit of Circle Co-operative Union		316
<b>Chapter XVI.</b> Audit of State Co-operative Union		319
<b>Chapter XVII.</b> Audit of Kerala State Co-operative Employees Welfare Board		323
<b>Chapter XVIII.</b> Audit of Kerala State Co-operative Employees Pension Board		326
<b>Chapter XIX.</b> Audit of Kerala Co-operative Development and Welfare Fund Board		328
<b>Chapter XX.</b> Audit of Kerala Co-operative Deposit Guarantee Fund Board		331
<b>Chapter XXI.</b> Audit of Kerala State Co-operative Service Examination Board		335



<b>Chapter XXII.</b> Audit classification of Non Credit Co-operatives		337
<b>Chapter XXIII</b> Offences		347
1.	Under KCS ACT	
2.	Under IPC	
a.	Theft	
b.	Criminal Misappropriation	
c.	Criminal Breach of trust	
d.	Fraud	
3.	Duty of Auditor to Help the Police	

## **Chapter I**

### **AUDIT OF NON CREDIT CO-OPERATIVES**

- 1.1 Introduction
- 1.2 General aspects to be verified
- 1.3 Verification of bylaw
- 1.4 Membership
- 1.5 Verification of share capital
- 1.6 Dividend accrued and payable
- 1.7 Borrowings
- 1.8 General Body, Annual General Body and Special General Body
- 1.9 Board of Directors
- 1.10 Maintenance of Books of accounts
- 1.11 Submission of returns
- 1.12 Maximum Borrowing Power
- 1.13 Amendment of bylaws
- 1.14 Verification of shares with other institutions
- 1.15 Repayment of share capital to the Government
- 1.16 Repayment of loans to the Government
- 1.17 Annual stock verification
- 1.18 Appropriation of net profit
- 1.19 Government Assistance
- 1.20 Reconciliation of accounts with members, apex societies, branches, regional offices and other dealers

### *1.1. Introduction*

The functional features of different type of non credit co-operative societies may be varying, hence in this part of Audit Manual, it is attempted to outline the special features of non-credit co-operatives. The auditor shall be well equipped with sufficient knowledge of different enactments including co-operative law. It is the duty of the auditor to ensure that transactions carried on by the society are permitted under Kerala Co-operative Societies Act, Rules and Bylaws. The auditor should, inter alia, see that the societies consist of only persons who are qualified to become members and also ensure that the funds are being applied only to such purposes as are permissible under the Act, Rules, and Bylaws. The auditor shall acquaint himself with the nature of activities of different types of Co-operative Societies, whose accounts he has to audit and also the manner adopted by the societies for conducting the transactions.

The auditor should carefully study the Co-operative Societies Act, Rules and Bylaws of the Society, before commencing the audit. He shall refer to other relevant laws and circulars of Registrar and the Government. The norms or standards prescribed by the Government or Registrar in respect of working of different types of Co-operative Societies or audit of such societies or audit classification should be followed by the auditor.

### *1.2. General aspects to be verified in audit*

General aspects applicable to all types of Non Credit Co-operative Societies, to be verified in audit, are enumerated below.

### *1.2.1. Verification of bylaw.*

The activities and functions of Co-operative Societies are clearly laid down in the bylaws. Hence the auditor shall familiarize himself with the bylaws at the outset. He shall ensure that the bylaw is amended in accordance with the amendments in the Kerala Co-operative Societies Act and Rules from time to time. The auditor shall call for the latest amendments and verify it with the amendments in KCS Act and Rules and if found that the amendments in the bylaw are pending he shall advise for amendments compatible with the KCS Act and Rules.

The Auditor shall also ensure that there is nothing in the bylaws which is either contradictory or at variance with the provisions of the Kerala Co-operative Societies Act, Rules and the Bylaws.

### *1.2.2. Membership*

The eligibility criteria for the membership of every type of Co-operative Society shall be specifically mentioned in the bylaw. The auditor shall examine the provisions and satisfy that the membership is granted to the eligible persons/ societies, only. He shall examine the bylaws, Minutes book, Admission register, share application register and satisfy that the procedures are properly followed while admitting members.

The Auditor shall also examine the file containing complaints and disposal to satisfy himself that no eligible person or Society has been denied membership in contravention of the provisions of the Kerala Co-operative Societies Act, Rules and the Bylaws.

i. *Application for membership* : The auditor shall see that the application for the membership had been submitted and the share capital amount and entrance fee were remitted by the applicant. The resolution number and date admitting the members shall be recorded in the application form. Compliance of KYC norms shall also be ascertained.

ii. *The Admission Register:* The Admission Register shall be verified by the auditor to see that the details of the member such as name, residential address etc. are entered in the space provided for it. The date and number of resolution of the Board of Directors admitting the member shall be entered in the Admission Register. The details of remittance of share capital as well as the entrance fee should also be shown in the Admission Register. The signature/thumb impression of the members shall be obtained in the Admission Register and a recent pass port size photograph pasted in the Register. The auditor shall examine whether the terms and conditions as laid down in section 16 and Rule 16 of KCS Act and Rules was complied with while admitting a member. Whether identity card in form 6A was issued and Register of identity card in form 6B maintained in the society, should also be verified.

#### *1.2.3. Verification of Share Capital*

The authorised share capital as per the registered bylaw and paid up share capital as per the books of accounts shall be verified by the auditor. If the paid up share capital is more than the authorised share capital, the Auditor shall advise the co-operative Society for immediate bylaw amendment. The refund and withdrawal of share capital shall be strictly based on the provisions of Kerala Co-operative Societies Act and Rules which shall be ensured by verifying the respective registers. The Share Certificate Register kept at the head office shall be verified to see that share certificates are issued properly.

#### *1.2.4. Dividend accrued and payable*

The dividend accrued shall be verified with the Dividend Register to see that dividend payable to the Government is paid without delay. The dividend payable and paid to the members of the society shall be scrutinised with the dividend register.

### *1.2.5. Borrowings*

The Maximum Borrowing Power as prescribed in the bylaws shall be verified. The rate of interest shall also be verified to see that the rate is at par with the prevailing rate in the market.

The repayment of borrowings shall also be checked.

### *1.2.6. General Body, Annual General Body and Special General Body*

Every Co-operative Society is liable to convene its General Body meeting in compliance with section 29 and rule 8A of KCS Act and Rules. The auditor shall verify the minutes of the meeting and ensure that the proceedings are in line with the Act, Rule and the Bylaws. The following points shall be verified with respect to the General Body.

1. Whether the General Body was conducted in accordance with the provisions of KCS Act, Rules and Bylaws.
2. Whether the General Body was held within the period prescribed as per section 29 of KCS Act.
3. Whether there was quorum for the General Body as prescribed in the Bylaw.
4. Whether the annual report was considered and approved by the General Body
5. Whether the audit report was placed before the General Body as stipulated in the Act, Rules and approved by the General Body.
6. Whether the Budget for the coming financial year was approved by the General body.
7. Whether the operational Deficit/loss and program to reduce such deficit or loss was reviewed by the General Body.

8. Whether the program of activities for the next year was approved by the Annual General Body.
9. Whether the annual report and accounts of the subsidiary organizations, if any, were reviewed by the General Body.
10. Whether the amendments of Bylaws were approved by the General Body.
11. Whether the date of General Body and conduct of election to the Board of Directors were declared by the General Body.
12. Whether the profit appropriation was approved by the General Body.
13. Whether any department officers had attended the General Body as specified in sub section (2) of section 29 of KCS Act.
14. Whether the notice of Annual General Body meeting as prescribed in the KCS Act (Sub section (5) of section 29), Rules and Bylaws was served to the members of the society.
15. Whether the expenditure of the Annual General Body was in accordance with the guidelines issued by the Registrar.

#### *1.2.7. Board of Directors*

The auditor shall scrutinize the minutes of the General Body and satisfy that the election to the Board of Directors was in accordance with the provisions of KCS Act, Rules and Bylaws. The following points shall be checked while auditing the society.

1. Whether the Board of Directors are qualified as per the provisions of KCS Act, Rules and Bylaws.
2. Whether the reservation as laid down in the Act and Rules is followed in the Society for categories such as women and Scheduled Caste and Scheduled Tribe.
3. Whether the meeting of the Board of Directors was held as prescribed in the Bylaws

4. Whether the Board of Directors had approved the annual budget, annual working report and audit report.
5. Whether the investment of the funds of the society was made as per directions of the Registrar.
6. Whether the cash balance limit, prescribed in the bylaw was complied with.
7. Whether the Board of Directors had allotted shares and membership in time to the eligible applicants.
8. Whether the Board of Directors had arranged the maintenance of books of accounts as stipulated in the KCS Act , Rules and Bylaws.
9. Whether the Board of Directors had approved the expenditure incurred for the management of the society.
10. Whether the Board of Directors had exercised control over the Chief Executive and other staff members for executing the programs of the society.
11. Whether the minutes of the meetings of Board of Directors are kept properly as per directions.

#### *1.2. 8. Maintenance of Books of Accounts*

The Co-operative Societies whether Apex Federation or Primary Society, shall maintain their books of accounts up to date accurately as prescribed in the KCS Act and Rules and Bylaws in accordance with the generally accepted accounting practices. The Financial statements shall be prepared and submitted for audit as per sub section 4 and 4A of section 64 of the Kerala Co-operative Societies Act. It should be ensured that the books and Registers as laid down in rule 29 are written up and maintained apart from the registers and ledgers specifically required for their business activities. The auditor shall examine the registers, ledgers as well as the financial statements and satisfy that they were prepared in accordance with the directions of the Registrar/Director of Co-operative Audit.



### *1.2.9 Submission of returns*

Whether the society had submitted the returns as prescribed in section 66 C of *Kerala Co-operative Societies Act and Rules* shall be ascertained.

### *1.2.10. Maximum Borrowing Power*

The Maximum Borrowing Power of each society shall be laid down in the bylaw of the society. The auditor shall examine it by checking the amounts borrowed and satisfy that the society has followed the prescribed limit. Confirmation statement shall be obtained and ensured that the balance outstanding in respect of principal and interest are in agreement with the society's books of accounts and ledger of borrowings.

### *1.2.11. Amendment of Bylaws*

The Society shall keep a copy of its Bylaw including latest amendments at its Registered Office as per section 97 of the KCS Act. The auditor shall examine whether the provisions of the bylaws are in conformity with the KCS Act and Rules. It should be ensured that the bylaw is amended in accordance with the latest amendments in KCS Act and Rules.

### *1.2.12. Verification of Shares with other institutions*

The Share Capital investment in other cooperative institutions shall be verified by the auditor. The share certificates as well as the register of shares with other institutions shall be examined to ascertain the status of such investments.

### *1.2.13. Repayment of Share Capital to the Government*

The sanction order of the Government shall be verified to ascertain the lock in period and seen that the repayment has started after the lock in period. The register in respect of the share capital loan shall be examined during the audit.

#### *1.2.14. Repayment of loans to the Government*

Every society shall maintain proper registers in respect of loans and advances received from the Government. The auditor shall examine the registers and ensure that the instalments due are paid in time as stipulated in the sanction order. Whether interest accrued on the loan is paid shall also be examined.

#### *1. 2.15. Annual Stock Verification*

Annual Stock Verification of closing stock of every Co-operative Society shall be conducted as specified in Chapter IX of Part I of the Kerala Co-operative Audit Manual. The auditor shall compare the closing stock details with the stock register as well as the stock verification statement. Periodical physical verification of stock is advised in the Co-operative Institutions where trading business is undertaken. However the annual stock verification at the end of the year is mandatory and report shall be verified by the auditor to know whether there is any shortage/deficit/damage/excess in stock. The reason for uneven deficit or damage should be enquired and reported by the auditor. The Auditor shall ensure that suitable remedial action has been taken in respect of excess/shortage detected during Annual Stock verification.

#### *1.2.16. Appropriation of net profit*

The net profit of co-operative society shall be appropriated in accordance with the provisions of KCS Act, Rules, and Bylaws and whether the appropriation is approved by the General Body and carried over to the books of accounts of the society is to be ascertained.

#### *1.2.17 Government Assistance*

Proper accounts shall be maintained in every society in respect of government financial assistances such as grants/subsidies, share capital contribution or loans. The auditor shall verify the sanction orders and satisfy that

the repayment is made as per schedule. He shall also verify the confirmation of balances as well as the register of government assistances. Whether the assistances received were utilised for the purpose for which it was sanctioned shall be ascertained. It should be ensured that the utilisation certificate is submitted to the authority concerned.

*1.2.18. Reconciliation of accounts with members, apex Societies, branches, regional offices and other dealers*

At every co-operative society, there should be a regular system of reconciliation of accounts with the other societies, agencies, institutions or Government, as the case may be. The auditor shall call for the reconciliation statement and scrutinise with the confirmation of balances from the concerned. Every long pending un reconciled account shall be specifically checked and written explanation from the Chief Executive of the society shall be obtained.

## Chapter II

### **2.1 AUDIT OF CO-OPERATIVE MARKETING SOCIETIES**

- 2. AUDIT OF KERALA STATE CO-OPERATIVE MARKETING FEDERATION LTD (MARKETFED)**
  - 2.1.1. Introduction
  - 2.1.2. Marketing of Agricultural Produce
  - 2.1.3. Fertilizer Business
  - 2.1.4. Bio Fertilizers
  - 2.1.5. LODP Scheme of Coconut Development Board
  - 2.1.6. Spices
  - 2.1.7. “Kerajam” Coconut Oil
  - 2.1.8. Fertilizer Mixing Unit
  - 2.1.9. Export Sales
  - 2.1.10. Business with Temples
  - 2.1.11. Procurement of Rubber, Copra etc.
  - 2.1.12. Remittance of Margin Payable to the Government
  - 2.1.13. Depots/Branches
  - 2.1.14. Insurance
  - 2.1.15. Special Schemes of Procurements
  - 2.1.16. Inspection of Primaries and Branches of the Federation
  - 2.1.17. Reconciliation of accounts with NAFED and other National level Federations
  - 2.1.18. Repayment of Government assistance such as share capital, Loans etc.
  - 2.1.19. Payment of Guarantee Commission to the Government
  - 2.1.20. Quality Control – compliance of Food Safety and Security Act

### *2.1.1. Introduction*

Being an Apex Society, the federation has to undergo the process of Financial Audit as well as Administrative Audit as prescribed in the Kerala Co-operative Societies Act. Apart from the general audit guidelines outlined in Part I of the Kerala Co-operative Audit Manual, the specific points relevant to the Federation also should be considered while performing the audit. The peculiar aspects that are significant with respect to the Financial Audit as well as Administrative Audit of the Kerala State Co-operative Marketing Federation are mentioned below. See page 88 of 1st part of Kerala Co-operative Audit Manual.

### *2.1.2. Marketing of Agricultural Produce*

The auditor shall ensure that the Apex Federation has a valid license for trading in agricultural produce. On receipt of goods from Primary Marketing Societies the federation issues stock receipts to the Primary Society. The primary society shall be executing an agreement specifying the terms and conditions for sale of produce pledged. The auditor has to verify this agreement and ensure that the federation has fulfilled the conditions with respect to the transactions. In case, federation has advanced loans on the pledge of produce, the auditor has to ensure that the advance is limited to the percentage of margin specified in the business sub rules if any, adopted. The auditor shall also ensure that the advance is issued only on properly pledged produce by checking the agreement, stock receipt, loan ledger and daily market rates. He shall also verify that the federation adjusts these advances on sale of the produce. Receipt of commission at the prescribed rates by the federation shall also be verified in the audit.

### *2.1.3. Fertilizer Business*

The federation assesses the requirements of fertilizers of the primary societies and places orders with the fertilizer companies. The requirements shall be supplied to the ware houses from where the federation lifts the stock. On supplying the fertilizers to the warehouses, the fertilizer companies issue receipts. The issues from the warehouses will be regulated by delivery notes/orders of the federation. The stock register shall be checked with the ware house receipts and delivery orders/notes. Since the purchases of fertilizers, in majority cases are arranged by the Apex Bank on issuing letters of credit, through bankers, the federation has to reconcile the fertilizer accounts with the bank periodically. Where the federation makes purchases on cash basis, the auditor may ascertain whether the commission has been realized in time.

### *2.1.4. Bio Fertilizers*

The auditor shall verify the transactions in respect of the Bio fertilizers and see that all business operations are performed complying with the rules, regulations and the federation's business procedures.

### *2.1.5. LODP Scheme of Coconut Development Board*

The scheme to enable the supply of fertilizers to the coconut farmers, on behalf of Coconut Development Board, shall be verified by the auditor and seen that it is beneficial to the farmers as well as to the federation.

### *2.1.6. Spices*

The auditor shall examine the promotional activities and advise the federation to boost up its operations so that the farmers in that sector shall be able to reap the maximum price for their produce such as cardamom, pepper, ginger, clove, cinamon etc. Whether the federation has complied with the procedures of business and the sub rules is to be verified. Why the federation fail to attain the position of 'big dealer' of spices is to be analysed critically.

#### *2.1.7. “Kerajam” Coconut Oil*

The Apex Federation’s produce “Kerajam” brand “Coconut Oil” from good quality Copra procured through primary societies crushed in modern crushing units and widely marketed in major markets of the country. The auditor shall ensure whether a study by an expert team on efficiency of the systems for (1) procurement of Copra (2) processing of oil and (3) marketing of Oil, was conducted. If so report should be asked for, and if not the desirability of conducting such a study may be suggested. The auditor should make observations based on the available data.

#### *2.1.8. Fertilizer Mixing Unit*

Whether the capacity utilization of the mixing unit is optimized is to be verified by the auditor.

#### *2.1.9. Export sales*

The auditor shall examine all records connected with exports of spices/other produce and see that the sales are favourable to the federation. He should attempt a comparison with the sale prices on export obtained by the State Trading Corporation for the same product during the same period.

#### *2.1.10. Business with Temples*

The apex federation has been supplying cardamom and such other products to the temples of Sabarimala and Tirupathi. The contract/agreement, supply procedures, sales prices etc. shall be examined by the auditor.

#### *2.1.11. Procurement of Rubber, Copra etc.*

The guide lines for procurement of copra, rubber etc. were issued by the Registrar. The auditor shall examine these guidelines and ensure that they are scrupulously complied with. He shall also verify whether any uneven loss had happened in the business, by studying the purchase/procurement price and the market price of the purchase date.

- Ref:- . 1) Circular No.15/2019 dated. 23/04/2009 of Registrar of  
Co-operative Societies  
2) Circular No.14/2012 dated. 30/03/2012 of Registrar of  
Co-operative Societies  
3) Circular No.39/2013 dated. 02/06/2013 of Registrar of  
Co-operative Societies  
4) Circular No.15/2014 dated. 11/04/2014 of Registrar of  
Co-operative Societies

*2.1.12. Remittance of Margin Payable to the Government*

The auditor shall ascertain whether the stock of pooled fertilizers has been kept separately. Whether the federation has sold the pooled fertilizer at the rates fixed by the Government from time to time and the margin payable to the Government has been remitted within the time limit, if any specified, is also to be verified by the auditor.

*2.1.13. Depots/Branches*

The approved agents undertake the sales of agricultural produce and spices. The auditor has to ensure the approval of agencies by the Board of Directors in order to make sure that wide publicity is being given to the process of selection of agencies and that level playing field is available to all competitors. The Bank guarantee executed by the agents may also be verified. The periodical reconciliation of accounts with the depots/branches is to be ensured.

*2.1.14. Insurance*

The goods in possession of the federation, both procured and pledged, by Head office as well as Branches/Depots should be adequately insured. In respect of insurance of goods pledged with the federation by Primary Marketing Societies for sale at favourable circumstances, the auditor may verify the connected records and see that the revised premium on insurance has been realised from the member societies.



#### *2.1.15. Special Schemes of Procurements*

The State Government may entrust the procurement of certain crops with the federation. The auditor has to verify the scheme in detail and ensure that the schemes are implemented as agreed upon. It should also be ensured that the apex federation maintains separate accounts in respect of such procurement schemes entrusted with them. The working results of each scheme should be critically examined by the auditor and suggestions if any, for improvement, may be provided. Since the federation deals with mainly agricultural produce, shrinkage etc. in stock may be an unavoidable feature. The auditor has to verify the relevant Board resolution fixing the percentage of wastage, etc. that may be allowed and may comment upon the reasonability of wastage etc.

#### *2.1.16. Inspection of Primaries and Branches of the federation*

The auditor has to ensure that there is an efficient system in the federation for the periodical inspection of branches as well as the affiliated primary societies, and closely follow up the defects pointed out and suggestions indicated during the inspection.

#### *2.1.17. Reconciliation of accounts with NAFED and other National level Federations*

The periodical reconciliation of accounts with NAFED and other national level federations should be ensured by the auditor. The reconciliation statements shall be verified by the auditor before finalising the audit and discrepancies if any, shall be enquired. The Chief Executive of the federation shall be obliged to provide satisfactory explanation for such un reconciled accounts.

#### *2.1.18. Repayment of Government assistances such as share capital, loans etc.*

The apex federation might have received share capital assistance from the Government of Kerala/NCDC. The auditor shall verify the terms and conditions in respect of the financial assistance and see that the amount is repaid to the Government/NCDC as stipulated in the sanction order. Similarly the financial assistance by way of loans may also be verified. The repayment schedule as well as the rate of interest shall be checked and see that the repayment is made without fail as scheduled. The payment of interest on loans shall also be verified by the auditor.

#### *2.1.19. Payment of Guarantee Commission to the Government*

The auditor shall verify the total amount of guarantee, made available by the Government and ascertain the guarantee commission payable by the federation. Whether the federation has paid the guarantee commission and if not paid, the reason for non payment and the amount outstanding for payment shall be verified and reported by the auditor.

#### *2.1.20. Quality control : Food Safety and Security Act 2006*

The provisions of Food Safety and Security Act 2006 are to be complied while marketing food articles. Hence, the quality control measures as well as the licensing from Food Safety Department are to be verified in the audit.

## **Chapter II (2)**

### **2.2. AUDIT OF KERALA STATE CO-OPERATIVE RUBBER MARKETING FEDERATION LTD. (RUBBER MARK)**

2.2.1. Introduction

2.2.2. The activities of the Apex Federation

2.2.2. i) Rubber Marketing

2.2.2.ii) Fertilizer Business

2.2.2.iii) Soil and leaf testing

2.2.2.iv) Distribution of chemicals and fungicides and aerial spraying

2.2.2.v) Rubber Processing

2.2.3. Subsidiary Units

2.2.4. Performance evaluation of employees

2.2.5. Performance evaluation of the federation

2.2.6. Provision for wastage etc.

### *2.2.1. Introduction*

Consequent on the amendment of the Constitution of India, the Kerala Co-operative Societies Act was amended in 2013 giving way for the processes of financial audit and administrative audit in the Co-operative Apex Societies in the State. Being an apex Federation, Kerala Co-operative Rubber Marketing Federation has to conduct financial audit as well as administrative audit and place the report before the Legislative Assembly each year. The general audit guidelines outlined in the part I of the Kerala Co-operative Audit Manual shall be followed in the audit of the federation. Apart from those guidelines in the part I of the manual, the following specific aspects to be examined by the auditor while auditing the apex federation. The auditor shall ensure that the branch accounts as well as the accounts of the subsidiary units are incorporated in the federation's consolidated statements of accounts and financial reports.

### *2.2.2. The activities of the apex federation*

- i) Rubber Marketing
- ii) Fertilizer Business
- iii) Soil and leaf testing
- iv) Distribution of chemicals and fungicides and aerial spraying
- v) Rubber Processing

#### *2.2.2.i. Rubber Marketing*

##### *(1) Purchases :*

In order to ensure fair prices to the rubber cultivators of the state, the federation purchases rubber from the primary rubber marketing societies, estates and dealers, by opening collection depots all over the State. Purchases shall be made by the federation on the basis of contracts entered in to by both parties at the prevailing market rates. The auditor shall ensure that the contracts for purchases are entered into through a transparent process by providing opportunity to all rubber cultivators. He shall verify the market rates with the purchase rate of federation. If the federation had made any purchases at higher rates in order to

fulfil any contract entered in to with other agencies, the auditor has to examine those cases with particular care and ensure that the better interests of the federation is protected. The purchases are weighed at the godowns and the grading is taken place before adding to the closing stock. The purchase bills and the purchase register shall be verified by the auditor with the reports prepared by the grader. It should also be ensured that all the purchases made have been accounted for in the stock register. The stock registers maintained at the godowns are to be reconciled periodically with the stock register at the head office. He should also be satisfied that all purchases have been graded and the total of the graded quantity tallied with the purchase bills. The federation shall maintain proper mechanism to record the daily market rate of various grades of rubber and compare it with the actual purchase price. The Board of Directors, Purchase/Business subcommittee shall ensure the maintenance and availability of such market rates in the state.

- Ref:- 1) Circular No.27/83 dated. 23/06/1983 of Registrar of  
Co-operative Societies  
2) Circular No.10/97 dated. 18/03/1997of Registrar of  
Co-operative Societies  
3) Circular No.15/2014 dated. 11/04/2014 of Registrar of  
Co-operative Societies

*(2) Sales :*

The apex federation sells the rubber procured from rubber growers and primary rubber marketing societies or other agencies to the manufactures of rubber bases products or to the state trading corporation for export. Whenever stock is transferred to sales depots, the auditor shall verify such transfer slips and the files pertaining to the transportation of stock to ensure whether the goods have been transported on the day of transfer. The auditor shall also ascertain whether all the transfers to the branches or sales depots are incorporated in the branch/sales depot accounts by checking the transfer slips with the extract of stock register of branches. The sales agreements executed by the federation shall also be verified to ascertain whether the sales are made to the maximum advantage of the federation. All records such as agreements/contract deeds, invoices or bills, minutes etc, shall be scrutinised by the auditor to see that all the sales transactions are with the approval and authority of the Board of Directors of the federation.

### 2.2.2.ii. Fertilizer Business :

Apart from rubber, the federation organizes fertilizer business through its sales depots as well as the agencies such as Primary Co-operative Societies and other agencies. Fertilizers, Bio Fertilizers and other inputs required for the farmers and rubber growers are marketed and processed by the federation. In order to make available fertilizer at a cheaper rate to the peasants, the federation has fertilizer mixing units in various districts. The raw materials required for the mixing units are purchased from other agencies. The auditor shall examine whether the formalities for the purchase has been complied with properly. He shall examine all records with respect to the mixing units and ensure that the wastage of materials is minimum and reasonable and also supported with proper authorization from competent authority. The auditor shall see that the accounts related to these mixing units are properly incorporated in to the federation's consolidated books of accounts. The operations of fertilizer mixing units may be specifically analysed so that the profitability of each unit can be ascertained and reported.

Ref:- 1) Circular No.17/2009 dated. 12/06/2009 of Registrar of  
Co-operative Societies

2) Circular No.52/2013 dated. 4/09/ 2013 of Registrar of  
Co-operative Societies

### 2.2.2.iv. *Distribution of Chemicals* :

Distribution of Chemicals is another business undertaken by the federation. It acts as an agent for the distribution of chemicals. Suppliers will send the items direct to the parties and the copy of sales bills or invoices to the federation. The auditor shall verify whether the commission due on such dealing is realized properly and entered in the appropriate head of accounts. The auditor shall scrutinise the invoices received from the supplier with the acknowledgements received from the parties to ensure that there has been no pilferage and that invoiced quintile of chemical has been received by party concerned.

Ref:- 1) Circular No. 56/1981 dated. 18/12/1981 of Registrar of  
Co-operative Societies

### *2.2.2.v. Rubber Processing :*

A part from the marketing of the rubber procured from the clients, the federation organizes various rubber processing activities. The auditor shall examine the various rubber processing units and see that the units are operating efficiently economically and profitably.

The auditor shall check the following points with respect to the rubber processing units.

1. Whether the capacity utilization is optimized
2. Whether the inputs and outputs are accounted properly
3. Whether the inputs and outputs are in the appropriate proportion
4. Whether the Management has made proper financial ratio analysis with respect to the units.
5. Whether all the accounts related to the units are incorporated in to the consolidated accounts of the federation
6. Whether all the business transactions, purchases as well as sales and expenditure on various activities are with proper sanction and authority of the Board of Directors.
7. Whether all the records, registers and ledgers such as stock register is maintained properly and up to date.
8. Whether the units are making uneven loss to the federation, if so the reason for such uneven loss should be enquired.
9. Whether the Board of Directors prepare separate business plans for each year for each unit.
10. Whether the achievements are monitored regularly on quarterly or half yearly basis by the Board of Directors or business committee or executive committee.
11. Whether separate trading, profit and loss accounts are prepared separately for each unit.
12. Whether sub committees or Board members are entrusted with the monitoring of each unit.
13. Whether adequate cash security or bond is obtained from the staff in charge of each unit.
14. Whether periodical inspection is carried out in each unit by the senior staff members of the federation.

15. Whether periodical reconciliation is effected between Head office and the unit accounts.
16. Whether any study of quality control of the processing mechanism has been made by any reliable agency and whether any report is available.

### *2.2.3. Subsidiary units*

The working of subsidiary units of the federation should also be examined by the auditor. The composition of shares in the subsidiary units shall be verified and satisfied to see that the better interests of the Rubber Mark is being protected. Whether the funds transferred to the subsidiary units by way of shares are making rich dividends is to be ascertained. The auditor shall ensure that the accounts of the subsidiary units are properly maintained. There should be periodical reconciliation of accounts with the subsidiary units if fund transfer is frequently done. It should be ensured that the affairs of the units are managed as per the rules and regulations laid down for the purpose. Whether the Federation is getting back the dividends on the shares taken in the subsidiary unit is to be verified by the auditor. Whether the licence necessary for subsidiary institution are obtained from the various departments shall be verified to ensure that they are renewed timely. The contracts in respect of buildings, godowns etc, shall be verified to satisfy its validity.

### *2.2.4. Performance evaluation employees*

The performance of employees shall be assessed periodically. Especially the performance of the field staff should be reviewed based on the targets given to them.

### *2.2.5. Performance evaluation of the federation*

Various ratios on business parameters may be analysed and the inferences based on such ratio analysis may be recorded in the Audit Report so that the Board of Directors shall be able to take corrective steps and to guide the federation in to a proper developmental path.

### *2.2.6. Provision for Wastage etc.*

The auditor has to ensure that wastage if any, in the stock of rubber is reasonable and provision made with the approval of the Board of Directors subject to the general guidelines issued by the Registrar of Co-operative Societies.



## **Chapter II (3)**

### **2.3. AUDIT OF PRIMARY MARKETING CO-OPERATIVE SOCIETIES**

#### **2.3.1. Introduction**

- (i) General Marketing Co-operative Societies
- (ii) Special Marketing Co-operatives

#### **2.3.2. Business Activities**

#### **2.3.3. Marketing of Agricultural Produce**

#### **2.3.4. Outright Purchases**

#### **2.3.5. Pooling and Grading**

#### **2.3.6. Payment of Advances**

#### **2.3.7. Linking of Credit with Marketing**

#### **2.3.8. Hiring of Agricultural Machinery**

#### **2.3.9. Advanced against produce or goods**

#### **2.3.10. Un authorized advances**

#### **2.3.11. Verification of Stock**

#### **2.3.12. Other activities of Marketing Societies**

### *2.3.1. Introduction*

The Marketing and Processing Agricultural Produce plays a vital role in the agrarian economic development of our country. In view of the progress of agricultural sector marketing and processing, Co-operative Societies are organized extensively. Because of these marketing societies peasants are able to get better price for their produce. The credit needs of farmers are also met with by the marketing societies by providing the price of agricultural produce to the farmers without any delay, which causes the elimination of the private money lenders and intermediaries in this sector, leading to an end of exploitation of small and medium agricultural farmers.

There are two types of Marketing Co-operative Societies ie, General Marketing and Special Marketing Societies. General Marketing Societies deal with all type of produce, while Special Marketing Societies deal with special commodities such as rubber coconut, coffee etc.

#### *2.3.(i) General Marketing Co-operative Societies*

Marketing Co-operatives are organized in order to achieve the following objectives:

- i) Procurement of produce from the members and making arrangements for sales.
- ii) Induces the farmers for the cultivation of high yielding quality agrarian products.
- iii) Arranging and disbursing of loans and advances to the farmers on the security of their produce.
- iv) Facilitating the storage of members produce by making godowns.
- v) Providing seeds, fertilizers, agricultural implements/machinery such as tractors, tillers etc to the members on reasonable rates.
- vi) Acts as an agent in implementing the policy of linking credit with marketing.

The auditor shall verify the bylaws of the society and satisfy that the objectives are upheld in the functioning of the marketing society.

General marketing societies shall undertake the marketing articles of almost all agricultural produces, day to day of needs of the people as well as specialized products such as fruits and vegetables, coconut, rubber, coffee, pepper, cardamom etc. The society shall keep separate books of accounts and ledgers for each product and unit and the auditor shall verify each unit's accounts and records before finalizing the audit.

### *2.3.(ii). Special Marketing Co-operatives*

Specialised Marketing Co-operatives are successful than the general marketing Co-operatives, since they can concentrate fully on their area of business. Rubber marketing, Coconut marketing, fruits and vegetable marketing are some of the specialized marketing societies in operation. The auditor shall carefully study the provisions of the bylaws of the marketing society and satisfy that the activities are authorized with the provisions of the bylaws.

### *2.3.2. Business Activities*

Primary Marketing Societies concentrate their business in arranging the marketing of produce of their members, advancing loans on the pledge of produce, distribution of fertilizer and agricultural implements etc. In addition to the above, many of the marketing societies undertake a number of other activities also. The auditor should, therefore study the bylaws of the society to examine whether the society is engaged in any other activity which is not contemplated in the bylaws. If any activities which are not permitted in the bylaws are undertaken, the auditor has to appraise the Board of Directors of their liability for the irregular or unauthorized transactions thus undertaken. Separate account is to be maintained for each business activity undertaken by the society.

### *2.3.3. Marketing of Agricultural Produce*

Necessary permits and licences must be obtained before starting the function as a commission agent. Inward register shall be maintained to record the receipt of products, agricultural as well as others. The receipt shall be checked with the inward register and weighment slips. Sales should be checked from the auction register and also the sales agreements and weighment slips. A daily register is to be maintained from which posting into the personal accounts of the customers and the merchants who have brought the produce can be checked. Cash payments of sale proceeds to the customers should be checked from the “Account Sales” and the payment slips. Entries in the Register of sale agreements shall be carried over to the Daily Sales Register. Postings in the register should be seen in the personal accounts of customers. Cash payment may be checked with payment slips.

### *2.3.4. Outright Purchases*

In order to manage the marketing activities in a hassle free manner there should be provision for outright purchase in the bylaws. It should be seen that the amount invested in outright purchases does not exceed the limit, if any, specified in the bylaws. All purchases and sales made in the society shall be genuine and legal.

Agreements made for the proper storage of the articles coming under pending sale shall be ascertained. All goods belonging to the society should have proper and sufficient coverage of insurance.

### *2.3.5. Pooling and Grading*

All goods brought in to the society shall be entered in the Pool Register. The entries in this register have to be checked with the goods received reports, the weighment slips and the counterfoils of receipts/bills issued to the members. The arrangements made for grading shall also be ascertained by the auditor. When sufficient quantities are collected the date for holding the auction should be fixed and the produce sold in auction after giving necessary publicity. The auditor shall

examine the auction report and related records. The commission earned and the expenses incurred by the society are to be deducted from the same proceeds and the average price or pooled price is calculated. Members are paid at pooled rates. It should be verified whether the advances paid, if any, is deducted at the time of final settlement of accounts. If produce received for sale is processed before it is sold, it will enable the members to realize better prices for the produce. If the processing is carried out by the society, it should be treated as separate unit and separate accounts shall be maintained for such units.

#### *2.3.6. Payment of Advances*

In order to facilitate hassle free marketing of agricultural produce, there may be need for the payment of advances to the producer with pending sale of produce. The bylaws of the society may be verified in audit to see whether advances are paid within the limit prescribed in the bylaws. The auditor shall verify that the advances are recovered at the time of final settlement of accounts. Regular vouchers should be obtained for payment of expenses such as transportation charges, Market Cess, etc. The auditor shall verify the application for advances and agreements executed by the borrowers.

#### *2.3.7. Linking of Credit with Marketing*

It is envisaged by the policy makers that every borrower member of an Agricultural Credit Society shall sell his produce through the Co-operative Marketing Society and agrees with the marketing society to deduct the Credit society's dues from the sale proceeds. The marketing society at the time of payment of sale proceeds, deducts the dues to the society. Though this principle of linking of credit with marketing was highlighted by the authorities, in actual practice, linking of credit with marketing was not implemented properly. The auditor shall examine the accounts and verify whether transactions with the producer members as well as the Credit Society were properly monitored and reconciled.

#### *2.3.8. Hiring of Agricultural Machinery*

Some of the Marketing Societies may be hiring tractors, ploughs and other agricultural machinery to its members. Such societies shall maintain a machinery Hire Charge Register, showing the name of person hiring, date on which hired, date of return, rate of hire charges, hire charges due, hire charges recovered, balance if any etc. It should be seen that the bills for hire charges are prepared promptly and recoveries made without delays. The auditor shall verify the receipts of hire charges from the Machinery Hire Register. Machinery Register should be examined to ensure that hire charges are collected for all the days on which the particular machinery was hired out. He shall examine to ascertain whether the agreement having clear terms and conditions with respect to the repairing, non-performance compensation, situation arising from mishaps etc. The charges collected and paid shall be compared.

#### *2.3.9. Advances against produce or goods*

A marketing society may make advances against the produce or goods pledged or hypothecated to the society subject to the provisions in their bylaws. In that cases, the auditor should examine whether the advances are made for different produce within the limit prescribed. It should also ensured that the advances made on the security of produce are settled or repaid within the permitted period. The produce stocked in the society shall be insured against fire and burglary at the cost of members. The storage facility should be examined by the auditor to ensure that they are safely stored against damage or deterioration. Whether the management makes periodical verification of stock and follow up action are to be ascertained in audit. Whether the society is vigilant against market fluctuation is also to be examined. Whether the market fluctuation of prices of produce affect the society shall also be examined and guarded against the excessive advances. The society should frame sub rules in corporation provisions with respect to the treatment of damage of goods at the godown. If the godown is taken on rent the agreement shall be verified to satisfy that the terms are in favour of the society. Losses due to market fluctuations shall be properly guarded.

### *2.3.10. Un authorized advance.*

Payment of advances to producers and manufactures shall be done with proper authority and approval. Any unauthorized payment shall be reported by the auditor with appropriate suggestions for recovery of such amounts.

### *2.3.11. Verification of Stock*

Periodical physical verification of stock in possession of the marketing society is advised. However, the annual verification of stock (at the end of the year) is mandatory and the reports shall be verified by the auditor to know whether there is any shortage/damage/deficit/excess in stock. The reason for uneven deficit/shortage should be enquired by the auditor to satisfy that the amount of shortage has been recovered from the persons responsible, without delay.

### *2.3.12. Other activities of Marketing Societies*

Apart from the specialized marketing activities, it is seen that the following activities are also carried out as a part of business development/growth.

- i) Fertilizer depots
- ii) Manufacturing of building materials
- iii) Agency sales of various products
- iv) Tourism activities
- v) Group deposit schemes
- vi) Renting of buildings

The auditor shall verify all the records, ledgers and accounts related to the business which the marketing society has undertaken. Whether unit accounts are incorporated in the main accounts is to be ascertained. Some of the specialised marketing societies are seen computerized. Hence, the auditor shall enquire the scope and extent of computerisation the society. Ref to: i) Chapter II of the part I of the Kerala Co-operative Audit Manual ii) Circular No. 27/17 dated. 05/05/2017 of the Registrar of Co-operative Societies

## **Chapter III**

### **AUDIT OF PROCESSING CO-OPERATIVE SOCIETIES**

#### **(i). AGRICULTURAL PROCESSING**

##### **3.(i)1. AUDIT OF KERALA KERA KARSHAKA SAHAKARANA FEDERATION LTD. (KERAFED)**

- 3(i).1.1. Introduction
- 3(i).1.2. Verification of objects
- 3(i).1.3. Procurement of coconut
- 3(i).1.4. Processing of coconut
- 3(i).1.5. Procurement of copra
- 3(i).1.6. Processing of copra
- 3(i).1.7. Marketing of coconut oil and other products
- 3(i).1.8. New Schemes of the Federation
- 3(i).1.9. Financial analysis of the Federation
- 3(i).1.10. Internal audit and inspection
- 3(i).1.11. Performance evaluation of employees
- 3(i).1.12. Reconciliation of accounts with Regional Offices, District Offices and Branch Offices/Field Offices
- 3(i).1.13. Quality Control and Compliance of Food Safety and Security Act 2006.
- 3(i).1.14. Performance evaluation of Regional offices, District offices, Branch offices and Field offices.



### *3(i).1.1. Introduction*

The Kerala Kera Karshaka Sahakarana Federation popularly known as “Kerafed” is an apex federation formed for the purpose of organising coconut growers to augment their income and increase the productivity of farm sector through increased system of production, procurement, processing and marketing of coconut and its by- products. The adoption of modern agricultural practices to increase the productivity of coconut farms and increase the income of farmers to a considerable extent is the prime object of the Federation. It also arranges the supply of seedlings, fertilizers, modern farm implements and equipment for the cost effective management of agricultural farms. The Federation shall also arrange for the procurement of coconut copra and other products. The Federation has installed plants for the processing of copra at Karunagappally (Kollam) and Naduvannur (Kozhikkode). The apex cooperative, through its farm interventions especially in marketing, shall be able to ensure the farmers with fair price for their produce (coconut, copra etc.). The Federation is also entrusted with the object of providing technical as well as financial assistances to the member societies.

The marketing of the products requires modern sales management techniques which shall be promoted by the Federation for the benefit of member societies too.

Since the Kerala Kera karshaka Sahakarana Federation is an Apex Society, It shall be under an obligation to undertake Financial Audit as well as Administrative Audit. The Administrative Audit guidelines laid down in part I of the Kerala Co-operative Audit Manual shall be followed by the auditors while auditing the federation.

### *3(i).1.2. Verification of objects*

The auditor shall examine whether the apex federation is able to maintain and succeed in fulfilling its objects. The clauses of bylaws with respect to the objects of the federation shall be scrutinised by the auditor at the time of audit.

### *3(i).1.3. Procurement of coconut*

The details of coconut procured through member societies or through agricultural offices (Krishi Bhavan) shall be verified by the auditor. He shall compare the rate of coconut price disbursed in comparison with the support price notified by the Government of Kerala. The stock register shall be verified and the stock in transit shall also be considered while arriving at the closing stock of the coconut.

### *3(i).1.4. Processing of coconut*

The auditor shall examine the conversion ratio of coconut to copra and ensure that the estimated quantity of copra is obtained from the given quantity of coconut. The conversion ratio shall be examined and ensure that the apex federation is making advantage out of the business by ensuring optimum production of copra. The quantity of coconut inputs, the conversion ratio, and the quality of output i.e. copra shall be verified by the auditor. Every unit shall be examined to assess the productivity.

### *3(i).1.5. Procurement of copra*

The federation shall be procuring copra from the member societies or farmers. The auditor shall verify the details of procurement of copra. The stock register, invoices, procurement rate and the market price and support price of copra shall be verified by the auditor. Moisture factor shall also be considered by the auditor. The standard rate of such factors shall be compared with the original rate in each unit.

- Read 1 :- 1) Circular No.15/2009 dated. 23/04/2009 of Registrar of  
Co-operative Societies  
2) Circular No.39/2013 dated. 12/06/2013 of Registrar of  
Co-operative Societies

### *3(i).1.6. Processing of copra*

The Copra procured shall be processed in the factories owned by the Federation. The auditor shall verify the conversion ratio of copra to coconut oil or other products, by adopting the technique of process costing. Coconut oil obtained per metric ton copra shall be verified to ensure that the federation obtain reasonable quantity of oil from copra. This will also form the basis for the assessment whether the copra procured was of reasonably standard quality. The rate of return as oil shall depend on the quality of copra procured. The auditor shall ensure that the treatment of normal loss and abnormal loss are within the permitted limits. The accounting of by products shall also be verified.

### *3(i).1.7. Marketing of coconut oil and other products*

Adhering to modern marketing and sales techniques, it will be able to ensure better marketing share of the products 'Kera Coconut Oil' Hair oil, Coconut milk powder etc which are marketed under the 'Kera Brand' which have gained popularity and appreciation among the consumers. The auditor shall verify whether the federation has succeeded in utilizing the potential of its products and the available resources, by adopting modern marketing techniques.

### *3(i).1.8. New Schemes of the federation*

The new schemes introduced by the federation shall be scrutinised by the auditor and ascertained whether they are beneficial to the farmer community as a whole.

### *3(i).1.9. Financial analysis of the federation*

The most important part of an administrative audit is the analysis of the financial position of the federation considering the 4-5 years financial data. The growth rate of the federation can be ascertained by these data. The auditor shall be able to make appropriate conclusions regarding the federation's growth prospects. Various ratios can be arrived at to make a fruitful analysis.

### *3(i).1.10. Internal audit and Inspection*

The auditor shall ensure that internal audit and inspections are carried out in regular and prescribed intervals and that the reports concerned are considered by the Board of Directors and the defects pointed out by the internal audit and inspection team are rectified properly.

*3(i).1.11. Performance evaluation of employees*

The duties and responsibilities of Chief Executive Officer might be mentioned in the bylaws. The duties and responsibilities of other employees must be decided and circulated through office orders or circulars. In case of omission the auditor shall point this out for remedial action by the authorities concerned. The Auditor shall make an evaluation on the basis of the relevant records whether the performance of the CEO matched the stipulations in the bylaws. He shall also ascertain whether the CEO has evaluated the performance of the employees in terms of the circular.

*3(i).1.12. Reconciliation of accounts with Regional Offices, District Offices and Branch Offices/Field Offices*

The auditor shall ascertain that the accounts with the Regional offices, District Offices and Branch Offices/Field offices had been reconciled regularly and properly.

*3(i).1.13. Quality Control and Compliance of Food Safety and Security Act 2006*

Since Kerafed deals with food articles, it is obliged to comply with the provisions of Food Safety and Security Act 2006. The auditor shall examine the quality control measures adopted by the federation.

*3(i).1.14. Performance evaluation of Regional offices, District offices, Branch offices and Field offices*

The performance of each office/unit shall be analysed and seen that they are contributing for the growth of the federation positively.

## Chapter III

### ***3(i).2. AUDIT OF CO-OPERATIVE SUGAR FACTORIES / MILLS***

- 3(i).2.1. Introduction
- 3(i).2.2. Verification of Books of accounts maintained
- 3(i).2.3. Verification of business
- 3(i).2.4. Verification of raw material (Sugarcane) account
- 3(i).2.5. Verification of production
- 3(i).2.6. Stock Verification
- 3(i).2.7. Verification of sales
- 3(i).2.8. Verification of grants/subsidies received
- 3(i).2.9. Reconciliation of accounts with dealers
- 3(i).2.10. Verification of management functions
- 3(i).2.11. Verification of employees matter

### *3(i).2.1. Introduction*

Sugar factories are setup on co-operative lines with the objective of ensuring maximum possible cane price to the farmers. The membership is open to the farmers within the area of operation. The co-operative sugar factories shall arrange for the harvesting and transport of sugar cane from the members and make timely payment to the members and ensure maximum possible price. Thus the co-operative shall be a catalyst for the socio economic development of the area, by providing employment opportunities to the sugar cane farmers.

### *3(i).2.2. Verification of Books of Accounts maintained*

The auditor shall acquaint with the books of accounts maintained in the Co-operative sugar factory before the commencement of audit. He shall also study the nature of transactions and the method of accounting as well.

The books of accounts maintained in each department/section shall be verified with special emphasis on their functions. Usually the Sugar Factories/Mills have the following departments/sections.

1. Administration/Accounts section
2. Cane Section
3. Manufacturing Section
4. Distillery

#### *3(i).2.2.(1). Administration/Accounts Section*

In the Administration/Accounts section, the following books of accounts and records should be maintained, which shall be verified by the auditor.

1. Day book
2. Journals
3. Ledgers
4. Cane Payment Register
5. NRD Register
6. Stock Register of Molasses etc.

### *3(i).2.2.1(1). Day book :*

Day book is to be maintained in accordance with the double entry system of book keeping in which all daily transactions including cash as well as transfer are to be recorded.

### *3(i).2.2.1(2). Journals :*

Usually in Sugar Factories, purchase journals sales journal and journal proper are to be maintained.

*3(i).2.2.2(i). Purchase Journal :* All purchases of store materials other than sugarcane, are entered in this journal. The paid bills and their adjustments with this journal are to be verified by the auditor and ensured that all the bills have been correctly entered therein.

*3(i).2.2.2(ii). Sales Journal :* The auditor shall verify the invoices in respect of sales of sugar, molasses etc. with the sales journal.

*3(i).2.2.2(iii). Journal Proper :* The Journal proper is intended for transfer entries, closing entries of accounts, rectification entries etc. All adjustment entries other than those entered in the Purchase Journal and sales journal are entered in this Journal. The auditor has to check the journal slips with the journal entries and also cross check the entries with the ledger.

### *3(i).2.2.3. Ledgers :*

The Common ledgers maintained in a Sugar Factory are (a) General Ledger (b) Personal Ledgers (c) Expense Ledger. The auditor shall examine these ledgers in order to ascertain the accuracy of statements of accounts.

### *3(i).2.2.4.Cane Payment Register :*

This Register is maintained for recording the details of cane supplied by members, its value and final payments made. Deductions are to be made and recorded in the register in respect of loans and advances made if any, before making the final payment. The auditor shall verify the register with respect to the rate of cane total value of cane supplied, advances made, balances payable etc. and ensure that all those are properly recorded in the register

*3(i).2.2.5. N.R.D. Register :*

The auditor shall check the details of Non Refundable Deposits from ryots at the close of the year with this register and ensure that the balances in the statement/schedule submitted by the management agree with the balances in the Register.

*3(i).2.2.6. Stock Register of Molasses :*

The auditor shall scrutinize the stock register of Molasses and other items, which shall contain the details of production, issue and balance of each item.

*3(i).2.2.2.. Cane Section :*

The Registers maintained in the Cane Section are

- a. Planting Register*
- b. Agreement Register*
- c. Register of Cane Supply*
- d. Cutting order Register*
- e. Purchase Register of Cane*

The auditor shall check all the above registers and ensure that the entries are made in the register properly and promptly. He shall see that the accounts are in agreement with Day book, General Ledger and other Personal Ledgers.

*3(i).2.2.3. Manufacturing Section:*

In the manufacturing section daily manufacturing report and stock register of sugar are to be maintained.

*3(i).2.2.3.(1). Daily Manufacturing Report :* Daily arrival of cane, crushed cane, yard balance, production of sugar, sugar in process, molasses and other by products are to be entered in this Report Register. Fuel, firewood, chemicals and other materials used for production are also to be entered in the register. The auditor shall verify this register to see that all those entries are made promptly in the Register.

*3(i).2.2.3.(2). Stock Register of Sugar:* The auditor shall check the stock register of sugar and satisfy that production, sales and balances are properly accounted.



3(i).2.2.3.(4). *Distillery*: The Distillery Units of Co-operative Sugar Factories shall have to maintain the following Registers:

1. Stock Register of Molasses
2. Production Register
3. Stock Register of finished goods
4. Stock Register of raw materials
5. Vending fee Register

The Sugar Factory shall maintain muster rolls of its labourers, acquaintance roll, Expenses Ledger, Cost of Production Register, Cane Production Register, Purchase Register of cane etc. The auditor shall verify all these registers and call for confirmation certificates from the members/ryots, who are supplying cane, to verify the balances if any, due to them. He has also to ensure that there is an efficient system of internal checking and internal audit in the sugar factory.

## **Chapter III**

### **3(i).3. AUDIT OF TEA FACTORIES**

- 3(i).3.1. Introduction
- 3(i).3.2. Verification of Tea Plantation
- 3(i).3.3. Verification of Tea Factory
- 3(i).3.4. Quality Control Measures
- 3(i).3.5. Compliance of Food Safety & Security Act
- 3(i).3.6. Reconciliation of accounts with Tea Board
- 3(i).3.7. Reconciliation of accounts with other business dealers
- 3(i).3.8. Verification of Borrowings
- 3(i).3.9. Utilisation of Grant Subsidies
- 3(i).3.10. Business Analysis
- 3(i).3.11. Compliance with Labour Codes

### *3(i).3.1. Introduction*

Co-operatives own and operate tea estates and tea factories. Those Co-operative societies who own tea estates have their own plantation of Tea plants and grow tea plants in a scientific manner. On the other hand the co-operative society may be operating tea factories, where in tea leaf may be purchased from tea growers and processing of tea leaf such as drying owing etc. shall be carried out in the factories. The various types of tea products such as leaf tea, granules and tea powder shall be obtained through processing. The grading and quality control measures are to be adopted by the management in order to optimise their income through sales. The value added products of different varieties of tea such as cardamom tea, chocolate tea blend tea etc. shall be useful to compete in the market. The modern marketing management techniques shall also be adopted to achieve the maximum sales turnover.

### *3(i).3.2. Verification of Tea Plantation*

The auditor shall verify the operations of the plantation by scrutinizing the following points:

1. The area of land under tea plantation
2. The number of tea plants in the estate
3. The number of employees/labourers engaged in the tea estate
4. Average usage of fertilizer/manures applied in the estate
5. Average production in the tea estate
6. Highest production in the tea estate
7. Lowest production in the tea estate
8. Reason for the low production level
9. Quality of the tea planted
10. Qualify of leaf harvested
11. Average expenditure per hectare
12. Average income per hectare
13. Stock details of tea leaf
14. Sales details of tea leaf

### *3(i).3.3. Verification of Tea Factory*

The inputs as well as the output of the factory shall be examined. The auditor should check the following points:

1. The capacity of the factory
2. The capacity utilisation of the factory
3. The intake of raw tea leaf to the factory
4. The production details of leaf tea, granules and tea powder
5. Conversion ratio of raw leaf to leaf tea, granules and tea powder
6. Labourer details in the factory
7. Wage details of labourers
8. Whether minimum wage law is complied with in the factory
9. Quality control details
10. Stock details of tea products
11. Sales details of tea products
12. Annual maintenance details of factory
13. Whether the provisions of the Factory Act is complied with
14. Whether the employees of the factory are technically qualified as per law

### *3(i).3.4. Quality Control Measures*

Grading and Quality Control Measures are inevitable for maximizing the sales income of the Tea Factory. Whether the management has adopted the quality control measures is to be verified.

### *3(i).3.5. Compliance of Food Safety and Security Act 2006*

The auditor shall ascertain whether the tea factory has complied with the provisions of the Food Safety and Security Act 2006. If any short coming is noticed, he shall include it in the Audit Report.

### *3(i).3.6. Reconciliation of accounts with Tea Board*

The transactions with the Tea Board shall be verified and ensured that it is reconciled on a regular basis.

### *3(i).3.7 Reconciliation of accounts with other business dealers*

The Co-operative Society shall be having business deals with other co-operatives, private traders companies and tea plantation. The auditor shall see that the accounts with these parties are reconciled regularly and the amount due to the society is recovered promptly.

### *3(i).3.8. Verification of Borrowings*

The working fund of the co-operative may be arranged by way of borrowings from Government Banks, and other approved financial institutions. The auditor shall check the details of such borrowings such as the amount borrowed, the terms of such borrowings, rate of interest paid, market rate of interest, refund details, dues or overdues in borrowings etc. The auditor shall ensure that the ledger of borrowings is kept up to date and he shall obtain confirmation certificate from the Banks/Government/other approved financial institutions.

### *3(i).3.9 Utilisation of Grant/Subsidies*

The receipt of Grant/subsidies from Government or Tea Board shall be verified in the audit. Whether utilization certificate has been submitted in time by the management is also to be ascertained.

### *3(i).3.10 Business Analysis*

The business of the tea factory shall be verified by the auditor resorting to different ratio analysis. Profitability ratios such as gross profit ratio, net profit ratio, expenses ratio, operating ratio, operating profit ratio, Stock Turn Over Ratio, shall be worked out to ascertain the business position of the factory. Composite ratios such as Turn Over of fixed assets. Turn over of total assets, Working Capital Turn Over Ratio, etc shall also be computed to make a comprehensive business analysis.

### *3(i).3.11. Compliance with Labour Codes/laws*

The tea factory being a manufacturing unit shall be obliged to comply with the labour codes/legislations such as Minimum Wages Act, Factories Act, etc. The auditor shall acquaint with various provisions of such legislations and examine whether they are complied with by the tea factory.

## **Chapter III**

### **(ii). INDUSTRIAL PROCESSING**

#### **3(ii).(1) AUDIT OF KERALA STATE CO-OPERATIVE TEXTILE FEDERATION LTD. (TEXFED)**

- 3(ii).1.1. Introduction
- 3(ii).1.2. Verification of borrowings
- 3(ii).1.3. Verification of interest due on borrowings
- 3(ii).1.4. Repayment of loans to Government t of Kerala and NCDC
- 3(ii).1.5. Verification of loans issued
- 3(ii).1.6. Verification of interest due on loans and advances
- 3(ii).1.7. Verification of establishment expenses
- 3(ii).1.8. Profit appropriation
- 3(ii).1.9. Verification of employees service matters
- 3(ii).1.10. Verification of suspense assets
- 3(ii).1.11. Verification of suspense liability
- 3(ii).1.12. Reconciliation of accounts with member societies
- 3(ii).1.13. Reconciliation of accounts with dealers
- 3(ii).1.14. Implementation of special schemes

### *3(ii).1. Introduction*

Kerala State Co-operative Textile Federation Ltd. (TEXTFED) is the apex federation of Textile Co-operatives such as weaving mills, spinning mills and processing mills. The membership of the federation is open to Co-operative spinning mills, Spinning and Weaving mills, Weaving mills, Processing mills, Finishing Mills, Kerala State Handloom Weavers Co-operative Society, (HANTEK), Regional Power loom Weavers Co-operative Societies, National and State level Textile Federations, NCDC and State/Central Government. The objectives of the federation is to plan, advice, assist, co-ordinate, monitor, supervise, manage and otherwise facilitate the organization and working of the co-operative textile mills in the State. The federation also aims at promoting or assisting to promote or organize new textile mill of its own or at the instance of its affiliated mills/units and to arrange for manufacturing all textile products dealing with and supply of all textiles machinery equipment, raw materials, consumable stores and spares, semi finished products, waste etc of the textile mills and also advance loans to member textile mills/units on a reasonable rate of interest. It also aims at engaging in trading activities. The federation being an apex institution has to comply with the provisions of sub section 10 and 11 of section 63 of Kerala Co-operative Societies Act. The auditor shall study well about the objectives functions and infrastructure details of the Federation including Branches/Regional Offices/ Units at the outset. He shall also acquaint with the Bylaws, annual working reports as well as the previous Audit Reports.

### *3(ii).1.2. Verification of Borrowings*

The Provisions of the bylaw of the federation with respect to the permitted limit of borrowings shall be examined in audit. Confirmation certificates' shall be obtained and ensured that the balance outstanding in respect of principal and interest is in agreement with the confirmation statement and the federation's books of accounts such as Ledger of borrowings.

### *3(ii).1.3. Verification of Interest Due on Borrowings*

The rate of interest on borrowing of the federation shall be reasonable and at par with the existing rate of the Banking Industry. Apart from the borrowings from Government of Kerala and NCDC, borrowings may be made from Banks and other financial institutions, on which the rate by interest shall be considered on the above lines. The balance outstanding, whether due or overdue, in respect of interests on borrowing shall be checked with the confirmation statements, books of accounts and financial statements of the federation.

### *3(ii).1.4. Repayment of loans to Government of Kerala NCDC etc.*

The loans availed from Government of Kerala or NCDC shall be refunded after the lock in period. The auditor shall verify the loan sanction order and see that the instalments are repaid as scheduled. Confirmation certificate shall be obtained from the Government of Kerala or NCDC and compared with the books of accounts of the federation. Over dues in respect of principal or interest shall be reported in audit.

### *3(ii).1.5. Verification of loans issued*

The loans issued to the member societies or the units shall be checked with the statements schedules, loan ledger, General Ledger etc. Few confirmations may be obtained from the borrowers on random sample basis, if the number of



borrowers are huge and check it with the federation's records. If any discrepancy or mismatch is found, the auditor shall go for a detailed verification taking a large size of sample or the whole accounts of loans outstanding. The principal outstanding interest that is due and the interest overdue shall be cross checked with the books of accounts of the Texfed. If the loan accounts show any long pendency, it shall be specially checked and reason for such long pendency shall be called for from the Chief Executive. Adequate provisioning may be made in such accounts.

*3(ii).1.6. Verification of interest due on loans and advances*

Loan accounts of all borrowers shall be verified to ensure that every borrower is treated equally and the rate of interest charged is uniform and as per the directions of the Government /Registrar. The balance outstanding as interest receivable shall be checked with the personal ledgers and General ledger and schedule of interest receivable at the end of the year.

*3(ii).1.7. Verification of Establishment Expenses*

The Expenditure on establishment as well contingencies shall be compared with the Budget estimates. The outstanding payments both at the beginning and at the end of the year shall be considered in the audit. The auditor shall verify whether the expense incurred is reasonable and genuine. The propriety as well as the efficiency of expenditure shall be verified.

*3(ii).1.8. Profit appropriation*

The net profit of previous years shall be appropriated in accordance with section 56 and Rule 53 of Kerala Co-operative Societies Act and Rules, and as per the Bylaw of the Federation. Whether the profit appropriation approved by the General Body is carried over to the Day Book and other books of account of the Federation, Keeping the provision of Kerala Co-operative Societies Act, Rules and Bylaws shall be ensured.

### *3(ii).1.9.Verification of employee 's service matters*

The relevant section (Sn 80) and Rules (Rules 182 to 201) of the Kerala Co-operative Societies Act and Notification or orders of Government of Kerala and the circulars of the Registrar (Director of Industries) shall be perused while auditing the establishment of the Texfed. Chapter X of part 11 of the revised Kerala Co-operative Audit Manual may be referred.

### *3(ii).1.10.Verification of Suspense Assets*

The ledger of Suspense Assets may be verified and ensured that the schedule made available for audit is in agreement with the books of accounts. The Receipts and Disbursements and Balance sheet shall also be examined to see that the amount of suspense assets agree with the schedules attached. Transaction in each account shall be verified thoroughly to see that no entries were made to understate the balances outstanding particularly in the last months of the financial year and the initial months of the financial year. Confirmations may be obtained with the case of suspected entries.

### *3(ii).1.11. Verification of Suspense Liability*

The receipts/challans of suspense liability amounts shall be checked with the personal ledger of Suspense Liability. The amount outstanding at the end of the year shall be verified with the schedules, General ledger and the financial statements. The auditor shall send letter of confirmation to the parties and ensure the genuineness of the balance outstanding.

### *3(ii).1.12. Reconciliation of Accounts with Member Societies*

The accounts with the member societies shall be reconciled regularly. The auditor shall check the reconciliation statements and ensure that reconciliation statement is prepared properly and that no transaction is pending un reconciled.

### *3(ii).1.13. Reconciliation of accounts with dealers*

The accounts with cotton textile dealers other than member societies, weaving and spinning mills, shall be reconciled regularly. The auditor shall examine the personal ledgers accounts with such agencies and ensure that they are properly reconciled.

### *3(ii).1.14. Implementation of special schemes*

The special schemes implemented by the Government/Federation for the modernisation of spinning mills, modernisation of power looms and revitalisation of spinning mills shall be scrutinised. The project proposal/report of each scheme should be examined and the amount spent for each project should be evaluated. The outcome of project implementation may be assessed and reported.

## Chapter III

### **3(ii).2. AUDIT OF KERALA STATE CASHEW WORKERS APEX INDUSTRIAL CO-OPERATIVE SOCIETY LTD (CAPEX)**

#### *3(ii).2.1. Introduction*

The Kerala State Cashew Workers Apex Industrial Co-operative Society (CAPEX) was formed with the main object of organising the cashew industry on commercial lines. The very intention of the formation of CAPEX is to ensure maximum working days to the workers attached to CAPEX who belongs to lowest income group of the society, and enhance their livelihood. It shall render assistances to the affiliated cooperative societies in the matter of procurement and distribution of rawnuts, making available funds for processing and marketing of kernels and other items produced in the factories of the affiliated societies. CAPEX was formed as an apex society to produce raw cashew nuts, distribute the same to the factories and get them processed and retrieve the kernels in different grades and market them through the traders. All these are done to provide continuous maximum employment to the workers engaged in cashew processing industry of which 90% of the workers are women and belonging to backward classes.

CAPEX has a capacity to process 10000 MT of raw cashew nuts per annum. The kernels are obtained through peeling of cashew nuts, and the kernels are classified into different grades based on the colour, count, moisture percentage etc. CAPEX is marketing a number of value added products through franchisees.

#### *3(ii).2.2. Special points to be verified*

- i. Whether quality control is properly adhered in the apex society and a regular system of quality control is adopted.
- ii. Whether the out turn analysis is made so that the ratio of raw nuts processed and the kernels obtained is maintained at a satisfactory level.

- iii. Whether benefits to the workers are given as per the labour codes.
- iv. Whether fund management of the apex society is carried out in a satisfactory manner.
- v. Whether the apex society has got the licence from food safety and security department and the provisions of the food safety and security act are complied with
- vi. Whether books of accounts of the apex society is maintained properly and verified in audit in accordance with the Kerala Cooperative Societies Act and Rules.
- vii. Whether the society had filed the returns and statements in accordance with section 66C of the Kerala Cooperative Societies Act.
- viii. Whether the annual General body is conducted and the Budget, programme of activities for the forthcoming year, the annual working report, financial statements and audit report are approved by the Annual General body.
- ix. Whether the bylaw amendments and appropriation of net profit was approved in the Annual General body.
- x. Whether annual stock verification is conducted in the apex society as per Directions of the Registrar and the guidelines provided as per chapter IX of the revised Kerala Co-operative Audit Manual, Part I.
- xi. Whether the financial ratio analysis was adopted to know the exact financial strength of the apex society.
- xii. Whether the Board of Directors is taking interest in the affairs of the society and the affairs of the apex society is managed efficiently, economically and transparently.
- xiii. Whether the capacity utilization of the factories of CAPEX was satisfactory.
- xiv. Whether the export of kernels and other products to other countries was achieved in its full potential.
- xv. Whether the accounts with affiliated member societies factories and franchisees are reconciled regularly.

## Chapter III

### **3(ii).3. AUDIT OF KERALA STATE CO-OPERATIVE SERICULTURE FEDERATION (SERIFED)**

#### *3(ii).3.1. Introduction*

The Kerala State Co-operative Sericulture Federation was established to facilitate the sericulture business in the state. The federation provides the infrastructural facilities to the primary sericulture societies for mulberry cultivation and cocoon production. It shall provide the inputs needed for the mulberry cultivation and also enable the marketing of cocoon, silk, silk fabric and silk waste. The procurement of cocoon from the sericulture farmers shall be arranged either through the primary societies or directly by the SERIFED. The working shed for the cocoon production, silk manufacturing etc shall be arranged by the federation.

The auditor shall examine the following points in addition to the general audit guidelines provided in Part I of the Kerala Cooperative Audit Manual:

1. Whether the financial assistances received from the Government of Kerala or Government of India or any other agency was properly accounted in the books of accounts.
2. Whether the refund of instalments due to the Government of Kerala was made in time.
3. Whether the books of accounts were maintained by the federation properly.
4. Whether the accounts of mulberry cultivation, cocoon production, procurement and sales were incorporated in the books of accounts of the federation.
5. Whether the fixed assets of the federation was verified and valued by the auditor.
6. Whether the grants and subsidies received by the federation are utilized properly and utilisation certificate submitted to the concerned authorities.
7. Whether the election to the Board of Directors were held in time.
8. Whether the Annual General Body meeting was held in accordance with the provisions of Kerala Co-operative Societies Act and Rules and mandatory obligations fulfilled.
9. Whether the annual stock verification was conducted properly and the auditor has based the Annual Stock verification statement for calculating the closing stock.

## Chapter III

### **3.(ii).4. AUDIT OF CO-OPERATIVE SPINNING MILLS**

- 3(ii).4.1.* Introduction
- 3(ii).4.2.* Capacity Utilisation of the factory
- 3(ii).4.3.* Verification of Production
- 3(ii).4.4.* Performance evaluation
- 3(ii).4.5.* Verification of Books, Registers etc. maintained in the Spinning Mill
- 3(ii).4.6.* Reconciliation of accounts with Apex Federations
- 3(ii).4.7.* Loans, and Advances from Government of Kerala/NCDC
- 3(ii).4.8.* Reconciliation of accounts with Government of Kerala /NCDC
- 3(ii).4.9.* Verification of Stock Turnover Ratio
- 3(ii).4.10.* Verification of inventory in use
- 3(ii).4.11.* Verification of Stock Level
- 3(ii).4.12* Revitalisation Schemes
- 3(ii).4.13* Modernisation of Spinning Mills
- 3(ii).4.14* Compliance with various regulations

#### *3(ii).4.1. Introduction*

The Primary aim of a Co-operative spinning mill is to provide employment opportunities to the skilled and unskilled workers. The spinning mill also aims at providing quality yarn to the handloom sector. These spinning mills set up their factory with adequate number of spindles to produce various kinds of yarn in different counts. They produce carded and combed yarn in different counts and different forms. The spinning mills aim at providing Hank Yarn and cone yarn to the weavers at a reasonable rate in a seamless manner.

As the work of the Spinning Mills are specialized in nature, the auditor shall study the institution well by verifying the bylaws, previous years audit reports and the annual working reports presented before the General Body of the Society. He shall ascertain the quality parameters and ensure that the institution has implemented adequate quality control measures and comply with the quality parameters. The mission and vision of the institution shall be the guiding force, and hence the auditor shall understand the same.

#### *3(ii).4.2. Capacity Utilisation of the factory*

The capacity utilization of the spindles shall be examined and if the percentage of capacity utilization is not satisfactory, it shall be reported. The management may be advised to increase the capacity utilization of the machinery and equipment.

#### *3(ii).4.3. Verification of Production*

The auditor shall verify the following points while auditing in respect of the production in a spinning mill.



1. Production capacity ie., Number of spindles available in the factory
2. Number of spindles utilized for manufacturing yarn
3. Quality and Quantity of raw materials
4. Number of workers available in the Unit
5. Time schedule of workers
6. Delivery of raw materials
7. Conversion ratio of raw materials to yarn
8. Quality of products (yarn)
9. Cost of Production/operational expenses
10. Market demand for the products
11. The inventory details of raw materials, work in progress and finished goods.
12. The inventory costs, cost of storage facilities handling charges, Insurance, pilferage, taxes etc.
13. Stock level maintained in the factory
14. Stock turnover ratio etc.

#### *3(ii).4.4. Performance evaluation*

The performance of the Spinning Mill may be assessed adopting various ratios such as gross profit ratio, net profit ratio, operating ratio, operating profit ratio, Stock turnover ratio etc. The performance of the employees may also be assessed.

Refer (Chapter XII of Part I of the Kerala Co-operative Audit Manual)

#### *3(ii).4.5. Verification of Books, Registers etc. maintained in the Spinning Mill*

With respect to the purchase of cotton, issue of yarn and stock keeping, the following books and registers are maintained in the spinning mills, which shall be verified in the audit.

1. Cotton lot book: Purchase of cotton in lots is entered in the register. The issue of cotton for mixing shall also be entered in the same register.
2. Mixing book: This register is intended to record the variety, the lot number from which the issue is made and quantity received with weight and the percentage of each variety used for quantity with weight. The percentage of each variety used for one mixture is also arrived and noted in this register.
3. Cotton stock Register: The stock register of cotton provides the balance stock on hand every day.
4. Blow loom lap Register: This register is maintained to show the number of laps produced per day.
5. Drawing Hanks Production Register: This register is maintained to exhibit the total number of hanks produced per day.
6. Hanks production Register: This register gives details of the cotton hanks processing which is supplementary to the Drawing Hanks Production Register.
7. Drawing Wrapping Register/Sample Wrapping Register: These registers are maintained to enter the strength of slivers when ever tested and show whether the standard is maintained throughout.
8. Yarn Production Doff Weighment Register : The details of production of yarn per shift per day including gross weight and net weight is recorded in this register.
9. Unreeled Yarn Stock Register: This register is posted from yarn production register with the quantity produced per day and the quantity issued for reeling per day and also the balance of unreeled yarn at the close of each day.
10. Pneumofil Waste Register : This register gives the details of the waste of cotton in the frames. The acknowledgement of the worker is obtained in this register, accepting the correctness of quantity.

11. Pneumofil Wage Percentage Register : This register shows the details of total percentage of cotton waste. Commission is given to each worker if the waste is less than a fixed percentage.

12. Spinning Production Commission Register : This register shall be showing the commission and incentive for the production of yarn over and above the fixed standard weight.

13. Doff Receipt Register/Main Doff Register : These registers give the total production per day and also the total monthly production by each worker.

14. Monthly Wages Register: The total doffs produced by each worker shall be available from this register. The wages due to the worker shall also be available from this register, which is posted from Doff Register.

15. Reeled Yarn Stock Register : The details of daily receipt and issue to bundling section and the closing stock of every day is recorded in this register.

16. Bundling Production Register : The receipt of yarn from the Reeled yarn stock Register is posted in this Register and also the number of bundles produced per day.

17. Bundle Yarn Stock Register : The total receipt of bundles is entered from the Bundle production register and after entering the issue of bundles daily to Bale Section, the balance as on the close of the day is arrived at both in number and in weight.

18. Bale Stock Register : The details of bales such as opening balance, receipts and issues for sales per day and closing balance of stock on hand, shall be available from this register.

The auditor shall verify the above registers and ensure that the entries are made promptly. He shall also verify whether the purchases were made with proper authority and authentication.

*3(ii).4.6. Reconciliation of accounts with Apex Federation, National level Institutions etc.*

The accounts of the Spinning Mills with their Apex Federation (Texfed), Hantex, Hanveev etc. shall be reconciled regularly. The accounts with National Textile Federation shall also be reconciled on a regular basis. The management of the Spinning Mill shall ensure that the reconciliation statements are prepared and compared with the confirmation from the institutions concerned.

*3(ii).4.7. Loans, and Advances from Government/NCDC*

The receipts, repayments and the outstanding balance in respect of loans and advances from the Government of Kerala and NCDC (National Co-operative Development Corporation) shall be checked by the auditor and ensured that proper records and registers are kept by the society.

The over dues if any, in respect of principal and interest on loan accounts shall also be scrutinized and reported in audit.

*3(ii).4.8. Reconciliation of accounts with Government of Kerala /NCDC*

The management of the spinning mills shall obtain confirmation certificates from the Government of Kerala, NCDC and ensure that the balance outstanding at the end of the year agrees together. Reconciliation of accounts with Government of Kerala and NCDC shall be ensured.

*3(ii).4.9. Verification of Stock Turnover Ratio*

Stock Turnover Ratio is computed by dividing the cost of goods sold by the average inventory. It is actually the relationship between inventory and cost of goods sold.

$$\text{Stock Turnover Ratio} = \frac{\text{Costs of Good Sold}}{\text{Average Stock}}$$

Costs of goods sold is calculated as follows

$$\text{Costs of goods Sold} = \text{Opening stock} + \text{Purchases} - \text{Closing Stock}$$

$$\text{Average inventory} = \frac{\text{Opening stock} + \text{Closing stock}}{2}$$

2

#### *3(ii).4.10. Verification of inventory in use*

Inventory Management has much significance in the production management and control of Co-operative Spinning Mills. In order to carry on the uninterrupted production it should be managed scientifically and efficiently, following principles of inventory management.

#### *3(ii).4.11. Verification of Stock Level*

The Production unit shall carefully maintain the stock level to the advantage of the spinning mill. Overstocking and under stocking of materials should be avoided. The management of the mill shall fix stock levels as maximum level, minimum level, order level, average level and danger level. The auditor shall verify the stock level so fixed by the management with that of the actual stock level maintained in the factory.

#### *3(ii).4.12. Revitalisation Schemes*

The revitalization schemes implemented by the Government of Kerala, with the participation of Textfed and Spinning Mills, for the improvement of textile sector shall be examined in audit.

#### *3(ii).4.13. Modernisation of Spinning Mills*

To compete with Corporate Textile Mills, the Co-operative Spinning Mills shall have modern machinery and equipment, coupled with technically trained workers. Realising the importance of the above, Government of Kerala had initiated special schemes for the modernization of spinning mills. The auditor shall examine the elements of modernization and make an evaluation of the process of modernization of Co-operative Spinning Mills.

#### *3(ii).4.14. Compliance with various regulations*

The workers details as well as the regulations related to the payment of wages shall be examined. The compliance with the laws of pollution control and environment protection shall also be ascertained.

## Chapter III

### 3.(ii).5. AUDIT OF SERICULTURE CO-OPERATIVE SOCIETIES

Sericulture Co-operatives are set up with the object of generation of employment opportunities in rural areas. The area of operation may be a Grama Panchayat or more. The society shall attempt to serve the sericulture farmers by providing mulberry plants and cocoons as and when required. The society shall undertake the production of cocoons or it shall undertake the collection of cocoons from the members and process it and arrange for the marketing of silk worms. The sericulture co-operative society shall liaison with Central Silk Board, Agriculture Departments of Centre as well as State to avail guide lines for modern cultivation pattern of mulberry cultivation and silk worm production. It shall also arrange for the fertilizers, manure and other allied agricultural implements, irrigation equipment etc for the mulberry cultivation. The shed required for cocoon production and ancillary equipment and other requirements shall be made available by the society. It shall act as an agent of the Government and Central Silk Board for the distribution of materials required for the cultivation of mulberry as well as the production of cocoon or silk worm. The society shall provide credit to the farmers for mulberry cultivation and silk worm production either directly or through banks. The sericulture co-operative society shall promote cattle farming, which shall be supporting the activities for the mulberry cultivation and help to obtain loans and advances for cattle farming. The remains of silk worms/cocoons shall be useful for the rabbits and hence it shall promote the rabbit rearing on an industrial basis. It shall be the responsibility of the sericulture society to engage and undertake welfare schemes and projects for the economic and social welfare of the farmers of this sector. The society shall in association with the Central Silk Board and other agencies engaged in sericulture, produce better quality silks and

market it inside the state and abroad. The society shall promote savings habit, self-reliance and co-operation among its members. It shall also with the permission of Registrar, collect deposits, conduct various deposit schemes such as mutual benefit schemes or monthly deposit schemes and welfare fund for the betterment of its members.

The auditor shall study the activities of the society and make an analysis with respect to its objects and accomplishments. The society shall maintain the books of accounts as stipulated in the Kerala Co-operative Societies Act and Rules. The auditor shall check the disbursement of loans and advances. The loan application, the bond or agreement, the securities offered or security pledged with the resolution of the Board of Directors, the disbursement of loan amount and the personal ledgers of loans and advances etc shall be verified in detail. The repayment of instalments shall be monitored and the overdue if any, shall be legally dealt with. The auditor shall verify whether there is any overdue on the loans and advances taken by the Board of Directors. The major activity ie the production purchase and sale of silk/silk worm/cocoon shall be verified in detail. The society shall maintain the books and registers in respect of mulberry cultivation, silk worm production, purchase and sale of silk etc which shall be examined carefully. It should be ensured that all accounts such as receipts and payments related to the sericulture activities are brought into the books of accounts of the sericulture society. Whether annual General body meeting was conducted as per section 29 of KCS Act shall be ascertained. Whether the society submits statements and returns in accordance with section 66C shall also be examined.



## Chapter III

### **(iii). AUDIT OF OTHER PROCESSING CO-OPERATIVES**

#### **3.(iii).(1). AUDIT OF REGIONAL AGRO INDUSTRIAL DEVELOPMENT CO-OPERATIVE OF KERALA LTD (RAIDCO)**

- 3(iii).1.1. Introduction
- 3(iii).1.2 Objects of the Federal Co-operative
- 3(iii).1.3 Sources of funds and Working Capital
- 3(iii).1.4 Human Resources
- 3(iii).1.5 Business Analysis
- 3(iii).1.6 Quality Control and compliance of Food Safety and Security Act
- 3(iii).1.7 Verification of Accounts of different units.

#### *3(iii).1.1. Introduction*

The Regional Agro Industrial Development Co-operative of Kerala Ltd. is a Federal Co-operative Society as defined in the Kerala Co-operative Societies Act, having state wide area of operation.

#### *3(iii).1. 2. Objects of the Federal Co-operative and its accomplishment*

Its major objects are purchase or manufacture or hire agricultural machinery and implements including power tillers, Power ploughs, thrashers, tractors, pump sets, PVC pipes etc. and either to sell or supply on hire purchase basis or on hire. Raidco shall purchase or manufacture industrial machinery, either to sell or supply or hire purchase basis to small cottage/large scale industries. Another object is to promote, establish, maintain and manage the business related to the manufacture,

purchase and sale of any type of products of fruits and vegetables. It shall also act as an agent of the Central/State Government organizations or institutions for the distribution of agricultural machinery and other inputs. The Federal Co-operative also aims at the arrangement for procurement or manufacturing and distribution of organic and chemical fertilizers, seeds, pesticides etc.

Raidco shall undertake rural electrification programmes, lift irrigation programmes and small hydro power projects etc. It also aims at interventions in solar energy generation, ie manufacture and distribution of solar power equipment and solar energy systems. The Federal Society shall hire land on lease for undertaking modern farming activities. Raidco shall also work for setting up waste management plants, crematorium and butcheries on modern lines.

The Regional Agro Industrial Federation had established branch offices, production units and service centres in different parts of the state to accomplish the above objects. It had started production/manufacturing units such as pump-set manufacturing unit, Agricultural workshop/Rollers manufacturing unit, Agro machinery unit, fruit canning unit curry powder unit and solar energy unit named Raidco renewable. Raidco manufactures NPK bio fertilizers and distributes it through its branches. The auditor shall verify the objects and functions of the co-operative and satisfy that it is working on the lines of objects outlined in the bylaws.

### *3(iii).1.3. Sources of funds and Working Capital*

The working capital formation is the most important factor for the successful operation of an institution having multiple objects and operations. The sources of funds laid down in the bylaw may be ascertained and examined whether the full potential had been utilised to mobilise the working capital.

### *3(iii).1.4. Human Resources*

The guidelines prescribed in the part II of the Kerala Co-operative Manual may be referred while auditing the service matters connected with the employees. The auditor shall also verify whether the guidelines in respect of Human Resources Management had been complied with by the Federal Society.

Read : (Circular No. 56/2006 dated 13<sup>th</sup> November 2006 of Registrar of Co-operative Societies)

### *3(iii).1.5. Business Analysis*

The auditor shall resort to various ratio analysis for obtaining the actual position of business, conducted by the society. (Refer. Chapter XII of the part I of the Kerala Co-operative Audit Manual)

The gross business of the society for the past years may be compared to the current year's performance and the conclusion of the auditor may be reported. The gross profit ratio, the net profit ratio, the stock turnover ratio etc. may be ascertained.

### *3(iii).1.6. Quality Control and compliance of Food safety and security Act 2006.*

Since the Federal Society undertakes the production and distribution/marketing of food articles, it shall be obliged to comply with the provisions of PFA Act as well as the Food Safety and Security Act. The auditor shall examine whether the society had obtained licence from the concerned authority and complied with the provisions of the enactments. The quality control measures should also be strictly implemented.

The society shall maintain proper books of accounts as well as registers in respect of financial assistances received from the Government of Kerala, NCDC etc. The repayment should be watched by checking the Registers of share capital, loans etc. by the auditor.

*3(iii).1.7. Verification of accounts of different units.*

The books of accounts of different units of the society shall be verified and ensured that all the accounts are incorporated with the society's main accounts. The profit and loss account of each unit should be separately drawn up and the net profit or net loss shall be particularly examined. Loss making units shall be scrutinized separately and the reason for such losses and action on them shall be reported in audit.

## Chapter III

### **3.(iii).2. AUDIT OF KERALA STATE RUBBER CO-OPERATIVE LTD. (RUBCO)**

- 3(iii).2.1.* Introduction
- 3(iii).2.2.* Source of Funds and Working Capital
- 3(iii).2.3.* Verification of Human Resources
- 3(iii).2.4.* Business Analysis
- 3(iii).2.5.* Reconciliation of accounts with branches, units and other institutions
- 3(iii).2.6.* Fund flow Analysis
- 3(iii).2.7.* Ratio Analysis
- 3(iii).2.8.* Verification of subsidiary units
- 3(iii).2.9.* Compliance with Food Safety and Security Act

#### *3(iii).2.1. Introduction*

Kerala State Rubber Co-operative is a Federal Co-operative Society having area of operation all over the state. The main objects of the federation are to promote, establish, maintain and manage the business relating to manufacture, purchase and sale of different kinds of tyres to promote, establish, maintain and manage the business relating to the manufacture, purchase and sale of any type of products based on natural or processed rubber or rubber wood. The business relating to the manufacture, purchase or sale of any type of machinery, tools, apparatus, utensils, fertilizers, chemicals and devices etc, required for cultivation growing, processing etc. of rubber is another major objective. It also aims at the promotion and establishment of the business relating to the manufacture, purchase and sale of any type of products based on coconut or any other agricultural produce. The Rubco branded products viz. Rubco mattresses, chappals, Rubco

furnitures manufactured out of Rubwood etc. constitute the major products of Rubco. The auditor shall verify the details of each product and its production units to see that they are managed in an efficient and profitable manner.

#### *3(iii).2.2. Source of Funds and Working Capital*

The source of funds enumerated in the Bylaw shall be examined and seen that the full potential of such sources were tapped for the formation of working capital. The cost of funds shall also be examined to see that the rate affordable and reasonable were opted by the management.

#### *3(iii).2.3. Verification of Human Resources*

The auditor shall refer Chapter X of part II of the Kerala Co-operative Audit Manual, while auditing the employee's service related matters. It should be ensured that the mode of recruitment was in accordance with the provisions of the Act, Rules and the directions of Registrar. The employees shall have the qualifications as prescribed in the Rules. The auditor shall verify whether the employees have the minimum qualifications prescribed for the posts.

#### *3(iii).2.4. Business Analysis*

Every business unit of the federal society shall be scrutinised separately and the principles of management accounting and cost accounts shall be adopted to arrive at the exact financial position of each unit. Profitability analysis of every unit shall be made and appropriate suggestions put forward based on the different ratios. The federal society undertakes the manufacturing and sales of mattresses, furniture, chappals etc, which should be examined separately. The business results as a whole should be verified to see that the society had taken appropriate decisions with respect to each unit. Ratios such as working capital ratio, liquid ratio, gross profit ratio, net profit ratio, operating profit ratio and stock turnover ratio shall be calculated for a better business analysis.

### *3(iii).2.5. Reconciliation of accounts with branches, units and other institutions*

The accounts with the branches, different units and institutions shall be reconciled regularly to avoid long pending unreconciled amounts. The auditor shall check the reconciliation statements of each unit, branch, and other institutions separately and ensure that all accounts are reconciled properly. If any amount seen un reconciled for a longer period, the written explanation of the Chief Executive shall be obtained and suitable provisions shall be made.

### *3(iii).2.6. Fund flow Analysis*

Cash budgeting and fund flow management are very significant in the business management of various units and branches of the society. Whether the funds required for each unit were supplied in time are to be verified, whether there were excessive funds allotted to any of the unit, should also be ascertained. The profitability of each unit depends on liquidity management and hence, there should be a proper system of flow of funds.

### *3(iii).2.7. Ratio Analysis*

The various ratios in respect of each unit shall be worked out and the management of the society shall decide upon the prospects of such units. The ratio analysis guidelines mentioned in Chapter XII of the part I of the Kerala Co-operative Audit Manual shall be adhered to.

### *3(iii).2.8. Verification of subsidiary units*

If the Federal Society had constituted subsidiary units in accordance with section 14AA of Kerala Co-operative Societies Act, it shall be the duty of the auditor to check the account and financial statements of such subsidiary units. The auditor shall ensure that the activities of such subsidiary units were carried out strictly in accordance with the provision of the Act, Rules and Bylaws or Sub rules.

*3(iii).2.9. Compliance with Food Safety and Security Act 2006*

Since the Federal Society deals with food articles, it is obligatory on the part of the society to comply with the provisions of the Food Safety and Security Act 2006. The auditor shall check whether the licensing and other clauses of the Act are complied with by the society.



## Chapter III

### **3.(iii).3. AUDIT OF DINESH BEEDI WORKERS CENTRAL CO-OPERATIVE SOCIETY LTD.**

- 3(iii).3.1.* Introduction
- 3(iii).3.2.* Purchase of raw materials
- 3(iii).3.3.* Production and sales of Beedi
- 3(iii).3.4* Accounts with Primary Societies
- 3(iii).3.5* Payment of Taxes
- 3(iii).3.6* Welfare cum Pension scheme
- 3(iii).3.7* ESI Scheme
- 3(iii).3.8* Dinesh Food Products
- 3(iii).3.9* Dinesh Umbrellas
- 3(iii).3.10* Dinesh Information Technology Systems (DITS)
- 3(iii).3.11* Dinesh Apparels
- 3(iii).3.12* Government assistances/ Grants/Shares/Loans
- 3(iii).3.13* Business Analysis
- 3(iii).3.14* Appropriations of Net Profit
- 3(iii).3.15* Compliance with Food Safety and Security Act 2006
- 3(iii).3.16* Compliance with Labour Welfare Legislations

### *3(iii).3.1. Introduction*

The crisis consequent on the implementation of Beedi and Cigar Act by the Central Government, in the Beedi sector, ultimately lead to the formation of Dinesh Beedi Worker's Central Co-operative Society. The aim of such an enterprise was to provide employment/labour to the beedi workers. The Primary Beedi workers Industrial Co-operative Societies are the members of the Central Co-operative Society. In order to provide full time labour to its workers (i.e. the members of the primary Beedi Workers Society), Dinesh Beedi Central Co-operative Society arranges for the production of Beedi, supplying raw materials such leaf, tobacco, etc. and also labels and twine for binding. The Central Society collect the beedi manufactured by the members of the Primary Society, arranges for the sales of the beedis on the brand name of "Dinesh Beedi". The Consumers for the Beedi has decreased drastically due to the increased awareness among the people, of the unhealthy effects of smoking, and the production and sales of Beedi had come down. In order to tide over the crisis, Dinesh Management had implemented diversified projects such as Dinesh Foods, Dinesh Umbrellas, Dinesh IT Systems (DITS) and Dinesh Apparels etc. which had a great impact on the society. Government of Kerala had supported the society by providing financial assistances such as grants, subsidies, share capital contribution etc.

### *3(iii).3.2. Purchase of raw materials*

The auditor shall check whether the procedures were followed in the purchase of raw material for the production of beedi, umbrellas, food articles and garments. The market rate shall be compared with the purchase and sale of such raw materials. The quality of such raw materials may also be checked and ensured that the right quality has been purchased.

### *3(iii).3.3. Production and sales of Beedi*

The raw materials used for manufacturing/rolling of beedis shall be compared in each unit or society and the ratio of production out of a given amount of leaf and tobacco shall be calculated and it shall be verified in each batch of production. The production expenses including the cost of raw materials as well as the wages shall be verified and unit wise/society wise cost of production per such number of beedis shall be compared. The quality as well as the rate of beedis sold out and the balance of stock shall be verified by the auditor.

### *3(iii).3.4. Accounts with Primary Societies*

The accounts with the Primary Beedi Workers Industrial Co-operative Society shall be verified and the raw materials supplied as well as the beedi returned shall be properly accounted in the Central Society and the Member Society. There should be a continuous system of reconciliation of accounts with the member societies. The auditor shall examine the reconciliation statements with every society as well as with every other parties dealing with the Central Society.

### *3(iii).3.5. Payment of Taxes and licence fees*

The payment of Taxes such as Land tax, Building tax, GST and license fees shall be verified and ensured that there is no dues on account of such taxes and fees.

### *3(iii).3.6. Welfare Pension Scheme*

The details of welfare benefits paid to the workers and their dependents may be verified in audit. The family benefit scheme on the death of the worker, retirement benefit scheme, and the pension scheme may be examined. It should be ensured that the disbursement is strictly in accordance with the rules and eligibility. The pension fund details may be verified by the auditor.

### *3(iii).3.7. ESI Scheme*

The exemption granted to the central society and member societies shall be verified in the audit.

### *3(iii).3.8. Dinesh Food Products*

The detailed accounts of the food product unit shall be checked by the auditor. He shall ensure that the unit is working in an efficient and economic manner. The accounts relating to the production unit should be incorporated in the society's main accounts. The stock details, the goods in transit, the cost of production, labours engaged etc. should be examined by the auditor. Whether the society has obtained necessary licenses from the food safety department shall also be verified. The Manufacturing Account, trading account, Profit and Loss account and Balance Sheet of the Food Products Unit shall be verified by the auditor.

The quality control measures shall be examined by the auditor. Provisions of the Food Safety and Security Act shall be adhered to by the unit. The auditor shall ascertain the compliance of the provisions of the Act. Separate books of account are to be maintained and the account with the dealers as well as the central society shall be reconciled.

### *3(iii).3.9. Dinesh Umbrellas*

The Capacity utilization of the Unit shall be verified by the auditor and if underutilized, it should be pointed out in his report. The quality control measures may be checked. The sales and marketing techniques adopted by the society may also be ascertained. The inter unit accounts and the accounts with the dealers and the central society shall be reconciled properly. Separate Books of accounts and registers shall be kept in the unit. The stock details and logistic details shall be maintained in the unit properly by keeping proper books of accounts and Registers.

The accounts in respect of raw materials shall be maintained up to date. The wages/piece rate paid to the workers shall also be verified by the auditor. Whether the workers were paid minimum wages as per the Minimum Wages Act, should be ascertained.

*3(iii).3.10. Dinesh Information Technology Systems (DITS)*

The details of the projects undertaken by the Information Technology Systems, (DITS) shall be checked by the auditor. Whether the projects had achieved efficiency and economy in its implementation, whether the capacity utilization was maximized, whether the unit was able to utilize the inputs/resources in its optimum, whether the technology adopted was most modern and suitable for the business needs of the customers, whether the human resources availed in the project is efficient and experts in the field, are the points to be ascertained by the auditor. The breakeven analysis should be done and see that the unit is working in the right way. The Books of accounts and Registers, particular to the unit shall be maintained by the persons in charge of the unit. The auditor shall check the Books and Registers and satisfy that they are maintained properly and up to date. The strategy adopted by the unit for marketing their products shall also be reviewed by the auditor, to understand whether the society had adopted modern marketing principles.

*3(iii).3.11. Dinesh Apparels*

The auditor shall check the Books of Accounts and Registers maintained in the unit to satisfy that separate books of accounts showing the purchase and distribution of raw materials, production details of different types of apparels, stock details, sales details, had been maintained in the unit. The cost of machinery utilized for the production unit and its capacity utilization shall be checked. The

method of pricing of the products shall be checked to see that it was done in an appropriate manner. The quality control measures shall also be scrutinized. The stock register may be verified to see that the closing stock of every item tally with the actual stock maintained in the showrooms/depots. The inter unit accounts, the accounts with suppliers and other dealers including sales depots shall be reconciled regularly.

#### *2C (c).12. Government assistances Grants/Shares/Loans*

The financial assistances provided by the Government of Kerala, shall be verified to see that the books and registers were maintained up to date in respect of such financial assistances. The auditor shall check the repayment schedule to ensure that the repayment was made in time. The dividend payable to the Government shall be verified and if the remittance is pending, it shall be reported.

#### *3(iii).3.13. Business Analysis*

The business of the Central Society shall be examined in detail using modern management accounting techniques such as analysis of various ratios. The comparative analysis of last few years may be made to ascertain whether the business carried out is beneficial to the society.

#### *3(iii).3.14. Appropriation of Net Profit*

The auditor shall check whether the net profit of previous years were appropriated by the General Body in accordance with provisions of the Bylaw. Whether appropriation account is carried over to the Day Book and General ledger is also to be examined. The Dividend Register shall also be checked.

*3(iii).3.15. Compliance with Food Safety and Security Act 2006.*

Since the Society deals with the production and distribution of food articles it shall be obligatory on the part of the society to adhere to the provisions of the Food Safety and Security Act 2006. The provisions of the Act as well as the standards prescribed shall be scrutinized and ensured that the society had followed the directions.

*3(iii).3.16. Compliance with Labour Welfare Legislations*

Since the Labour Welfare Legislations were set aside and new labour codes introduced by the Central Government, the Society shall ascertain the provisions of the new labour codes and ensure that they are being followed.

## Chapter IV

### AUDIT OF CONSUMER CO-OPERATIVES

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

- 4.1.1 Introduction
- 4.1.2 Business Activities
  - 4.1.2.i Note book Manufacturing Unit.
  - 4.1.2.ii Student Market
  - 4.1.2.iii LPG Plant operations
  - 4.1.2.iv Marketing and Distribution of Consumer articles to Primary Societies.
  - 4.1.2.v Pharmacy College
  - 4.1.2.vi Triveni Department Stores/Supermarkets
  - 4.1.2.vii Neethi Medical Stores
  - 4.1.2.viii Foreign Liquor shops
  - 4.1.2.ix Festival Markets
  - 4.1.2.x Mobile Triveni
  - 4.1.2.xi Triveni Godown
  - 4.1.2.xii Snacks Bar
  - 4.1.2.xiii Neethi Medicals Ware House
  - 4.1.2.xiv E-Triveni /Stationary Unit
  - 4.1.2.xv Co-operative Library
  - 4.1.2.xvi EMS Memorial Auditorium
  - 4.1.2.xvii Sushrusha High Tech Lab
- 4.1.3 Government Loans and Advances
- 4.1.4 Purchases



- 4.1.5 General Points to be examined
- 4.1.6 Reconciliation of accounts with Regional Offices, Branches and other Units
- 4.1.7 Filing of Tax Returns
- 4.1.8 Verification of Licences
- 4.1.9 Reconciliation of accounts with National Federations District Wholesale Stores and other business partners
- 4.1.10 Verification of purchases in the regional/branch level units
- 4.1.11 Retirement of Bills
- 4.1.12 Consignment Business
- 4.1.13 Provision for wastage etc.
- 4.1.14 Quantity Control
- 4.1.15 Maintenance of Accounting and Bookkeeping
- 4.1.16 Prevention of Food Adulteration
- 4.1.17 Internal audit and inspection

#### *4.1.1. Introduction*

For an apex society, it is mandatory to carry out the procedures of Administrative Audit as well as Financial Audit in an apex Federation. The audit guidelines elaborated in the part I of the Audit manual shall be followed while auditing the apex society. First of all the object of the federation is to be ascertained by the auditor and seen that it has accomplished its obligations as an Apex Consumer Society.

The Primary object of Consumer Federation is to facilitate the activities of affiliated primary consumer societies. The auditor shall examine whether the apex society has been able to achieve this objective. The market intervention of the federation is of much significance as the consumers are protected from the evil effects of hoarding and black marketing, because of the activities of Consumer Co-operative Societies. The auditor shall verify the following points with respect to the attainment of goals and objects.

1. Whether the apex society succeeded in the procurement and distribution of consumer goods to the Primary Consumer Societies.
2. Whether it has been able to make proper arrangements for the storage, package and grading of such consumer goods.
3. Whether it has been able to provide better transportation facilities to the primary societies.
4. How far it has succeeded in the supervision and control of primary consumer stores?
5. How far it is able to provide technical guidance and assistance to the primary consumer co-operatives, which are affiliated to the Apex Consumer Society for achieving operational managerial efficiency?
6. Whether the Apex Society has been successful in assisting the Primary Societies in securing financial accommodation from the Government as well as other the financial institutions.
7. How far it is able to collect and disseminate the market related information and data to the affiliated primaries

The auditor shall understand the broader objectives of the federation before beginning the audit. He shall gather maximum information with respect to the functions of the apex society.

#### *4.1.2. Business Activities*

The business activities of the federation shall be examined and the operational efficiency as well as the profitability shall be analysed. Various ratios shall be worked out and the status of business activities shall be ascertained. Based on the various ratios, the auditor shall make inferences and the report shall be prepared accordingly.

The item wise analysis shall be made in order to reach a fair level of inferences with respect to the profitability and efficiency. The mode of purchase shall also be scrutinised to examine the transparency and genuineness, the quality of items shall also be verified.

#### *4.1.3.(i). Note book manufacturing unit*

The manufacturing accounts of note book unit shall be examined and the manufacturing cost per book shall be worked out and it shall be compared with the selling price of note books.

Ref : (1) Circular. No.4/2002 dated. 16/03/2002 of Registrar of  
Co-operative Societies, Thiruvananthapuram

#### *4.1.3.(ii) Student Market*

The various accounts in respect of Students Market such as manufacturing cost of product or the purchase price of school market items such as school bags, umbrellas, water bottles etc. shall be checked by the auditor. The sale shall be closely verified and the Trial Balance, Trading and Profit and Loss Account shall be verified to see whether the student market operations are profitable or not.

#### *4.1.3.(iii) LPG Plant operations*

The capacity utilization of the LPG Plant shall be verified by the auditor to see that the unit is functioning profitably.

*4.1.3.(iv) Marketing and Distribution of Consumer articles to Primary Societies*

The business transactions with the Primary Consumer Stores or other Co-operative Societies shall be examined by the auditor in order to ascertain the transparency, efficiency and economy of consumer business and trading activities. The Primary Consumer Stores were advised by the Registrar to make purchases from the Federation instead of private traders.

Ref: 1) Circular No. 39/2002 dated. 15/11/2002 of Registrar  
of Co-operative Societies, Thiruvananthapuram

*4.1.3.(v). Pharmacy College*

The books of accounts of the Pharmacy College run by the Apex Federation shall be scrutinized by the auditor to see that the books are maintained properly and the college is managed profitably and efficiently.

*4.1.3.(vi). Triveni Department Stores/Supermarkets*

The accounts maintained in the department stores/super markets shall be verified by the auditor. The opening/closing stock details and goods issued and sales shall be checked and ensured that the stock of goods as per Stock Register and stock verification report are in agreement. Deficit if any shall be reported. The stock Register and the Liability Register shall be verified by the auditor.

*4.1.3.(vii). Neethi Medical Stores*

Primary Societies were advised to purchase medicines and other items from Consumerfed. The auditor shall check all the transactions in the Neethi Medical Stores to satisfy that it is carried out in accordance with the rules and regulations, and directions from the Registrar.

Ref: (1) Circular No. 38/2008 dated. 22/05/2008 of Registrar  
of Co-operative Societies, Thiruvananthapuram

#### *4.1.3.(viii). Foreign Liquor shops*

The accounts of the Foreign Liquor Shops shall be checked in the audit and the purchases, sales and the closing stock shall be verified. The incentive offered by the supplier companies shall also be examined. The federation shall give direction to the depot managers to maintain proper books and registers in respect of Foreign Liquor business

#### *4.1.3.(ix). Festival Markets*

The Festival markets run by the Apex Federation during the festivals of Onam, X'mas, Ramsan and Vishu shall be verified. Whether the federation has received the subsidy sanctioned by the Government for the festival markets shall be examined. The sales turn over, operational expenses and the gross profit shall be ascertained.

#### *4.1.3.(x). Mobile Triveni*

The goods issued to the Mobile Trivenis as well as the sales shall be verified and also ensured that the closing stock of goods were taken for the consolidated closing stock statement of the federation. The operational expenditure of the Mobile Triveni shall also be ascertained.

#### *4.1.3.(xi). Triveni Godown*

The stock of articles kept at the godowns shall be verified and ensured that they were also taken in to account while consolidated stock was arrived at. The registers kept at the godown shall also be verified by the auditor.

#### *4.1.3.(xii). Snacks Bar*

The sales of the snacks bar shall be verified and seen that it is incorporated in the accounts of the Federation. The operational expenditure of the snack bar shall also be verified to see that the unit is making profit.

#### *4.1.3.(xiii). Neethi Medical Ware House*

The purchase and sale details of Neethi Medical Stores shall be verified by the auditor. The arrival, delivery and dispatch details of stock at the ware houses shall be checked and ensured that the stock of medicines and other materials handled were properly accounted and managed. Goods in transit shall also be considered. Examine whether any medicine, in respect of which the expiry date is over, is retained in the warehouse or in the Neethi Medical Stores without replacement.

#### *4.1.3.(xiv). E Triveni/ Stationery Unit*

The transactions of E-Triveni shall be checked in the audit. Purchases of the units shall follow the procedures prescribed. The sales shall be verified to see that these units are operating in a profitable manner.

#### *4.1.3.(xv). Co-operative Library*

The stock register as well as the annual stock verification statement in respect of books and journals shall be examined to see that all purchase of books and periodicals are entered in the stock. The expenditure on account of the management of the library shall also be verified. Examine whether proper procedure has been followed in respect of shortage of stock found during stock verification.

#### *4.1.3.(xvi). EMS Memorial Auditorium*

The rates of rent, rent received, the program details and the maintenance cost of the auditorium shall be ascertained in audit. Examine whether the optimum utilization has been achieved and whether the timings for occupation are fixed in such a manner that optimum utilisation is ensured.

#### *4.1.3.(xvii). Sushrusha High Tech Lab*

The service charges collected at the Lab shall be verified. The operational expenses and the income from the lab shall be compared to see that the unit is running on profit.

#### *4.1.4. Government Loans and Advances*

The terms and conditions of each loan from the Government shall be verified by the auditor so that he can make a report exhibiting a fair picture of the outstanding position. The outstanding in respect of principal, interest and penal interest should be separately recorded and reported.

#### *4.1.5. Purchases*

The procedure of purchases of various items should be scrutinized by the auditor. Whether the tendering procedures are followed in all kind of purchases in order to ensure transparency, economy and efficiency in purchase shall be examined. The Auditor shall ascertain whether the federation is able to provide the consumer goods at a rate which is moderate and prevents consumer exploitation and helps to check inflation in the market.

#### *4.1.6. General Points to be examined*

The auditor shall examine the following points also:

- i) Whether the General body meeting was convened as stipulated in the bye laws.
- ii) Whether members of the federation actively participated in the affairs of the federation
- iii) Whether the business as stipulated in the KCS Act and rules was carried out in the General Body

- iv) Whether the working report, financial statements of the preceding year, the audit report were placed before the General body as provided in the Co-operative law
- v) Whether the notice of General Body meeting was given to all members as prescribed in the bylaws
- vi) Whether the disposal of net profit was considered in the general body in accordance with the Act, Rules and bylaws
- vii) Whether the General body approved the budget for the next year
- viii) Whether the amendments of bylaws are approved by the general body.
- ix) Whether the General Body considered the procedural matters relating to the election to the Board of Directors.
- x) Whether the amendments of the byelaws were duly registered
- xi) Whether the election to the Board of Directors was duly conducted
- xii) Whether all the Board of Directors were qualified as per rules
- xiii) Whether all Directors on the Board actively participated in the affairs of the Federation
- xiv) Whether the Board of Directors genuinely exercised the powers vested on them in respect of :
  - a. Admission of new members
  - b. Raising of funds
  - c. Investment of funds
  - d. Maintenance of books of accounts
  - e. Maintenance and up keeping of assets of the federation
  - f. Recovery of dues, if any
  - g. Appointment, control and supervision the employees of the federation
  - h. Take up and manage legal proceedings for and against the federation
  - i. Formulate general policies of business and affairs of the federation in line with the general market conditions



- j. Production, marketing and distribution of commodities and products for the benefit of primary co-operative societies
  - k. Proper maintenance of books of accounts and records and financial statements
  - l. Enabling the audit of accounts of the federation
  - m. Preparation of necessary sub rules for the efficient functioning of the federation
  - n. Realisation of amounts due from various agencies
  - o. Enabling e-tendering for purchases
- xv). Whether the Board of Directors met regularly as prescribed in the by laws
- xvi). Whether the meetings of the Board of Directors had constituted quorum for meeting as prescribed in the bylaws
- xvii). Whether the Managing Director of the Federation discharged his duties as laid down in the bylaws
- xviii). Whether the employees were qualified as per rules and efficient in discharging their duties.

#### *4.1.7. Reconciliation of Accounts with Regional offices, Branches and other Units*

The reconciliation of accounts with Regional offices, branches and other units, should be ensured. The auditor shall examine the reconciliation statements to see that all entries and transactions are incorporated in the Head Office accounts as well.

#### *4.1.8. Filing of Tax Returns*

The auditor shall check whether the federation has filed the tax returns in time and whether any tax due is pending remittance.

#### *4.1.9. Verification of Licenses*

Whether the Apex federation had obtained licence for carrying out various trading activities, whether the licence obtained for such activities had been renewed and valid at the period of activities.

Ref:- Circular No. 1) Circular No.21/2012 dated. 07/06/2012 of Registrar of Co-operative Societies, Thiruvananthapuram

#### *4.1.10. Reconciliation of accounts with National Federations, District Wholesale Stores and other business partners*

The transactions with National Federations, District Wholesale Stores and other business partners shall be scrutinized by the auditor so that it can be ensured that the discrepancies in mutual transactions are reconciled and properly entered in the books of accounts of the federation. The auditor shall obtain the certificate of confirmation from the institutions concerned before the finalisation of audit and ensure the accuracy.

#### *4.1.11. Verification of purchases in the Regional/Branch level Units*

The procedures of the regional purchase committee or the Branch offices shall be verified by the auditor to see that the process of purchases is beneficial to the federation. Whether the norms of purchases have been followed by the Regional or branch level purchases are to be verified. The quantum of purchases should have relation to the stock in possession, sales and rotation ratio. There should be proper inventory control mechanism in order to attain maximum profitability.

#### *4.1.12. Retirement of Bills*

Bills received on account of goods supplied should be managed promptly so that funds of the federation will not be locked up unnecessarily. The bills should be retired after ascertaining the delivery status of the goods ordered, as the delay in retiring of bills within the specified/agreement time limit will cause payment of demurrage etc. The retirement of bills within the time limit is significant and it should be ensured. Cash discount from the dealers should not be forfeited because of the delay in retiring the bills.

#### *4.1.13. Verification of consignment business*

The auditor shall verify the invoices of goods received on consignment basis. He shall ascertain whether the value of goods received is shown under sundry creditors and the stock outstanding in this category is taken as closing stock of the federation. Prompt realization of commission on sales should be ascertained in audit. Confirmation letters from consigner should be obtained to verify the accuracy of outstanding in consignment accounts.

#### *4.1.14. Provision for wastage etc.*

The provision made for wastage etc should be checked by the auditor to see that it is reasonable and within the permissible limit.

#### *4.1.15. Quality Control*

The quality control in respect of consumer products is most significant. Hence the federation should arrange for the quality control measures of the products that they manufacture. (Umbrellas, Note books etc.) The auditor shall verify the quality control measures that the Apex Federation has adopted, and report if any drawback is being noticed.

Ref: 1) Circular No.66/2007 dated. 26/11/2007 of Registrar  
of Co-operative Societies, Thiruvananthapuram

#### *4.1.16. Prevention of Food Adulteration*

Since the Apex Federation deal mostly with food articles and consumer goods, it is mandatory to follow the provisions of the Food Safety and Security Act 2006. The auditor shall examine the provisions of the Act and satisfy that is complied with by the Federation.

Ref: 1) Circular No.6/87 dated. 12/06/1987 of Registrar of  
Co-operative Societies, Thiruvananthapuram

#### *4.1.17. Internal Audit and Inspection*

In order to check frauds and irregularities in the sales outlets and branches, internal audit wing and inspection teams should be constituted and the day to day transactions are scrutinized regularly. The inspection reports and internal audit reports shall be placed before the Board of Directors and Audit Subcommittee. The Audit Sub Committee shall be formed if not in existence.

## Chapter IV

### **4.2. AUDIT OF DISTRICT WHOLE SALE CONSUMER STORES LTD.**

#### *4.2.1. Introduction*

Wholesale Co-operative stores were organized, with a vision to ensure supply of quality consumer products to the consumers at reasonable/affordable rate, within a Revenue District. The objects of the wholesale stores were to provide consumer articles to the consumers by arranging purchase and sale of such articles ensuring the quality of the products through stringent quality control measures. They were also entrusted with the formation and management of manufacturing or processing units for the benefits of consumers. The wholesale stores were supposed to act as an agent of Government for the supply and distribution of essential commodities, strengthening the public distribution system. The wholesale co-operative consumer stores were also entrusted with the duty of procurement and storage of food grains and other essential commodities. The wholesale stores had started a number of Branches for attaining the above objects. This middle level consumer co-operative structure plays a significant role in controlling the price escalation in the consumer market by providing groceries and consumption goods at reasonable rate and check the black marketing and hoarding resorted to by the private traders. The general audit guidelines specified in the Part I of the Kerala Co-operative Audit Manual, shall be followed in the audit of District Co-operative wholesale consumer stores, apart from the points specified below.

#### *4.2.2. Special points to be verified by the Auditor.*

1. Whether the wholesale store has succeeded in accomplishing its objects
2. Whether the paid up Share Capital is limited to the Authorised Share Capital
3. Whether all the members had remitted the full amount of share allotted to them, whether there are any due on account of share capital
4. Whether Admission Register is maintained properly

5. Whether the share capital contribution from Government is refunded when due
6. Whether there is proper accounting with respect to Trade Deposits, whether the ledger of Trade Deposits is kept up to date.
7. Whether the maximum Borrowing Power is complied with
8. Whether the General Body Meeting was held as per rules and whether all the business specified in the Act, Rules and Bylaws was transacted in the meeting.
9. Whether the Board of Directors had fulfilled their obligations and responsibilities.
10. Whether all the Board members are qualified to be continued in the Board.
11. Whether the Day to Day business of the store is carried out on sound lines.
12. Whether the annual stock verification is carried out in all the units as prescribed.
13. Whether periodical stock verification was carried out by the Management.
14. Whether Books of Accounts were maintained properly.
15. Whether the meetings of the Board of Directors were held regularly (on a monthly basis).
16. Whether the annual returns to the Registrar are filed regularly within the time limit prescribed.
17. Whether there is a system of business analysis by the Board of Directors at Head office and Branch level.

18. Whether all the employees are qualified as per rule (Refer to Chapter X of part II of the Kerala Co-operative Audit Manual and follow the guidelines outlined in it).
19. Whether trading activities were carried out, protecting the interests of the Store, whether there were reasonable returns on such activities.
20. Whether purchase return and sales returns were properly accounted.
21. Whether the cash, equipment, buildings and all other assets of the store is preserved and kept properly by the management and staff.
22. Whether accounts with Apex and National Federations reconciled regularly.
23. Whether accounts with member societies reconciled properly and regularly.
24. Whether the accounts with the traders reconciled regularly and properly.
25. Whether the amendments in the bylaws are brought in, in line with the amendments of Kerala Co-operative Societies Act and Rules.
26. Whether the purchase policy is in compliance with the directions of Registrar.  
(Circular No. 47/74 dated 30.09.1974 of Registrar of Co-operative Societies)
27. Whether the Government assistances were utilized properly.  
(Circular No. 13/82 dated 17.04.1982 of Registrar of Co-operative Societies)
28. Whether Management Accounting System is implemented in the wholesale stores.  
(Circular No. 28/82 dated 29.06.1982 of Registrar of Co-operative Societies)
29. Whether guidelines issued by the Registrar was complied with while disposing the obsolete and damaged items in the wholesale consumer Co-operative stores.  
(Circular No. CC(1)67d225/83 dated 3.12.1983 of Registrar of Co-operative Societies)

30. Whether the Management techniques were implemented in the wholesale stores in order to avoid operational loss.

(Circular No. 45/84 dated 17.11.1984 of Registrar of Co-operative Societies)

31. Whether the wholesale store had adopted the prevention of food adulteration Act and arrangements made for the implementation of the Act.

(Circular No. 6/87 dated 12.2.1987 of Registrar of Co-operative Societies)

32. Whether the store had adopted the Management Accounting system and made arrangements for

- i) Budgetary Control
- ii) Cash Budgeting
- iii) Administrative Budget
- iv) Sale Budget
- v) Purchase Budget
- vi) Internal checking

(Circular No. 7/87 dated 24.4.1987 of Registrar of Co-operative Societies)

33. Whether the steps prescribed for avoiding loss to the Neethi Stores and Neethi Medical stores were complied with

(Circular No. 9/2001 dated 6.2.2001 of Registrar of Co-operative Societies)

34. Whether quality is ensured in the medicines and other items distributed through Neethi Medical Stores.

(Circular No. 66/2007 dated 26.11.2007 of Registrar of Co-operative Societies)

35. Whether the store had obtained license from the food safety department under Food Safety and Security Act 2006.

(Circular No. 21/2012 dated 7.6.2012 of Registrar of Co-operative Societies)



## Chapter IV

### 4.3. AUDIT OF PRIMARY CONSUMER STORES

- 4.3.1. Introduction
- 4.3.2. Double compartmental system
  - (a) What is double compartmental system?
  - (b) What are the advantages of double compartmental system ?
- 4.3.3. Verification of Business activities
  - i) Vouching of Purchases
  - ii) Verifying of Expenses
  - iii) Verifying of Sales
  - iv) Vouching of incidental charges
- 4.3.4. Verification of Stock Register and Price Fixation Register
  - a) Stock Register
  - b) Price Fixation Register
- 4.3.5. Verification of Salesman's Liability Register
- 4.3.6. Trade deposits
- 4.3.7. Bonus on Purchases
- 4.3.8. Verification of Credit purchase Register
- 4.3.9. Verification of Goods Issued Register
- 4.3.10. Verification of Return of goods
- 4.3.11. Verification of Prepacking of goods
- 4.3.12. Verification of Register of empties
- 4.3.13. Verification of stock for retail sales
- 4.3.14. Verification of Business Management
- 4.3.15. Verification of Management
- 4.3.16. Reconciliation of accounts with apex federation
- 4.3.17. Reconciliation with other institutions

#### *4.3.1. Introduction*

Consumer Co-operatives are the back bone of a country which helm the heredity of “Rochdale Pioneers”. In our state the consumer co-operative movement is attributed to the activities of Primary Co-operative Consumer Society, Consumer Stores managed by Primary Agricultural Credit Societies, Employees Co-operative Societies, Women Co-operatives, SC/ST Societies as well as the District Whole Sale Stores and the Apex Federation. These Co-operatives deal with groceries and consumer goods, textiles, medicines, fertilizers, home appliances etc. A fool proof accounting system in these Co-operatives is of much significance as it is the most important factor to detect any kind of errors, omissions and frauds.

#### *4.3.2.(a) What is double compartmental system?*

For the maintenance of stock in these stores, it should be properly accounted in a systematic and transparent manner. Double compartmental system relates to the maintenance of stock, which is divided in to main stock and retail stock. The main stock will be under the custody of the secretary or some other responsible persons authorized for the purpose. Issues will be made from the main stock based on the indents made by the sales man. The auditor shall check the sales bills so as to ensure that goods are sold only at the retail price fixed by the competent authority. He has to ensure that the sale price is not boosted so as to reduce the value of stock and the salesman’s liability. He shall also ensure that credit, if any, given for wastage etc. is reasonable. The issues made from the main stock to the sales sections will be valued at the retail selling price and the salesmen made responsible for value of articles supplied as per their indents. The salesmen has to handover the daily sales turn over, arrived at as per the daily sales book, to the Secretary immediately after the close of business each day. The amount thus

received by the Secretary will be entered in the cash/Day book under sales and the liability of the salesman reduced to that extent. Where there are more than one salesman, it is better to fix joint responsibility on all of them. The stock in the retail section should be verified at the end of each month or at least once in 3 months and the reasons for abnormal deficiency, if any, shall be detected and rectified promptly.

*4.3.2.(b) What are the advantages of double compartmental system ?*

- i) Depreciation due to wastage etc, is reduced to the minimum since the main stock is kept intact.
- ii) Clerical job is minimized considerably, as the cumbersome work of daily classification of sales is dispensed with.
- iii) Defalcation of goods, if any, can be easily detected by reconciling the actual stock with the salesman on a particular day.
- iv) It creates a sense of greater responsibility on the part of the salesman, as he is held responsible for the value of stock handed over to him at selling price.
- v) Stock taking at regular intervals is made very easy, as the major portion of the stock is kept in bulk in the main godown.
- vi) Shortages due to careless handling or other reasons can be easily ascertained by calculating the difference between the salesman's liability and the value of unsold stock with him on a particular day.

#### *4.3.3. Verification of Business activities*

The auditor shall verify all the businesses undertaken by the society. He shall scrutinize the minutes to ascertain the authenticity of the decisions. He shall also examine the files and records connected to the businesses such as tendering, quotations, auctions etc.

##### *4.3.3.i. Vouching of Purchases*

The auditor has to ascertain the system of purchase followed by the stores. As soon as a particular stock is exhausted, the godown keeper has to prepare a list of articles to be purchased and send it to the responsible officer of the society. He should verify the list and place the same before the purchase committee for the decisions regarding the quantity to be purchased, agency from which the purchase to be made. When the purchase committee approves the purchase proposal, arrangements shall be made to place orders with the supplying agencies. Approved purchase orders from the printed “order Book” should be issued for all purchases made or supplies ordered. If oral orders are issued or orders are booked over phone, they should be confirmed by issuing a regular order from the printed “Order Book”. When the goods are received with reference to the invoices, the particulars should be noted in the “Goods invoiced Register”. The ledger section on receipt of the note from the Godown-Keeper with the invoices should verify the calculations, and pass it on to the secretary for orders of payment. On ensuring the accuracy of calculations and receipt of goods in the godown, the secretary should pass the invoice for payment.

The auditor shall satisfy himself about the system of internal check in existence. He should also see that payment is made to the suppliers only after necessary scrutiny. In the case of credit purchases, the auditor should be careful to see that the credit bills are transacted correctly. The possibilities of presenting credit bills as cash bills should be avoided.

#### *4.3.3.ii. Verifying of Expenses*

The auditor shall examine the expenses related to the purchases as well as sales of the consumer store. Whether the expenses are reasonable and at par with others shall be verified. Ratio of expenses shall also be examined while the business analysis is undertaken.

#### *4.3.3.iii. Verification of Sales*

The cash bill or challan signed by the salesman should be issued by the salesman. At the close of the day, the salesman should record all sales in his daily sales register and the total of the sales register is taken to the Day book representing the total sales of the day. The auditor should check the entries in the daily sales register with the cash memos and then the total sales in the Day book. The posting from the daily sales register to the Day book has to be checked fully. The auditor should check the sales bills or challans completely. While checking the sales chits, he should satisfy himself that sales have been made as per the retail price fixed by the stores. The retail prices are usually fixed by the purchase committee with reference to the market trend and also the cost of articles etc. Any change in the retail price has to be effected by the purchase committee. Proper control mechanism should be adopted against misuse of cash memos/bills/challans in the stores.

#### *4.3.3.iv. Vouching of Incidental charges*

Incidental expenses on carriage, freight etc. and other transporting and travelling expenses in connection with the purchases shall be verified by the auditor. He has to satisfy himself the reasonableness as well as genuineness of the expenditure. If many kind of articles are received in one consignment, the expenditure has to be apportioned between the various items for fixing the selling price.

#### *4.3.4. Verification of stock register and price fixation register*

##### *4.3.4.i. Stock Register*

The stock register has to be checked with the invoices and cash/credit bills for receipt of goods. The auditor has to ensure that the dates of purchase, quantity purchased and the weight or measure of units as noted in the invoice are entered in the stock register. The salesman's indent has to be verified to ascertain the correctness of issue of articles from the godown. The issues as per the stock register and the salesman's indent should agree. In the case of issues in bulk, the auditor should check the wholesale sales or cash bills with the stock register. The balance of each entry should be checked in order to ascertain the correctness of the stock register. At the end of the checking, the auditor should total the item-wise quantity of receipts and issues for the year in the stock register and verify whether the opening stock plus purchases during the year, tally with the closing stock plus issues and sales. The margin between the sales price and purchase price shall be considered while making the above comparison. If huge deficit /shortage is noticed, the auditor shall make a through verification and if any fraud or misappropriation is detected, it should be reported promptly. If the magnitude of the deficit/shortage is significant it shall be reported without delay through a special report to the Registrar of Co-operative Societies and Director of Co-operative Audit.

##### *4.3.4.ii. Price Fixation Register*

The purchase committee will fix the price of each item considering the incidental expenses also on the purchase of such article. Instead of maintaining a separate price fixation register, a combined purchase and price fixation register must be maintained. Maintaining the purchase register in two parts is also seen prevalent in some stores under purchase and sales prices. Each invoice is entered

in one line. On the left hand side is recorded the cost price and on the right hand side the sale price of the articles. The register has to be checked with the invoices, and should be seen that sales is correctly arrived at. The sales margin should be verified to see that it is enough to maintain the profitability of the store. It should be ensured that the margin is limited to optimal.

#### *4.3.5. Verification of salesman's liability*

Salesman's Liability Register is to be checked with salesman's indent and daily sales bill/ledger. The postings should be verified and ensured that the balance arrived at is correct. The stock verification result on monthly or quarterly basis is to be recorded in the register and the amount of deficit or excess over the liability disclosed should be reported. The signature of the salesman for each entry in the register and also for the closing balance of each month should be obtained. The auditor should ensure that the procedure is adopted without fail and see whether the management has initiated appropriate action for the realisation of deficits/shortages.

#### *4.3.6. Trade deposits*

Credit sales may be permitted only on the basis of specific provisions in the bylaws. Trade deposits may be collected from members so that credit sales can be carried out against the trade deposit. The amount drawn out of this is recouped at the beginning of the next month. The auditor shall verify this trade deposit register with reference to the cash receipts and also the bills concerned and see whether the balances are correctly arrived at. The pass books supplied, to the members may be called for and checked at random.

#### *4.3.7. Bonus on Purchases*

Sub section (2) of section 56 of the Kerala Co-operative Societies Act provides for the payment of bonus to its members out of its net profit, after providing for statutory reserves, based on the amount or volume of business done by them with the society to the extent and the manner specified in the bylaws of the society. The percentage of bonus payable will be decided by the General Body every year, subject to the limit prescribed in the bylaws. The purchases by each member are to be entered in a register named “Register of bonus on purchases”. The bonus at the rates as declared/decided in the general body is worked out with reference to the total purchases made by each member. The correctness of the bonus calculated shall be verified in audit and ensured whether they are in accordance with the rules and whether the distribution are made properly.

#### *4.3.8. Verification of Credit purchase Register*

In most of the employees Co-operative Consumer Stores, credit sales are permitted to its members. The maximum limit for such credit sales shall be specified in the bylaws in relation to the salary/wages of the employee. The auditor shall verify whether the maximum limit fixed in the bylaws is being adhered to in allowing credit sales to its members. He shall also examine whether the amount under credit sales is being recovered regularly and that proper action has been taken for the realization of arrears, if any. As far as possible the auditor should get confirmation, as on the last day about the balance, from the members. A few pass books of the members may be called for at random and the entries there in compared with the account of the member as per the ledger. The consolidated amount in credit purchase register shall be compared with the financial statement while preparing the Balance Sheet.



#### *4.3.9. Verification of Goods Issued Register*

The godown keeper should maintain separate “Goods Issued Register” for each Branch or section of the society. Goods issued to the branches or sections should be supported with “Goods Issued Notes” or “Delivery Challan” issued by the Godown-Keeper. The goods issued notes or delivery challans contain the sale price of the articles, which will be entered in the Salesman’s Liability Register. The auditor should verify whether both the Goods Issued Register and the Salesman’s Liability Register are kept up to date.

#### *4.3.10. Verification of Return of goods*

When goods received are returned to the suppliers due to defectiveness or any other irregularity, inferior quality or damage, or not according to sample, a debit note should be sent to the supplier and his account debited with the amount of goods returned. The auditor shall examine the details of discount allowed etc. with respect to the purchase return. The accounting in respect of GST shall also be verified by the auditor.

#### *4.3.11. Verification of Repacking of goods*

All articles received in bulk are packed in convenient packets in different weights and displayed on the counter or kept on the rack. In order to match the proper dispensation of articles received in bulk and converted in to packets, it is necessary that the society maintains a “Conversion Register”. This register which contains particulars such as number of bags or other bulk containers opened and converted in to packages in which the contents have been packed. The auditor should check the register and shortages, if any, should be reported.

#### *4.3.12. Verification of Register of empties*

Goods are received in various kind of containers such as gunny bags, boxes, tins etc. The empties should be properly accounted both by the godown keeper and the retail section. Whenever goods are received, the concerned empties folio should be posted as to the number of empties received. In cases where empties are to be returned to the suppliers, the empties account can be posted for returns on receipt of the credit note from the supplier. The empties which are not returnable can be disposed of on proper resolution of the Board of Directors. The auditor shall verify the entries in the register with reference to the inward invoices, credit notes, sales bills etc. and see whether the sales have been effected on proper sanction.

Ref: 1) Circular No. 23/69 dated 17/06/1969 of Registrar of  
Co-operative Societies, Thiruvananthapuram

#### *4.3.13. Verification of stock for retail sales*

Supply of stocks from the godown to the retail stores/branches should be made only against approved indents submitted by the Branch Manager or Salesman in charge. The Godown-keeper should have also obtained the signature of the Branch Manager or Salesman, on the “Goods Issued Note” or Delivery Challan. A copy of the above Note or Challan should be set to the accounts department which maintain the Salesman’s Liability Register. The Auditor should see that there is separate register kept for expiry items and the procedure followed shall not be detrimental to the interest of the society. He shall also verify whether the salesman remit the cash on sales to store promptly.

#### *4.3.14. Verification of Business Management*

The consumer business has expanded considerably and the auditor shall adhere to modern management principles and practices for auditing the various management portfolios. The following points are the most vital and hence should be scrupulously examined.

##### *i. Fund Management :*

The utilization of funds shall be verified. If the investment in non circulating assets such as land, building, farmhouse and fixtures etc. are disproportionately large, it shall affect the functions of the institution. The auditor shall make suitable comment in his report.

Ref:- 1) Circular No.45/84 dated. 17/11/1984 of Registrar  
of Co-operative Societies, Thiruvananthapuram

##### *ii. Budgetary Control :*

Yearly, half yearly and quarterly targets should be fixed for purchases and sales. Other expenditure should be regulated through budgetary control.

##### *iii. Supervision over Branches :*

The arrangements of branches and sales depots, maintenance of proper accounts, reconciliation of head office account etc. should be verified. Necessary suggestions for improvement of the system should be provided to the Board of Directors.

##### *iv. Management of Accounts :*

Periodical reports and statements shall be obtained from the branches/sales depots/departments on purchases, sales, and stock and should be considered by the Board of Directors. The reports shall be analysed and the results should be reviewed periodically in order to arrest unhealthy practices if any. The Board of Directors shall resort to ratio analysis methods so that scientific and logical decisions can be arrived at on various trading/business applications.

Ref: 1) Circular No.28/82 dated. 29/06/1982 of Registrar of  
Co-operative Societies, Thiruvananthapuram.

v) Government Assistance :

Government grants and assistances should be properly utilized and that should be properly accounted in the institution. The utilization, submission of utilization certificate, the repayment of the assistances such as loans or share capital, should be examined by the auditor and appropriate report must be made.

Ref:- 1) Circular No.13/82 dated. 17/04/1982 of Registrar of  
Co-operative Societies, Thiruvananthapuram

vi). Management of Trade :

Scientific methods of control over purchases, sales and inventory shall be resorted to. Arrangements for periodical stock taking shall be made. The auditor shall examine all these and satisfy the procedures. Suggestions for improvement shall be made to the appropriate authority.

*4.3.15. Governance:*

The success and prosperity of the society depends on the initiative and interest shown by the Board of Directors of the society. The auditor shall verify the decisions taken by the Board in respect of business undertaken, with respect to the future developments of the society, and manpower planning and management.

The auditor shall go through the resolutions of Board of Directors by verifying the minutes of the board meetings as well as the subcommittee meetings, to ascertain,1), whether the decisions taken are with proper authority and authenticity,2) whether the decisions uphold the common interests of the co-operative society 3) whether the decisions are implemented efficiently and effectively4) Whether the Board of Directors have followed the rules and regulations and 5) whether the decisions are in compliance with the directions from the government. 6) whether sound financial discipline is maintained in all

financial transactions 7) whether the principles of Co-operation are adhered to while undertaking the business activities. The auditor shall scrutinize the contracts and agreements made by the society to see that the principles of propriety, transparency and economy, are upheld while such contracts or agreements are being made.

#### *4.3.16. Reconciliation of accounts with Apex Federation*

The periodical reconciliation of accounts with the Apex Federation is necessary as the transactions with the Federation will be vast and frequent. There should be a continuous mechanism of reconciliation which should be carried out by senior staff members. The Secretary or Chief Executive shall monitor the work and see that all transactions with the Apex Federation are reconciled properly. Any discrepancies in such accounts shall be verified thoroughly and maximum effort should be taken for reconciliation.

#### *4.3.17. Reconciliation with other Institutions*

The transactions, if any, with other institutions, Co-operative, private or public sector shall be reconciled on a continuous basis. Periodical, monthly, quarterly, half yearly or yearly reconciliation shall be adopted for obtaining satisfactory result, if the transactions were frequent.

## Chapter V

### **5. AUDIT OF FARMING CO-OPERATIVE SOCIETIES**

- 5.1. Introduction
- 5.2. Pooling of land
  - i.* Registrar of lands pooled
  - ii.* Register of improvements in the pooled land
- 5.3 Program of Cultivation
- 5.4 Purchase of Fertilizers
- 5.5 Cultivation Account
- 5.6 Payment of Wages
- 5.7 Harvesting of Crops
- 5.8 Marketing and Sales of produce
- 5.9 Valuation of standing Crops
- 5.10 Valuation of Agricultural Produce
- 5.11 Valuation of Live Stock
- 5.12 Register of apportionment of wages
- 5.13 Register of Dividend and Bonus
- 5.14 Daily Record Sheet
- 5.15 Performance Analysis

### *5.1. Introduction*

Co-operative Farming Societies were introduced as a model to circumvent the limitations of small size of farms and shortage in credit facilities to the individual farmers. Here farming is done jointly by pooling their land, though the ownership remain with the individuals. Profit is divided among the members (farmers) based on the ratio of land owned and pooled by them. The wages shall be paid based on the number of days worked on the pooled farmland. Co-operative farming was introduced in order to avoid the problems due to fragmentation of land and to achieve increased productivity. The size of farm increases due to pooling of land, the cost of production shall be reduced and the economics of scale achieved. There shall be available with the farm more resources such as man, material and money, which shall result in the increased productivity of land. The Co-operative Planning Committee suggested for the organization of 4 types of farming co-operatives such as :

- i. Better farming Co-operative Societies
- ii. Joint Farming Co-operative Societies
- iii. Tenant Farming Co-operative Societies and
- iv. Collective Farming Co-operative Societies

The auditor shall study well the bylaws of the Farming Society before he starts his job. Whether the farming society works in line with the objectives laid down shall be a point to be examined. The auditor shall bear in mind the guidelines issued as per Part I of the Kerala Co-operative Audit Manual and it should be adopted in the audit of farming societies.

### *5.2 Pooling of Land*

In Joint Farming Co-operative Societies, members agree to pool their land for common cultivation. Agreements are executed by the members, for pooling their land for farming/agricultural activities.

### *5.2.i. Register of lands pooled :*

Every society shall keep a register of pooled lands, which shall contain the complete details of the land pooled, date and period of pooling, dates of execution of agreements, registration of mortgage deeds, the value on the date of pooling, number and date of resolution of the General Body fixing the value and the capital expenditure incurred by the society for its improvements and along with the signature of members. The name and admission number of the member, the extent of land pooled by him, name of revenue village in which the land is situated should be entered in the register. The auditor shall verify the register of lands pooled with the agreements executed by each member who had pooled the land.

### *5.2.ii. Register of improvements in the pooled land :*

The register contains particulars such as description of land taken up for improvement, nature of improvement, the estimated cost of work, date of commencement and date of completion of work and the actual cost of improvement. Plan and estimate are to be prepared and approved before starting any development activities in the land. The cost of improvement/development has to be apportioned in between the plots which had been benefitted by the improvement/ development.

The cost so apportioned to a particular plot has to be debited against the member and it has to be recovered from him. The auditor shall verify the apportionment and recovery of such amount.

### *5.3. Program of Cultivation :*

The General Body of the Farming Society shall approve a cropping programme for cultivation. It has also to decide the method of organization of teams or groups according to plots, crops or operations, appointment of group leaders, fixation of scales of wages for different operations and for different categories of workers and allied matters. To supervise the farm operations, a production subcommittee shall be appointed. The auditor shall verify the programme of cultivation and satisfy that the operations of the farm are going on well.



#### *5.4. Purchase of Fertilizers :*

The purchase of seeds, manure, fertilizers and other materials shall be properly accounted, for which a “Register of Purchase” should be kept up to date. An issue Register showing issues of different kinds of materials and operations and to which their cost is to be debited should be maintained by the society. The Purchase Register can be checked with invoices and Stock Register. The closing stock of each items purchased and issued shall be verified in the audit.

#### *5.5. Cultivation Account :*

For recording the details of each crop cultivated, a register should be maintained, showing details of every crop cultivated. The cultivation accounts have to be closed for each crop as soon as harvesting is completed. An abstract will be prepared showing the total value of the produce harvested, the total value of cultivation and the gross income from the crop.

#### *5.6. Payment of Wages*

Usually the wages are paid on daily basis in the farming societies. But in the case of operations such as sowing or harvesting, piece rate may be paid. The society has to maintain muster rolls according to plots, or corps, and pay wages on the basis of attendance or quantum of work out put. Daily cultivation sheets showing plot numbers, and crops sown, labour engaged, and other equipment used are filled in daily and the entries made in the consolidated cultivation register. Cost of cultivation can be ascertained from this register. The auditor shall check the payment of wages from muster rolls, “Acquittance Register, Daily labour sheets etc. The job wise register of tractors, tillers, sowing machines or other agricultural implements should be checked with the daily cultivation sheets.

### *5.7. Harvesting of Crops :*

When the harvesting of crops are made, the details of the harvest such as measurement or weights, shall be recorded and approved by the managing committee. The harvested crops after measurement or weighing shall be taken to stock. The members of the farming society shall be given proper notice regarding the harvesting, weighing and measuring of crops. The managing committee members shall be responsible for arranging the harvest on time in order to avoid any damage or loss to the crops.

### *5.8. Marketing and sales of produce :*

The most significant factor for the successful management of a farming society is the efficient, timely marketing and sales of its farm produce. The managing committee shall decide upon the strategy of marketing and the time of sales, depending on the market demand and the market price of the farm produce. Most of the farming co-operatives does not have proper godown facilities for storage of the agricultural produce and hence they shall be compelled to sell, even at a price not advantageous to the society. The auditor shall verify the details of cost of production, sales price and margin on the sales of farm produce.

### *5.9. Valuation of Standing Crops :*

The expenses incurred over the new crops shall be consolidated and shown as the value of standing crops.

### *5.10. Valuation of Agricultural Produce :*

The crops or the agricultural produce shall be valued at selling price after making necessary adjustments toward expenses to be incurred for marketing the produce. The auditor shall ascertain the market rates and satisfy that the valuation of the produce is made in an appropriate manner.

#### *5.11. Valuation of Live Stock :*

Considering the market rate, age, usefulness etc. the animals or livestock should be valued.

#### *5.12. Register of apportionment of wages :*

The wages paid as disclosed by the muster rolls shall be apportioned among the following items.

- i. Capital expenditure
- ii. Cultivation account
- iii. Maintenance of bulls
- iv. Working of pump sets and
- v. Other expenses

The expenditure as apportioned above shall be taken to the appropriate accounts maintained for each items. The auditor shall check the postings and satisfy that they were correctly posted.

#### *5.13. Register of Dividend and Bonus*

The Register of Dividend and Bonus shall contain the details of members, who had pooled their land for farming jointly. Admission number and name of the members, the extent of land pooled, the value of land, the rate of dividend declared to the land owners, the rate of bonus on wages declared and the amount payable as bonus etc. should be shown in this register. The date of payment, and signature of the members shall be affixed in the register. The General Body resolution declaring the payment of dividend to the land owners who had pooled the land, and the bonus should be verified by the auditor.

#### *5.14. Daily Record Sheet*

The information about the farm ie, all its aspects viz. participation by members in the farm operations, adequacy of labourers, condition of standing crops etc. will be available from this register. The auditor should verify this record, so that he will be able to imbibe the sum and substance of the society at a glance.

#### *5.15. Performance Analysis :*

The auditor shall consider the performance of the society for last 3 to 5 years and shall make an analysis with respect to the business/operations such as production of agricultural land pooled, the sales of agricultural produce, the wages, dividend and bonus paid to the members/workers etc.

## Chapter VI

### **AUDIT OF PRODUCERS CO-OPERATIVE SOCIETIES**

#### **6.1. AUDIT OF KERALA STATE CO-OPERATIVE HANDLOOM WEAVER'S CO-OPERATIVE SOCIETY LTD. (HANTEX)**

- 6.1.1 Introduction
- 6.1.2. Source of Funds
- 6.1.3. Handloom Business
- 6.1.4. Verification of various schemes
- 6.1.5. Agency Depots
- 6.1.6. Exhibition cum sales
- 6.1.7. Maintenance of Books of Accounts
- 6.1.8. Verification of Rebate Schemes
- 6.1.9. Business Analysis
- 6.1.10. Weavers Training Scheme
- 6.1.11. Weavers Service Centre
- 6.1.12. Insurance coverage of stocks
- 6.1.13. Inspection of Depots
- 6.1.14. Verification of Employees Service Particulars
- 6.1.15. Valuation and Verification of closing stock
- 6.1.16. Depots Outside State

### *6.1.1. Introduction*

Being the Apex Society of primary Handloom Weavers Co-operative Society, Kerala State Handloom Weavers Co-operative Society Ltd. popularly known as “HANTEK” spearheads the handloom business in the state. The apex society arranges for the supply of raw materials such as yarn etc to the primary weavers societies, and production centres and collects the woven garments/cloths from the primary societies/production centres/members of primary societies/weavers. The payment shall be made by the Apex society either by way of cash or raw material. The auditor shall check the system of production, supply and sales of handloom clothes and verify whether the full production capacity was utilised by the production centres, primary societies and weavers.

The auditor shall ascertain the bylaw provisions with respect to the working of the Apex Society and satisfy that it is strictly in accordance with the Kerala Co-operative Societies Act and Rules. The amendments in the Act and Rules shall be compared with the provisions of the bylaw and if any inconsistency exists the society shall be advised to amend its bylaws.

### *6.1.2. Source of Funds*

The source of working capital is the most significant factor in the successful working of the Co-operative Society. The provisions of the bylaw of the society with respect to the sources of funds shall be examined by the auditor to see that such sources are utilised properly. Whether the apex society had maintained proper books of accounts and registers/ledgers in respect of such financial transactions shall also be verified in audit.

### 6.1.3. *Handloom Business*

1. i) *Purchase of Yarns* : The apex society shall purchase yarn either by placing orders with the production centres/mills or by negotiation with wholesalers or agents. In order to watch the market rates of each count of yarn, the society shall maintain market intelligence on the rates prevailing at major designated markets. It should be ensured that no purchase is made above the market rates. Counts which can be produced internally should not be purchased from outside agencies.

In case of negotiation, the society shall keep files of such negotiation with complete details, which shall be checked by the auditor.

ii) *Purchase of handloom clothes from societies/members* : The purchase of woven handloom items shall be based on the requirements of clothes for sales in the sales depots/outlets of the Hantex as well as the agencies, as assessed by the officials concerned. When goods are procured from the affiliated weavers societies, the purchase invoices should be accompanied by necessary certificates of Quality Control Inspectors, of the administrative department or technical Supervisors of the apex society, as to the correctness of fixation of price, quality, and marketability of the handloom products. The auditor shall check these certificates and invoices, to satisfy the correctness of price fixation and quality.

2. *Sales* : The auditor shall verify the sales bills and ensure that the sales were effected strictly in accordance with the prices fixed for each item. There shall be a market survey system to understand the trends of the people and identify the demands in the market. Whether the details of each sale is accounted properly in the books of accounts is to be verified. Modern sales management techniques shall be adopted for sales promotion. The auditor shall study the effectiveness of such techniques and advice on such practices.

3. Production Centres : If the cost of production and establishment expenses of the production centre were met by the Head Office, these advances should be settled periodically and regularly when the concerned production centre submit periodical production statement. The auditor shall check whether all productions made at the centre are transferred to the depots and accounted in the Stock Register. The Goods Received Statements of the production centres, sent to the Head Office, shall be checked with the stock register to ensure the proper accounting of finished goods transferred.

#### *6.1.4. Verification of various schemes*

The auditor shall examine the schemes adopted by the society for the promotion of sales of handloom products. The sub rules made, if any, or the contract/agreement with the Government/Agencies/Company/Societies shall be scrutinized by the auditor. It shall be ensured that the terms and conditions of such schemes were favourable to the Apex Society. The cost bearing/sharing agreement of the implementation of such schemes shall be verified. An analysis may be made with respect to each scheme so that it can be known whether such schemes were advantageous to the federation.

#### *6.1.5. Agency Depots*

The Apex Society shall execute proper agreements with the agencies in respect of supply and sales of handloom products. The agreements executed with such agencies shall be verified by the auditor to ensure that the terms and conditions as agreed were complied with properly. Whether adequate security deposit was collected from the agencies is to be verified. The Liability Register in connection with the transfer of goods to the agencies shall be verified to see that the limit prescribed as per the agreement is properly followed.



#### *6.1.6. Exhibition cum sales*

Exhibition cum sales of handloom products in connection with various festivals is one of the methods of sales promotion. Participation of the society in the exhibition shall be with proper decision of the board and sanction from competent authorities. If government financial assistance is received, it shall be scrutinised by the auditor whether it is accounted and utilized properly. Whether the stocks in the exhibition depots are adequately insured specifying the venue of the depot in the exhibition is also to be verified.

#### *6.1.7. Maintenance of Books of Accounts*

The auditor shall check whether the books of accounts as prescribed in the Bylaws and Rules for the industry, are maintained in the Head Office, Branches, Regional Offices, production centres, sales depots and the exhibition depots up to date incorporating all entries related to the handloom business.

#### *6.1.8. Verification of Rebate Schemes*

The rebates sanctioned in connection with seasonal festivals may be verified by the auditor, whether the society has submitted its claim for rebate in time to the Government and accounted properly in the Books of Accounts when received.

#### *6.1.9. Business Analysis*

There should be a system of business analysis involving the business ratios. Whether the maximum output is obtained out of the minimum inputs is to be ascertained. The efficiency of the production units shall be ascertained with the help of such ratios. The auditor shall call for the details of such business analysis and see that the production and sales were performed with maximum efficiency and in a cost effective manner.

#### *6.1.10. Weavers Training Scheme*

The expenses in connection with the weaver's training scheme, if any, met by the society in advance shall be reimbursed by the Government. The auditor has to verify the timely reimbursement of such expenses.

#### *6.1.11. Weavers Service Centre*

It has to be examined whether the service centre formulates new attractive designs and propagate them among the various affiliated weavers societies.

#### *6.1.12. Insurance coverage of stocks*

The auditor shall ascertain whether all the stock of goods in depots, godowns and in transit are adequately insured and policies kept alive by the Apex Society. The Head Office shall be vigilant in these aspects and the auditor shall call for such policy documents while auditing.

#### *6.1.13. Inspection of Depots*

The Head Office shall exercise proper control over the depots and periodical inspection and stock verification shall be conducted regularly to avoid any kind of malpractices. The auditor shall ascertain whether proper inspection was conducted by the authorised officers. He has also to see whether the defects noticed during inspection, or shortage in stock, if any, during verification are promptly rectified by recovery of shortage or deficit.

#### *6.1.14. Verification of Employees Service Particulars*

The auditor shall examine the service details of employees such as recruitment, sanction of increment, DA sanctioned, pay fixation, leave particulars, promotion, transfer, disciplinary action and superannuation. The time bound higher grade sanctioned, training to the staff etc. shall also be verified. The auditor shall check whether a proper division of labour and job rotation are implemented in the Apex Society. Refer to chapter X of part II of Kerala Co-operative Audit Manual for further details in respect of audit of employees' service matters.

#### *6.1.15. Valuation and Verification of closing stock*

Complying with the directives of the Reserve Bank of India and Registrar, the value of closing stock shall be calculated. It should be ensured that annual stock verification had been conducted at the depots, godowns and production centres properly. The stock held by every branch, depot and agency as well as the goods in transit shall be considered while auditing the closing stock.

#### *6.1.16. Depots Outside State*

The annual stock verification of the depots outside state shall be conducted through reciprocal arrangements with the Registrar of Co-operative Societies of the States concerned. The accounts with the depots outside the state shall be reconciled periodically by the Head Office.

## Chapter VI

### **6.2. AUDIT OF PRIMARY WEAVER'S CO-OPERATIVE SOCIETIES**

- 6.2.1. Introduction
- 6.2.2. Handloom Business
  - a. Production and Processing
  - b. Marketing and sales
- 6.2.3. Loans and Advances to Members
- 6.2.4. Deposits
- 6.2.5. Income Support Scheme
- 6.2.6. Weavers Welfare Fund
- 6.2.7. Shares with Apex Society and other Institutions
- 6.2.8. Financial assistance from Government of Kerala/Government of India
- 6.2.9. Rebate Scheme
- 6.2.10. Pricing of Products
- 6.2.11. Performance Analysis

### *6.2.1. Introduction*

Primary Weaver's C-operative Societies are organized with the object of promotion of handloom cloth production as well as the economic betterment of the members of the weaver's co-operative society. For accomplishing the objects, the society purchases machinery and equipment needed for the handloom cloth production and supply to the members either on cash or credit. The raw materials required for the industry shall also be purchased and supplied to the weavers by the Co-operative Society. The equipment and materials necessary for processing designing, colouring and quality checking, shall be procured by the society and they shall be given to the members. In order to develop savings attitude among the members, the society shall introduce and implement various deposit schemes in the society. The manufactured handloom items shall be bought/collected by the society from the members, which shall be sold by the society through the sales outlets of Apex Society.

### *6.2.2. Handloom Business*

#### *6.2.2.i. Production and Processing :*

The Primary Weavers Society shall make arrangements for the purchase of yarn, dyes, chemicals, shuttles and other spare parts, which shall either be supplied to the weavers or be used in the production centres of the society itself. Using the machinery and the raw materials, the society shall ensure that production of cloth is optimised. Production of cloth either by using handloom or power looms shall follow the process of dyeing of yarn, bleaching and dyeing of finished cloth. The auditor shall see that the society had followed the procedures and rules while purchasing of machinery, raw materials and other equipment. It should be verified that the production capacity of the handloom or power loom was fully utilized.

The purchase of raw materials and other requisites are to be made from the Apex Society as far as possible. Other options shall be considered only after the Apex Society for the purchase and supply of raw material. The society should get indents from them and purchases should be made considering their requirements for a month. Invoices and bills received from the suppliers should be checked in order to ascertain whether the discount and rebate received are accounted or not. The auditor should verify the accounts with creditors. The outstanding balance of credit accounts shall be got confirmed. The proper control should be exercised over the receipts and issues of stocks from the godown. All stock in possession of the society should be insured. The auditor shall check the insurance coverage as well as the control mechanism. The society should maintain proper books and registers with respect to the stock of raw materials, stock of finished goods and selling price. The auditor shall verify the bylaws to ascertain whether credit sales are permitted as per bylaws. The credit bills or memos should be checked to ascertain the outstanding amount from the debtors.

a. *Annual Production Scheme* : An annual production scheme should be prepared and got approved by the General Body. The production scheme envisages the following:

i. Yarn of the required counts as also staple yarn and other requisites are issued to members and they weave cloth in their home yard and bring the finished cloth to the society ; and

ii. The Society operates the factory and works its own handloom or power looms. Master weavers shall be appointed to supervise the weaving work if the work is done at the society's factory. The auditor should verify the costing register, register of tools and equipment and yarn register, cotton stock register, production register etc and register of machinery in the case of power looms.

If the wages are paid on piece rate basis, arrangements for measuring cloth and inspecting its quality and grade should be examined. If the members are paid wages on piece rate basis, the rates of wages shall be fixed according to counts of yarns, design and width of border, weaving pattern, design etc. The Auditor shall verify the payment of wages with reference to the criteria for fixing the wages. Where yarn or finished goods are dyed before issue or sale, accounts of colours and chemicals used and other expenses should be checked by the auditor. The cost of dyeing should be added to the selling price of yarn or finished goods.

b) Marketing and sales: The Society shall adopt modern marketing techniques for the sales of their products. The sales can be either through the depots and outlets of the Apex Society or through society's own sales showrooms and marketing agents. The auditor shall verify the bills and invoices of sales. Separate account is to be maintained in respect of wholesale sales and retail sales. Total quantity of different varieties of cloth produced and purchased from members should be checked with the quantities shown as sold. Where goods have been sent on consignment basis, sales received from them should be checked.

Certificates should be obtained from consignees regarding quantity and stock of different varieties held by them. The stocks with consignees should be included in the closing stock. With regard to retail sales, cash memos/bills should be checked with the daily sales register. The daily sales register should be checked with the Day Book. The rebates allowed to customers shall also be verified to ascertain the correctness of rebate allowed. The auditor shall examine whether the cost of finished goods is fixed taking in to account the cost of raw materials, labour charges etc.

#### *6.2.3. Loans and Advances to Members*

Some weaver's societies advance loans to its members for the purchase of power looms, tools and equipments or raw materials. In some other cases, raw material or machinery or tools and equipment shall be issued to the members on credit basis. The society should keep proper accounts with respect to such credit disbursements. The auditor shall check the books and ledgers to satisfy the position of outstanding balances. Confirmation of balances may be obtained from the members.

#### *6.2.4. Deposits*

The weaving societies, which collect deposits such as Thrift Deposits, fixed Deposits, Recurring deposits or home safe Deposits from members shall keep proper books of accounts such as deposit ledger etc for each of them. The auditor shall verify the entries in the personal ledgers with the receipts, payment challans. General ledger etc. The rate of interest paid shall also be verified.

#### *6.2.5. Income Support Scheme*

The schemes to support the weavers shall be verified in audit to see that proper books of accounts are kept in the society.

#### *6.2.6. Weavers Welfare Fund*

Whether the members are enrolled in the welfare fund scheme is to be ascertained. The society shall keep accurate books of accounts with respect to the welfare fund of weavers.

#### *6.2.7. Shares with Apex Society and other Institutions*

The shares invested with the Kerala State Handloom Weavers Co-operative Society as well as with other institutions shall be verified in the audit. The share certificates shall be verified and the dividend received, if any, on those shares shall be checked to ensure that they were properly accounted in the society's books of accounts.



#### *6.2.8. Financial assistance from Government of Kerala/Government of India*

The financial assistance received from the State Government or the Central Government shall be checked to see that they are properly accounted in the society by maintaining books and registers for the assistance received. The repayment schedule as well as the compliance of the conditions attached to the assistance in the case of share capital loan or working capital loan or margin money shall also be verified.

#### *6.2.9. Rebate Scheme*

The rebates allowed on festival seasons by the Government, to promote handloom cloths, shall be verified by the auditor. The rebate allowed to the customers by the Government is to be examined with payment of rebates. The period of rebate announced by the government and by the society shall be compared, to ensure that rebate claimed by the society is in compliance with government rebate.

#### *6.2.10. Pricing of Products*

Pricing of the finished cloths, shall be done, considering all the factors such as cost of raw material, wages of workers, depreciation of tools, equipment or machinery purchased by the society etc. The cost of production of cloths shall be worked out accurately and the price of cloth products shall be fixed based on the cost of production. The auditor shall examine the cost register also. The Auditor should verify the given register, wage register, finished goods register and stock of raw material. The rate paid to outside agencies for bleaching and dyeing shall be examined to ensure that it is reasonable.

## Chapter VI

### **6.3. AUDIT OF KERALA STATE CO-OPERATIVE COIR MARKETING FEDERATION LTD (COIR FED)**

- 6.3.1. Introduction
- 6.3.2. Source of Funds
- 6.3.3. Business Activities
  - i) Production and Processing of Coir and Coir Products
  - ii) Marketing of Coir and Coir Products
  - iii) Show rooms, depots and exhibition cum sales outlets
- 6.3.4. Supervision and Control of Showrooms and depots
- 6.3.5. Reconciliation of accounts with Primary Societies depots and show rooms
- 6.3.6. Reconciliation of accounts with dealers/agencies/Government/Other Co-operative institutions and Apex Federations.
- 6.3.7. Verification and valuation of closing stock.
- 6.3.8. Verification of Sundry debtors and Sundry creditors
- 6.3.9. Performance Analysis of show rooms
- 6.3.10. Production Analysis
- 6.3.11. Investments
- 6.3.12. Borrowings
- 6.3.13. Internal Audit and Inspection.
- 6.3.14. Export of Coir and Coir products
- 6.3.15. Insurance.

### *6.3.1. Introduction*

Apart from the guidelines in the part I of the Kerala Co-operative Audit Manual, the specific points which have to be verified while auditing the Kerala State Co-operative Coir Marketing Federation Ltd.(Coir Fed) are outlined in this chapter. Coir Fed, the Apex Federation, of the Primary Coir Co-operative Societies is working with a motive of development and growth of the coir sector in the state. With this object the Apex Federation engages in the activities of buying and selling of coir, and coir products produced by the primary societies. The arrangements of raw materials, i.e., husk, working capital, plants and machinery, technical knowhow and the marketing net work for the production, processing and marketing of coir and coir products, are undertaken by the Apex Federation. Coirfed's intervention is required to activate the primary societies and to provide labour to the workers/members of the Primary Coir Co-operative Societies.

The auditor shall examine the provisions of the bylaws and satisfy that the federation is acting on the provisions. Whether the apex federation could fulfil its obligation as an apex society in facilitating the activities of the member societies and successful in monitoring and supervising their working shall be verified in audit. The auditor shall undertake an overall analysis of the working of the federation and suggest measures for the improvement of its performance. The observations of the auditor shall be placed before the meeting of the Board of Directors, and their views obtained before finalizing his observations and suggestions.

### *6.3.2. Source of Funds*

The share capital and entrance fee from members, loans and advances from Government and financial Institutions, and financial assistances from Government and other agencies grants, subsidies and donations constitute the source of finance of the Apex federation. The auditor shall check whether the management is successful in mobilizing the working funds for the efficient functioning of the Apex Federation.

### *6.3.3. Business Activities*

#### *6.3.3.i. Production and Processing of Coir and Coir Products :*

The auditor shall verify the arrangements made by the federation for the production of coir and coir products either through its own factories/plants or through the Primary Coir Co-operatives. Whether the apex federation was able to provide necessary raw materials for the production and processing to the members, whether the purchase of raw materials was cost effective and beneficial to the societies and were following the rules and procedures and whether the Apex Federation was successful in providing technical assistance to the member societies. The production process shall be most efficient and cost effective. Whether capacity of the plants and machinery and looms were utilized maximum, whether workers/ members were given maximum number of employment, whether the workers were given minimum wages as prescribed in the labour legislation, are also to be examined in audit. The quality and quantity of the coir yarn produced out of husks depends on the quality of husk used. The mats, mattresses and other products of the federation as well as the member societies shall be of the best quality, so that the federation shall be able to compete in the market and win the maximum market share including exports. The ratio of raw materials used and the output shall also be analysed. Ascertain whether optimum output is obtained out of the inputs applied. The processing of various coir products such as mats, mattings coir fibre pots, etc shall be put under scrutiny to see that the cost of processing is reasonable.

### *6.3.3.ii. Marketing of Coir and Coir Products*

Even if the federation could maximise its production of coir and coir products, it will not help the federation if it could not maximise its sales. The modern marketing techniques shall be adopted and all avenues of sales management shall be utilised. The piling up of stock in the godowns and showrooms or depots shall adversely affect the liquidity of the Federation. Hence the marketing team of the Federation shall be vigilant in maintaining the stock position at a reasonable level. The auditor shall verify the stock position at the godowns as well as at the showrooms/depots. He shall also examine the expenses in respect of the marketing expenses of the coir products. Whether the marketing strategy adopted by the Apex Federation is feasible or any shift or alteration is required is to be suggested.

### *6.3.3.iii. Show rooms, depots and exhibition cum sales outlets.*

The sales of the Coir and various Coir products are promoted by the federation through its show rooms, depots and agencies. In festival seasons, exhibitions cum sales outlets shall be set up temporarily in urban centres. The distribution of stock, transportation, keeping of the stock without damage, shall be decisive for the success of the marketing strategy. The auditor shall examine the arrangements made for the marketing of coir and coir products. Whether the expenses are kept at a minimum level is to be verified. Whether there is a proper system for accounting the sales in the sales outlets as well as depots and showrooms shall be ascertained. The sales as well as the stock details shall also be verified by the auditor. The federation shall institute a subcommittee of Board of Directors and senior officials for verifying the stock position in the sales depots, showrooms and exhibition cum sales outlets.

#### *6.3.4. Supervision and Control of Showrooms and Depots*

Sub committee comprising of members of the Board of Directors and senior officers of the federation shall be authorized to supervise and monitor the sales activities of the showrooms /depots of the federation. The auditor shall examine the arrangements made by the federation for the monitoring of the showroom/depot level activities. Whether necessary Books of Accounts and Registers are kept at the showrooms or depots shall also be examined by the auditor. Whether the depot managers or show room in charges are permanent employees and collected adequate cash security from them shall also to be verified.

#### *6.3.5. Reconciliation of accounts with Primary Societies, depots and showrooms*

The accounts with Primary Societies, depots and showrooms shall be reconciled periodically by the federation. The auditor shall verify the reconciliation statements and ensure that they were properly reconciled.

#### *6.3.6. Reconciliation of accounts with Dealers/Agencies/Government/Other Co-operative Institutions and Apex Federations.*

The auditor shall call for the confirmation statements in respect of the accounts, or outstanding with the Dealers/Agencies, Government, and Other Co-operative institutions including Apex Federations. He shall satisfy that those accounts were properly reconciled and if any deficiency is noticed, written explanation of the Chief Executive shall be called for. In case of absence of satisfactory explanation the matter shall be appropriately reported.

#### *6.3.7. Verification and valuation of closing stock.*

The federation shall make arrangements for periodical verification of stock at sales show rooms and depots authorizing the board members or senior officers. The auditor shall examine the arrangements to see whether it was satisfactory or

not. The Head Office of the federation shall ensure that the annual stock verification is carried out properly in all its showrooms depots and sales emporiums. The auditor shall see that annual stock verification was conducted in all the showrooms and the depots inside and outside the state.

The closing stock statement shall be consolidated incorporating the stock held by all the depots and showrooms. The stock held by agencies shall be treated in accordance with the terms and conditions of the agreement with dealers or agencies and shall verify whether appropriate action was initiated in cases of shortages / excess of stock.

#### *6.3.8. Verification of Sundry debtors and Sundry creditors*

The auditor shall verify the personal ledgers in respect of sundry debtors and compare the amount outstanding as per statements or schedules, at the end of the financial year i.e. the audit year. So also in the case of Sunday creditors, the ledgers as well as the statements or schedules shall be verified. The long pending amounts shall be verified by the auditor with special emphasis on the reason for such long pendency.

#### *6.3.9. Performance Analysis of show rooms*

The Board of Directors shall fix targets for every depots or show rooms, which shall be reviewed periodically. The performance of each show room or sales depots shall be reviewed by the Board of Directors and appropriate corrective action may be initiated to make good the sales of the products. The profit and loss account of every showroom may be prepared and analysed. The auditor shall examine the performance of every show room and ensure that they are satisfactory.

#### *6.3.10. Production Analysis*

Various ratios may be used for analyzing the efficiency of production of coir and coir products. Based on the ratios, the decisions of production possibilities may be adopted. The auditor shall check such analysis and satisfy that the decisions were right .

#### *6.3.11. Investments*

The investments in shares of other Co-operative Institutions, and Apex Federations shall be verified by the auditor. The investments in movable and immovable assets may also be verified and ensure that the federation is in the actual possession and enjoyment of the properties. The auditor shall satisfy himself that the investments were made in institutions approved for the purpose by the government .In respect of landed properties the auditor shall examine the title deeds to ensure that the right of the society over the land is undisputed.

#### *6.3.12. Borrowings*

The borrowings from financial institutions, Government or any other agency, may be verified with the confirmation statements. The borrowing limit prescribed by the Bylaws shall be examined to satisfy its compliance shall be ensured. The statement or schedule shall also be checked with the books of accounts of the federation.

#### *6.3.13. Internal Audit and Inspection.*

The Apex Federation shall institute a system for internal audit and inspection. The show rooms and depots shall be inspected and audited periodically. The Apex Federation shall inspect the member societies in accordance with sub section (7) of section 66 of the Kerala Co-operative Societies Act.



#### *6.3.14. Export of Coir and Coir Products*

The license for export sales are to be renewed periodically and the auditor shall examine the licenses. The accounts related to export sales shall be verified and it should be ensured that all amounts of export sales were properly accounted. It should be examined whether the society takes follow up action with the bankers, for the realization of value of coir sold. The auditor shall call for a letter of confirmation if any amount is outstanding with the dealers.

Since majority of sales are arranged on negotiation, the auditor may peruse the connected files and the market bulletins to satisfy that the society has entered into the contract at the best advantage of the member societies. The Auditor shall ensure that there has been no instance of rejection of export on the ground of poor quality. Auditor shall satisfy himself that there has been no 'blacklisting' of the society

#### *6.3.15 Insurance.*

The stocks of coir and coir products at the Head Office, branches or showrooms/depots are to be insured properly. The auditor shall verify the insurance policies.

## Chapter VI

### **6.4. AUDIT OF PRIMARY COIR CO-OPERATIVE SOCIETIES**

- 6.4.1. Introduction
- 6.4.2. Purchase of raw materials (Husk)
- 6.4.3. Stock Register of retted husks
- 6.4.4. Distribution Register of retted husk
- 6.4.5. Register of finished goods
- 6.4.6. Wages Register
- 6.4.7. Labour Welfare Fund
- 6.4.8. Sales
- 6.4.9. Insurance
- 6.4.10. Reconciliation of accounts with Apex Society

#### *6.4.1. Introduction*

In order to provide employment to the rural people of coastal Districts of Kerala, Primary Coir Co-operatives Societies were organized since 1950-51. Regular employment to the workers, fair wages, better marketing arrangements were the objects behind such a movement. Primary Coir Co-operatives were concentrated in the areas where the husk is available abundantly and where there are facilities for retting. The main object of a Primary Coir Co-operative Society shall be to provide employment to the workers by establishing coir factories, procurement of husks and facilitate the retting of the husks and distribute the retted husks among the members. Marketing of coir and coir products woven by the members at a fair price shall also be the object of the coir society. The auditor shall verify whether there is any violation of the provisions of the Bylaws.

#### *6.4.2. Purchase of raw materials (Husk)*

Purchase of husk is to be made from the dealers at the rate fixed by the Government, from time to time. The society shall keep a Purchase Register recording the details of purchases including the rate of purchase, which shall be checked with Purchase Bills or invoices, by the auditor. He shall verify the quantity procured, rate of purchase, unloading charges etc., and also the Purchase Register with Day Book.

#### *6.4.3. Stock Register of retted Husks*

The quantity issued for retting is to be checked with "Stock Register for retted husks". The acknowledgement from the concerned person (Group leader/ Mooppen) should be obtained at the time of distribution of husks for retting. The auditor shall examine the records connected with retting to see that the charges incurred for retting is reasonable and within the limits fixed by the Board of Directors.

The security furnished by the Group Leader/Mooppen, may also be verified in audit. The auditor shall verify the inspection reports of the subcommittee as to the existence of husk in the retting yard and see that such reports are placed before the managing committee.

#### *6.4.4. Distribution Register of retted husk*

After retting, husks will be distributed among the members/Groups Leaders, through permits issued by the society. The auditor shall check the permits with the distribution register to ascertain the quantity of retted husk issued. It may be ensured that the number of husks retted in a Mooda and those taken out at a time tally with each other. While distributing the retted husks to the members/leaders, their acknowledgements should be obtained. The quantity issued as per Distribution Register is to be checked with 'Finished Goods Receipt Register' to ascertain whether the required quantity of finished goods have been returned, as against the quantity of retted husk supplied. As the finished goods have to be returned within a specified period after issue of retted husk, the auditor may ascertain whether, a second consignment has been issued before returning the finished goods of earlier supply.

#### *6.4.5. Register of "Finished goods"*

The quantity of fibre contents vary during seasons. Therefore societies, divide the year in to different terms and fix the quantity of finished goods to be returned in each season. The auditor may check whether the members have returned the prescribed quantity of finished goods as fixed by the committee. In case any concession or reduction has been allowed, on account of reduction in the fibre contents, the auditor has to ascertain that the society has made a realistic study of the fibre contents in the husk, before allowing such reduction/concession. The auditor may also ensure that the total quantity of finished goods returned maintain the prescribed proportion to the quantity of retted husk distributed.

#### *6.4.6. Wages Register*

Whether cooly or wages have been paid at the rate prescribed by the Managing Committee, is to be ascertained, by checking the Wages/Acquittance Register. It may also be verified that the total quantity of finished goods received in a day are properly accounted for in the stock register of yarn on the same day. This can be ensured by checking the finished Goods Received Register with Coir/Yarn Stock Register. The Auditor shall examine whether the Minimum Wages Act was complied.

#### *6.4.7. Labour Welfare Fund*

The Welfare Fund contributions of the society as well as the workers shall be accounted properly. The auditor shall check whether it was accounted correctly.

#### *6.4.8. Sales*

As the sales were made by the Central Coir Marketing Society on consignment basis, the concerned consignment account has to be checked by the auditor.

#### *6.4.9. Insurance*

The auditor shall verify the insurance policies and ensure that the stock in possession of the society is adequately insured and the policies are live.

#### *6.4.10. Reconciliation of accounts with Apex Society*

The officers of the society shall make arrangements for the reconciliation of accounts with the Apex Society on a regular basis. The auditor shall call for confirmation statements with respect to the outstanding with the Apex Society or any other institution, and satisfy that those accounts were properly reconciled. Long pending amounts may be specially examined and clarification sought from the Chief Executive.

## Chapter VI

### **6.5. AUDIT OF COIR MATS AND MATTINGS CO-OPERATIVE SOCIETIES**

- 6.5.1. Introduction
- 6.5.2. Purchases of raw materials and semi finished goods
- 6.5.3. Production of mats, mattings and other coir products
- 6.5.4. Quality Control
- 6.5.5. Sales
- 6.5.6. Payment of Wages
- 6.5.7. Consignment Sales
- 6.5.8. Insurance
- 6.5.9. Branch Accounts
- 6.5.10. Reconciliation of accounts with Apex Society
- 6.5.11. Government Assistances
- 6.5.12. Submission of Statutory Returns

### *6.5.1. Introduction*

These type of Coir Co-operative Societies concentrate on the production and distribution of various types of coir mats and mattings. Large scale factories are set up for the production of mats and mattings. Coir workers are the members of the society. Various types of mats and mattings and other kinds of coir products are manufactured in view of export sales by these societies. Government assistances are provided to these types of co-operative societies in order to increase the export of coir and coir products.

### *6.5.2. Purchase of raw materials and semi finished goods*

The mats and mattings society may be making purchases either from the Apex Society or from Primary Coir Co-operative Societies and individuals. Whether the purchase price of such articles purchased from other sources than the Apex Society, have been limited to the rates prevailing in the Apex Society, shall be enquired by the auditor. Whether the articles so purchased were available with the apex Society during that period shall also be verified, and if available, the necessity of such outside purchases may be ascertained. When goods are purchased and brought to the society, a gate pass will be prepared with respect to the number of bundles brought in. The goods so brought will be weighed and the weight noted in the weighment register. The society shall prepare a purchase bill, based on the weighment register. The auditor shall check the purchase bill with the gate pass and weighment register to ensure that the weight and number of bundles tally. The stock shall be entered in the stock register showing the particulars of gate pass number and bill number.

#### *6.5.3. Production of mats, mattings and other coir products*

The raw materials, required for the production of different varieties of mats, mattings and other coir based products shall be supplied to the factory from the main godown. The dyeing materials, coir yarn and other inputs supplied from the main godown shall be verified by the auditor with the production register to see that the quantity agrees each other. The production of mats and mattings shall be entered in the production register as well as the stock register.

#### *6.5.4. Quality Control*

The society shall adopt effective quality control measures, since the products have to maintain high quality to qualify for export sales. The auditor shall review the quality control measures and satisfy that the society had adopted adequate quality control mechanism.

#### *6.5.5. Sales*

The Board of Directors shall ensure that the various coir products manufactured in the factories of the society as well as the members are sold out at the appropriate time, without delay. The sales prices of various products shall be fixed by the Board of Directors based on the cost of production and market rate. The auditor shall verify the sales price and margin fixed for the products. The minimum sale price of export quality products is fixed by the Coir Board and the auditor shall verify the details of export with respect to the stock as well as the sales price of the exported goods. The goods sold will be sent out only by means of an out pass. The auditor may check the stock register, outpass and despatch register as to check the correctness of goods sent out. The sales invoices as well as the shopping receipt shall also be verified.



#### *6.5.6. Payment of Wages*

The payment of wages may be on piece rate basis, periodically to the workers. The daily totals of Wages Register shall be carried over to the Day Book. The production of mats and mattings as revealed by the Wages Register will be entered in the Production Register and from there to the Stock Register. The auditor may check the Production Register and ensure that the prices of finished products, are fixed, taking in to consideration the material cost, and manufacturing cost. The auditor shall check whether the workers were paid wages in accordance with the labour legislations such as Minimum Wages Act etc.

#### *6.5.7. Consignment sales*

If the Mats and Mattings Society adopts consignment sales, the auditor shall check the consignment account and satisfy that they were correct.

#### *6.5.8. Insurance*

The society shall arrange for the insurance of finished goods and raw materials in the possession of the society. The auditor shall verify the insurance policies and satisfy its coverage.

#### *6.5.9. Branch accounts*

The accounts with the Branches shall be reconciled regularly. The auditor shall verify the reconciliation to see that they were properly reconciled.

#### *6.5.10. Reconciliation of accounts with Apex Society*

The accounts with the Apex Society shall be reconciled properly. The auditor shall call for the reconciliation statements and check it with the confirmation statement obtained from the Apex Society.

#### *6.5.11. Government assistance*

The auditor shall check the Register of Government assistance, maintained in the society. It should be ensured that proper books and registers were kept up to date in respect of government assistance. Confirmation statements may also be obtained and verified.

#### *6.5.12. Submission of Statutory Returns*

Whether the society had submitted the statutory returns in time is to be verified. Whether the taxes, (such as GST) were remitted as stipulated, may be ascertained in the audit.

## Chapter VI

### **6.6. AUDIT OF KERALA STATE FEDERATION FOR FISHERIES DEVELOPMENT LTD. (MATSYAFED)**

- 6.6.1. Introduction
- 6.6.2. Verification of Projects implemented by the federation
- 6.6.3. Verification of Purchases of fishing equipment
- 6.6.4. Verification of marketing and sales
- 6.6.5. Borrowings
- 6.6.6. Loans and advances
- 6.6.7. Import of Engines, Equipment and Machinery
- 6.6.8. Preservation and Processing of fish
- 6.6.9. Verification of Production Units
- 6.6.10. Export sales
- 6.6.11. Insurance schemes
- 6.6.12. Debt relief schemes
- 6.6.13. Management Information System
- 6.6.14. Construction of Buildings, Plants and Machinery
- 6.6.15. Verification of movable and immovable properties
- 6.6.16. Reconciliation of accounts with member societies, District offices and Project offices and other dealers
- 6.6.17. Employee's Service Matters
- 6.6.18. Training to Employees, Board Members and Members of Apex Federation and Primary Societies
- 6.6.19. Inspections and Internal Audit
  - 6.6.19.1. Member Societies
  - 6.6.19.2. Federation
- 6.6.20. Performance Analysis of Projects
- 6.6.21. Compliance with Food Safety and Security Act 2006

### *6.6.1. Introduction*

Kerala State Co-operative Federation for Fisheries Development popularly known as Matsyafed is the Apex Federation of Primary Fishermen Co-operative Societies of the state. The federation aims at the development of fisheries sector by facilitating the fishermen with modern fishing equipment such as out board engines, fishing nets and other equipment, arranging working capital for the primary fishermen co-operative societies by way of loans and advances, grants and subsidies etc., enabling the processing and marketing of fish, providing basic infrastructure for the members of co-operative societies and arranging the sales of fish including export sales to Foreign Countries. The federation is obliged to arrange employment to the fishermen by implementing various schemes introduced by Central Government as well as the State Government. Clusters are formed with 3 to 10 Primary Societies for the effective implementation of the schemes. Various divisions are formed at the Head Office of Matsyafed and authorised for undertaking the activities of the federation in an efficient manner. He shall study well the activities of the federation, before beginning the audit. He shall acquaint with various projects implemented by the federation, so that he shall be able make a realistic and scientific analysis of the activities of the apex federation.

### *6.6.2. Verification of Projects implemented by the Federation*

The apex federation implements various projects in association with State/Central Governments, National Co-operative Development Corporation (NCDC), National Backward Community Finance Development Corporation (NBCFDC), National Minority Development Finance Corporation (NMDFC) and other financial institutions. The financial assistances received from these agencies

shall be verified by the auditor to ascertain whether they were properly accounted in the federation. The utilization of the assistances may also be verified, with respect to the target fixed as per the project report, the achievements and the implementation strategy. Whether procedures as prescribed for the Financial Management were followed is to be ascertained. Whether the manpower deployed was in accordance with the project proposals and with the approval of the Board of Directors as well as the financing agencies is to be checked. The infrastructure developed in the projects is to be verified. The books of accounts are to be maintained properly for each project and specific officials shall be entrusted with that assignment. Periodic project evaluation shall be entrusted with subcommittee or senior officials and the Board of Directors shall evaluate the projects even at the end of the project, with respect to the achievements. The auditor shall verify the amount of assistances received by way of grants/subsidies, loans and advances etc., to see that they were utilized for the purpose for which they were sanctioned. He shall verify the targets of the project and compare it with the achievements. Whether the assets purchased utilizing the amounts are entered in the Stock Register and are in the actual possession and enjoyment of the federation is to be verified. He shall examine the terms and conditions of the sanction order of various schemes and ensure that they were complied with properly.

#### *6.6.3. Verification of purchases of fishing equipment*

The Apex Federation purchases outboard engines and other fishing equipment, to be distributed among the fishermen. The purchase formalities, the rate of purchase, the market rate, etc. shall be verified in the audit. Whether equipments purchased were of desired quality and capacity is also to be ascertained. Whether the federation had an import licence, if the purchase was made from external agencies of foreign countries, shall be scrutinised .Whether

proper documents and Registers/Ledgers were maintained in the federation with respect to such imported equipment or items shall be verified in the audit. The distribution of the equipment may be recorded and proper acknowledgement obtained in respect of receipt from the authorized fishermen/society. The auditor shall check whether the issue was done with necessary authentication and acknowledgements.

#### *6.6.4. Verification of marketing and Sales*

The federation shall procure fish from the fishermen and make arrangements for the processing, storage and sales through its sales outlets and other franchisees. The fish marts, mobile fish marts and other marketing systems adopted by the federation shall be verified by the auditor. Whether the sales outlets are systematically instituted, whether proper accounting system adopted, whether pricing mechanism was proper and transparent, whether the storage and stock keeping was ideal and whether the manpower deployed were paid properly, whether the agencies were selected in a systematic and transparent manner, are to be examined by the auditor. The auction details shall be verified, if adopted for the procurement. Whether the marketing strategy adopted by the federation was beneficial to the fishermen and the societies/federation shall also be examined.

#### *6.6.5. Borrowings*

The loans and advances received from the Central/State Governments, National Co-operative Development Corporation (NCDC), National Minority Development Finance Corporation (NMDFC), National Backward Community Finance Development Corporation (NBCFDC) shall be verified to see that they were properly accounted in the books of accounts of the federation. The rate of interest shall be ascertained by verifying the terms and conditions of each loan, and

compared with the market rate. The repayment schedule shall also be verified to satisfy that they were repaid correctly. The dues position may be checked in respect of each loan of financial institutions, which had provided loans and advances to the federation. Confirmation statements may be obtained from them and compared with the ledger of accounts of the federation to ensure that the balance outstanding if any, are matching.

#### *6.6.6. Loans and advances*

The loans and advances disbursed to the primary societies or to the Fishermen Groups shall be verified in audit. The bond or agreement, the payment voucher and the ledger postings shall be checked. The rate of interest as per the agreement and charged as per the loan ledger shall be compared with the rate determined by the Board of Directors. The repayment shall be verified and confirmation statements may be obtained in respect of the outstanding. It must be ensured that the statement or schedule with respect to the outstanding at the end of the year agree with the General Ledger balances.

#### *6.6.7. Import of engines, equipment and machinery*

Whether the federation had obtained a valid licence for importing engines, equipment and other items necessary for the fishing activities shall be examined. The invoices and bills of imports shall be verified. The amount spent for such purchases shall also be verified to satisfy that the purchase/import prices are reasonable and competitive. The resolutions of the Board of Directors with respect to the imports, the rate, as well as the total bill of the order, the quality and quantity of the imported items shall be checked in the audit. Whether the items so imported were taken to the Stock Register and the distribution recorded in the registers are to be ensured.

#### *6.6.8. Preservation and Processing of fish*

The federation shall arrange for the procurement of fish from fishermen and preservation and processing at its various chilling plants, ice and freezing plants etc., in order to export better quality products. The value addition process shall be done to obtain maximum margin out of the export sales. The auditor shall examine the preservation arrangements and satisfy that they were arranged to preserve the procured items efficiently. The processing shall be arranged at the chilling plants and freezing plants, so that the fish items can be sold at a beneficial rate, including export sales. The expenses incurred for the processing shall be considered while fixing the sales price. The auditor shall examine the pricing mechanism and ensure that it is advantageous to the federation and customers alike.

#### *6.6.9. Verification of Production Units*

The federation undertakes, various kinds of production of fishing nets, fishmeal plants, Kaitin Kaitosan plants, flake ice, etc. at various places of the state. The operation of these plants shall be verified by the auditor to ascertain whether the plants are advantageous to the federation. Verify whether the Fish marts, Vyasa stores, Diesel bunks and Kerosene Bunks, OBM Workshops are operating for the benefit of the federation. He shall verify whether the operational expenses were properly accounted and incorporated in the main accounts of the federation. The Board of Directors shall review the operational results of the production plants and units and appropriate decisions shall be taken for the continuance, upgradation or closure of the plants based on the profit or loss of the plant.



#### *6.6.10. Export sales*

Foreign exchange earned out of export sales shall be a considerable factor to the State's economy. Hence, the Government shall be giving top priority for the steps taken by the Matsya Fed for the export of various kinds of fish items. Maintenance of highest quality for the products is required for obtaining more export orders. The Board of Directors shall concentrate on the maintenance of the quality of the products and ensuring more export orders. The auditor shall verify the documents in relation to the exports and see that all procedures are followed and all records maintained properly. The terms and conditions of each export orders shall be verified to see that the contracts were made beneficial to the federation.

#### *6.6.11. Insurance schemes*

The insurance schemes adopted by the Apex Federation shall be scrutinised by the auditor to see that the schemes are beneficial to the fishermen. How far the benefits were made available to the fishermen, who had enrolled in the insurance schemes shall be checked. He shall also examine whether there is any instance of admission of ineligible claims.

#### *6.6.12. Debt relief schemes*

The fishermen debt relief schemes introduced by the Central/State Government shall be examined and verified whether the eligible fishermen had obtained the benefits of such debt relief schemes. The Auditor shall examine whether the claims were submitted to the financial institutions in time and whether the benefits were made available to the claimants.

#### *6.6.13. Management Information System*

The Management Information System in the federation shall be scrutinised in the audit, to know whether they are implemented as per the guidelines prescribed. The various initiatives for computerizing the federation such as Pay Roll System, Marketing of fish products, Distribution of Kerosene Permit, computerization of Kerosene Bunks etc. shall be verified to ensure that necessary procedures were followed in the selection of vendors and expenditure on such software were normal and reasonable. The licensing of the software shall be verified.

#### *6.6.14. Construction of Buildings, Plants and Machinery*

The Apex Federation shall be setting up processing plants, chilling plants and different kinds of plant and machinery. The construction details of such plants shall be verified in audit to ascertain whether it has the approval of the Board of Directors, whether it has got necessary approval from the authorities concerned. Whether the expenditure incurred on the construction was reasonable and approved by the Board of Directors.

#### *6.6.15. Verification of movable and immovable properties*

The auditor shall examine whether the movable and immovable properties are in the actual possession and enjoyment of the Apex Federation. He shall verify it with the stock verification statements and stock register. The physical verification of the assets whether movable or immovable can be done by the auditor. The documents of purchase deed, encumbrance certificate, tax paid receipt, location certificate etc. can be verified by the auditor. The Register of properties shall be checked and the accuracy ensured.

*6.6.16. Reconciliation of accounts with member societies, District offices and Project offices.*

The reconciliation of accounts with the affiliated fishermen societies shall be examined by verifying the letters of confirmation. The account with the District offices and Project offices as well as with the different project units shall also be reconciled periodically. The auditor shall examine the reconciliation statements and ensure that the accounts are properly reconciled.

*6.6.17. Employees Service Matters*

The auditor shall check the service particulars by checking the service register of employees. He shall adopt the guideline issued as per chapter X of the part II of the Kerala Co-operative Audit Manual.

*6.6.18. Training to Employees, Board Members and Members of Apex Federation and Primary Societies.*

Based on a scientific Training Need Analysis, (TNA) conducted in the Federation and Primary Societies, the Apex Federation shall chalk out a comprehensive training programme for the employees, board members and members, which shall be useful for the development of the fisheries sector. The auditor shall assess the programmes and make his suggestions.

*6.6.19. Inspections and Internal Audit*

*a. Member Societies :* The Apex Federation shall authorize senior Officers for the periodical inspection of member societies. The Board of Directors shall consider the inspection report along with the compliance report in respect of defects/observations made in the report. The auditor shall verify the reports while auditing.

*b. Federation :* The Apex Federation shall constitute teams of senior officers for the internal audit of its offices. The internal audit team shall verify the accounts and records at the Head Office, District Offices, Project Offices and different Project Units (PMUS). The audit subcommittee or the Board of Directors shall discuss the defects pointed out by the Internal Audit Wing and take steps for the rectification of defects. The auditor shall check the Defects Register and the only defects which are not rectified till then shall be examined and reported.

#### *6.6.20. Performance Analysis of Projects*

Projects implemented by the Matsyafed for the development of fisheries sector shall be having some targets such as number of employments generated, etc. The auditor shall verify the project reports and achievements from the project implementation. The expenditure incurred shall be considered and the performance of the projects shall be analysed using the tools of ratio analysis. The achievements shall be verified in comparison with the targets/objects. The assets created out of the project funds may also be assessed.

#### *6.6.21. Compliance with Food Safety and Security Act 2006*

The auditor shall examine whether the Apex Society had complied with the provisions of Food Safety and Security Act 2006, whether the federation had the licenses for carrying out the marketing of food articles is to be examined.

## Chapter VI

### **6.7. AUDIT OF PRIMARY FISHERIES CO-OPERATIVE SOCIETIES**

- 6.7.1. Introduction
- 6.7.2. Source of funds
- 6.7.3. Borrowings
- 6.7.4. Procurement and marketing of fish
- 6.7.5. Loans and advances to members
- 6.7.6. Purchase and distribution of fishing equipment
- 6.7.7. Implementation of insurance schemes
- 6.7.8. Fish farming
- 6.7.9 Maintenance of Stock Register
- 6.7.10 Repairs and maintenance of fishing crafts, equipments etc.
- 6.7.11 Verification of running expenses
- 6.7.12 Verification of Log book
- 6.7.13 Verification of Boat Register
- 6.7.14 Register of Catches and allocation
- 6.7.15 Debt Relief Scheme

### *6.7.1. Introduction*

Primary Fishermen Co-operative Societies are registered in accordance with the provisions of Kerala Co-operative Societies Act 1969, having the area of operation of one or more villages or Panchayats. The society shall be working with the object of providing employment to its members i.e., the fishermen. It shall under take Fish Farming, Fish Catching, Processing and Marketing of fish and fish products either through its own outlets or through the members. The society shall arrange for the auction sales of fish caught by the members, as well as for the processing and storage of fish with chilling/freezing equipment. The society shall act as an agent of Matsyafed for the procurement as well as the sales of fish and other aqua products, through its members or own outlets. Fishermen Co-operative Societies shall undertake fish farming activities either in its own land or in the plots taken on lease. The members need support and assistance, for acquiring fishing boats, fishing nets, and other modern fishing equipment. The society is obliged to provide the above items to its members by way of purchasing it or taking on lease basis. The vehicles, ice plants, cold storage and equipment required for the management of fish industry shall be procured or collected on lease, which shall be made available to its members on rent basis. The working capital needed for the fishermen shall be mobilised and disbursed by the society to its members in the form of loans and advances or grants/subsidies. The Fishermen Development Welfare and Co-operative Societies undertake various developmental activities for the welfare of its members. They may start various types of deposit schemes, hire purchase schemes, financing house construction, promotion of small scale and cottage industries, for ensuring employment opportunities to its members. The society shall support the educational and cultural requirements of the members too.

#### *6.7.2. Source of funds*

The mobilization of funds for the activities of the society shall be the major agenda before the managing committee. Share capital, entrance fee, grants and subsidies, deposits, loans and advances, donations and other contributions constitute the source of funds. The auditor shall examine the working capital generated and advise the society for improvement in their activities.

#### *6.7.3. Borrowings*

The maximum borrowing power shall be verified to see that the prescribed limit is kept. Deposits and loans from members or from other financial institutions shall be verified in the audit. As per the special scheme approved, the financial assistances from Government, and the Apex Federation is excluded from this limit. The auditor shall verify the ledger of borrowings to ascertain the details of amount received, repaid and interest paid, during the year on borrowings.

#### *6.7.4. Procurement and marketing of fish*

The society shall make arrangements for the procurement of fish through auction sales or through other means. The processing storage and sales arrangements shall also be made promptly. The auditor shall examine the details of procurement/auction sales, storage and sales and satisfy that every activity had been supported with the Board resolution and rules and procedures. The price fixation shall also be examined. The Boat Register shall be verified with the Register of catches to satisfy the accuracy of quantity sold out. The sales bills/invoices from the Apex Federation or any other agencies shall be verified with respect to the prices and quantity.

#### *6.7.5. Loans and advances to members*

The society shall arrange for the loans and advances to the members for purchase of boats, nets or other fishing equipments, at affordable rates of interest. The auditor shall scrutinise the disbursement of loans and advances, verifying the loan ledgers, bond/agreement, payment vouchers and Board resolution. He shall verify the schedule of repayment and compare it with the ledger postings of repayment. It should be ensured that the principal and interest are repaid promptly as mentioned in the sanction letter. In case of default, adequate provision shall be created for the overdue amount. The calculation and collection of interest shall be verified in the audit.

#### *6.7.6. Purchase and Distribution of Fishing Equipment*

The society shall be undertaking the purchase and distribution of the fishing equipment to the members either on cash or on credit basis. They shall be supplying such fishing equipment on concessional rates. The auditor shall verify the purchase agreements, invoices and payment vouchers and satisfy that the rate of purchase is reasonable and competitive.

Different types of fishing equipment are supplied to Fishermen Co-operative Societies by the Government on subsidised rates such as Mechanized Boats, Country boats, Nylon nets, Nylon yarn etc. In the case of processing societies, equipment necessary for processing activities are also supplied. The auditor shall verify the sanction order and bonds/agreements executed by the society to ascertain the terms and conditions. The date of loan and acquisition of particular asset should be noted to ascertain whether it has been properly accounted. In the case of mechanised boats the make of engine, its number, length and capacity of boat, and in the case of nets, type of net, accessories issued along with it, etc. should be verified. In the case of country boats, the auditor shall see that the specification in the invoice corresponds with the entries in the books of accounts in all respects.



#### *6.7.7. Implementation of Insurance Schemes*

The insurances schemes adopted for the welfare of fishermen including health insurance, accidental insurance etc should be verified in the audit, whether the premium from the society as well as from the members is paid properly in time and whether the claims are submitted without delay. The auditor shall check the registers in respect of collection of premium as well as payment of premium of such insurance schemes.

#### *6.7.8. Fish Farming*

In some fisheries societies, fish farming may be undertaken to provide labour opportunities to the members. The auditor shall examine the details of the farm, expenses incurred for the farming and the income out of such fish farming.

#### *6.7.9. Maintenance of Stock Register*

The society shall keep stock register of all purchases. The auditor should verify the entries and ensure that they agree with the details in the purchase invoice or bill. Every distribution of equipment, boats or nets shall be deducted from the stock balance and the stock register as well as the physical stock shall be checked by the subcommittee authorized by the Managing Committee. The auditor shall see the annual stock verification statement and ensure that all items were included in the statement showing the number as well as the value.

#### *6.7.10. Repairs and maintenance of Fishing Crafts, Equipment etc.*

The arrangements made for the repair and maintenance of fishing crafts and other equipment are to be ascertained. The procedure to be followed in repairing of such equipments shall be mentioned in the sanction order, if it was supplied on concessional rates. The procedures prescribed shall be followed in the case of

major repairs. The auditor should ensure that the society maintains a Spare parts Register and all purchases of spare parts are accounted in it and utilisation is monitored properly. The disposal of outdated condemned parts should also be watched.

#### *6.7.11. Running Expenses*

The running expenses in respect of maintenance of boats, and fishing crafts such as cost of diesel, engine oil, hauling and launching charges may be verified. The log book of boats shall also compared with, while checking the diesel bills. Every purchase bill shall be signed by the crew or leader of the boats. In societies owing more than one boat, it may sometimes be found that the society purchases the diesel, oil etc in bulk and supplies to individual boats. In such cases the society should maintain stock register of diesel, oil etc. and issues made only on indents placed by the crew, duly approved by the Secretary/President. Acknowledgements from the crew or leader of the boat shall also be obtained for the supplies. If the purchase of oil or diesel is on credit, the balance outstanding should be got confirmed. The expenditure connected with the hauling and launching shall be verified and satisfied that proper procedures were followed in the tenders etc.

#### *6.7.12. Log book*

The society shall maintain proper log book by entering the details such as fuel consumed, number of hours worked, and the auditor should satisfy that the fuel consumed is commensurate with the number of hours worked. At the close of the fishing operations at the end of the season, the balance of stock of diesel in the tank of the boat/boats should be verified by the persons authorised and accounted properly.

#### *6.7.13. Verification of Boat Register*

The Boat Register should contain the name/number of boat, the names of members engaged, leader of the crew, engine number, make of engine, date of fishing, place of start, time of arrival, type of net used for fishing, oil consumed, quantity of fish netted, value of fish etc. It should be ascertained whether all catches were brought ashore and handed over to the society. He shall also see that the number of persons engaged for each trip was optimum.

#### *6.7.14. Register of Catches and allocation*

The quantity of fish netted as per the Boat Register shall agree with the total quantity and value of fish netted as per the Register of catches. When boat, net etc. are supplied on subsidised rates, the agreement will confirm the apportionment of catches.

The division in respect of un mechanized boats.

- i. 55% as wages to members engaged in fish catching operations
- ii. 30% as fund for repayment of loans
- iii. 10% as thrift deposit of members and
- iv. 5% as society's share to meet the contingent expenses

On the other hand, the division or apportionment of catches in respect of mechanized boat is as follows:

- i. 40% as wages to members engaged in catching
- ii. 30% as fund for repayment of loan
- iii. 20% towards fuel expenses
- iv. 5% thrift for members engaged in fishing
- v. 5% as share of society to meet the contingent expenses

The auditor shall examine the apportionment with reference to the resolutions adopted by the managing committee as well as the provisions of the Bylaws.

*6.7.15. Debt Relief Scheme*

Whether the benefit of the Debt Relief Scheme implemented by the Central/State Government was properly availed to the fishermen shall be verified in audit. Whether the claim was properly submitted and whether all the fishermen who are eligible for debt waiver availed of such benefits shall be examined.

## Chapter VI

### **6.8. KERALA CO-OPERATIVE MILK MARKETING FEDERATION LTD. (MILMA)**

- 6.8.1. Introduction
- 6.8.2. Verification of Procurement of Milk
- 6.8.3. Verification of Processing of Milk
- 6.8.4. Verification of Marketing and Sales
- 6.8.5. Verification of Dairy Units
- 6.8.6. Milk Products
- 6.8.7. Verification of different schemes implemented
- 6.8.8. Insurance schemes
- 6.8.9. Verification of Central Products Dairy
- 6.8.10. Quality Control
- 6.8.11. Compliance with Food Safety and Security Act 2006
- 6.8.12. Projects of KCMMF
- 6.8.13. Business Analysis
- 6.8.14. Verification of Human Resources
- 6.8.15. Training to employees
- 6.8.16. Information Technology System
- 6.8.17. Performance Analysis of Dairy Units and Cattle Feed plants
- 6.8.18. Internal Audit and Inspection
- 6.8.19. Extension Activities
- 6.8.20. Animal Husbandry, Artificial Insemination etc.
- 6.8.21. Welfare schemes for the Cattle Farmers
- 6.8.22. Reconciliation of accounts with Regional Unions, Dairy Units, Cattle Feed Plants and Products Unit.
- 6.8.23. Inter Unit Reconciliation
- 6.8.24. Export of Milk Products
- 6.8.25. Purchase of Milk and Skimmed Milk Powder from Neighbouring States
- 6.8.26. Price fixation of Milk and Milk products
- 6.8.27. Inspection of Affiliated Societies

### *6.8.1. Introduction*

Kerala Co-operative Milk Marketing Federation popularly known as ‘MILMA’ started functioning in connection with the implementation of operation Food II in 1980’s. The federation works with a mission of farmer’s prosperity through consumer satisfaction. The prime goal of “Milma’ is the socio- economic progress of the dairy farmers through procuring, processing and marketing of milk”. Milma operates in the true democratic line of “of the farmer, by the farmer and for the farmer”. Milma aims at guaranteeing welfare and financial security of the dairy farmers through Regional Unions by implementing various welfare measures utilizing the funds from Central, State and its own funds. Necessary inputs like cattlefeed, mineral supplements, medical aid and artificial insemination facilities are also provided to the farmers thorough the Regional Unions. The audit team shall examine the accounts of the federation with a comprehensive view in mind to see whether the federation had succeeded in its goal of providing financial security as well as welfare to the dairy farmers. They shall examine the whole arrangements, schemes implemented and projects undertaken by the Apex Federation for the betterment of dairy farmers and the dairy sector. Whether the federation has succeeded in the initiative to maintain the price of cattle feed in the market is to be verified. Whether the farmers are getting remunerative price for the milk supplied by them is to be examined in the audit. The price fixation mechanism headed by the Apex Federation and the Regional Unions shall be verified to see that the major beneficiary of price increase is the farmer. The auditors shall be well versed with the processes and procedures of activities of the federation, especially its ancillary production and processing units. Since KCMMF is an Apex Federation it has to follow the audit prescriptions as laid down in sub section 10 and 11 of section 63 of Kerala Co-operative Societies Act

1969. The Administrative Audit guide lines outlined in the Part I of the Kerala Co-operative Audit Manual shall be adhered to. The federation's operations including the management functions shall be analysed and reported. Modern management principles shall be adhered to for analyzing the management functions. The inter union and inter unit transactions shall be verified to satisfy that they are reconciled.

#### *6.8.2. Verification of Procurement of Milk*

The auditor shall ascertain the arrangements made by the federation for the procurement of milk. It should be ensured that the arrangements or systems introduced by the federation for the procurement of milk is systematic and scientific. The measuring or weighment system of poured milk shall be accurate and the testing of fat content etc should be error free. The accounting system introduced for the procurement shall be verified to see that it is satisfactory. The growth or retardation in the procurement shall be analysed and commented in the audit report.

#### *6.8.3. Verification of Processing of Milk*

The milk collected from the dairy farmers are brought to the Anand Pattern Co-operative Societies and after testing and weighing. It shall be brought to the dairy plants of the Regional Unions and the federation. The processing arrangements made at the dairy such as pasteurisation etc shall be verified to see that it is carried out properly. The plant capacity utilization of the dairy plant shall be verified.

#### *6.8.4. Verification of Marketing and Sales*

The progress of every constituent, ie, the farmer, Anand Pattern Milk Producers Co-operative Society (APCOS), Regional Milk Producers Union and the Apex Federation depends largely on the marketing strategy adopted by the Apex Federation as well as the Regional Milk Producers Union. The market demand shall be assessed periodically and the supply may be arranged accordingly. Market

survey shall be arranged by the marketing team to assess the market trend and to obtain the feedback of the customers/consumers. The sales shall be analysed periodically and supply planned and arranged according to the sales trends. The auditor shall make an analysis of sales of milk and milk products by comparing the sales of consecutive years. It shall be verified whether the management has adopted proper sales management techniques, whether the Management had adopted appropriate sales policy to exploit the market demand and whether the federation able to meet the market demand. The marketing expenditure shall be verified to see whether it is reasonable and competitive.

#### *6.8.5. Verification of Dairy Units*

The auditor shall verify all the accounts related to various dairy units under the control of federation. It should be ensured that the dairy unit runs in a profitable manner. The manufacturing account, Trading and Profit and loss account and Balance Sheet of each dairy unit shall be prepared, comparing with the accounts of the federation and incorporated with the financial statement of the federation (Head Office). The capacity utilisation of the plant may be examined. The annual maintenance contract of the plant and machinery and equipment may also be reviewed.

#### *6.8.6. Milk Products*

The raw material consumption, the value addition, the quantity of products obtained shall be examined. Whether the expected output obtained shall be verified. The expenditure on the production shall be verified to see that the price of the product is fixed in accordance with the cost of production and market demand for the product. The auditor shall check the stock register of raw materials, the Register of Finished products and the cost of production. The conversion ratio of raw materials (inputs) to products shall be examined.



#### *6.8.7. Verification of different schemes implemented*

The schemes implemented for the expansion and development of the Dairy sector shall be verified by the Auditor. Whether the projects so implemented, had contributed for the growth of the Dairy sector is to be assessed. The Government of India schemes such as strengthening infrastructure for quality and clean milk production programme (SIQ-ONP) and Integrated Dairy Development Programme (IDDP) and all other schemes shall be verified in audit. The procedures of the implementation of the schemes as well as the resources including Human Resources utilized for the projects shall be examined. Whether the terms and conditions laid down in the project sanction order and the project reports are followed, is to be verified. The beneficiaries of the projects shall be identified and the benefits so received shall be assessed.

#### *6.8.8. Insurance schemes*

Different insurance schemes adopted for the benefit of the farmers or the employees shall be verified. Whether the premium prescribed was remitted, whether the claims were submitted timely and whether the benefits were distributed to the candidates properly, shall be scrutinised in the audit. The policy documents shall be verified. LIC Aam Admi Bhima Yojana, Mediclaim insurance, Cattle Insurance scheme etc. shall be scrutinised by the auditor.

#### *6.8.9. Verification of Central Products Dairy*

The auditor shall examine the details of the product dairies with respect to the following.

- i. Capacity utilization of the dairy plant.
- ii. Products of the unit. The quantity and quality of the products made in the plant

- iii. Raw materials and inputs used in the plant. Ratio of inputs to outputs, Cost of production of value added milk products
- iv. Human resources deployed in the dairy plants, their service particulars
- v. Market demand for the products of the dairy unit
- vii. Manufacturing and Trading and Profit and loss account of the dairy unit
- viii. Books and Registers maintained in the unit
- ix. Stock Register, Stock details and closing stock at the end of the financial year
- x. Annual stock verification of the dairy unit
- xi. Annual maintenance contract for the maintenance of vehicles, machinery, equipment etc. if any.
- xii. Details of land and building in the possession and enjoyment of the plant
- xiii. Cash and Bank balances kept with the dairy plant, if any
- xiv. Submission of returns to the Head Office
- xv. Reconciliation of accounts with other units and Head Office and other Regional Unions
- xvi. Sundry creditors account and sundry debtors account. Books and registers kept, action taken for realising the outstanding balances, if any. Confirmation statements may be collected from the parties in case of bigger amounts.
- xvii. Marketing and sales of the products of the Central Products Dairy Units.
- xviii. Conversion ratio of the milk and milk products

#### *6.8.10. Quality Control*

The quality of milk marketed and the products manufactured in the product division of the Federation plays a vital role in maintaining the consumers demand. Hence, the arrangements made by the federation for the quality control shall be reviewed. Whether the division had technical competency to maintain the quality of the products of the 'Milma' is to be ascertained. Whether it is capable of providing technical and legal assistance to the Primary Dairy Co-operative Societies, and whether done so, is also to be examined. Whether the milk marketed by the federation and Regional Unions maintains the required level of FAT and SNF, as per statutory requirements is to be verified. Whether the quality control laboratories are adequate, and whether the employees deputed at the quality control labs are qualified is also to be verified.

#### *6.8.11. Compliance with Food Safety and Security Act 2006*

As the apex federation, Regional Co-operative Milk Producers Union and Primary Dairy Societies are handling food articles, they have to abide with the relevant provisions of the Food Safety and Security Act 2006. The auditor shall verify whether proper licences have been obtained for dealing with the food items. Whether the standards prescribed in the Act are followed, shall be ascertained.

#### *6.8.12. Projects of KCMMF*

The projects of the federation such as setting up of new dairy plants, cattle feed plants, modernization and up gradation of existing dairies ,and cattle feed plants, etc. shall be verified with respect to the following:

- i. Whether the detailed project report is approved by the Board of Directors and the administrative department.
- ii. Whether the detailed project report is prepared and submitted to the Central/State Government/Funding or Financial agencies.

- iii. Whether the bidding process was carried out properly.
- iv. Whether the proper tendering procedures followed.
- v. Whether a realistic financial budget was prepared for the project implementation.
- vi. Whether the project implementation was monitored properly.
- vii. Whether necessary approval or sanction obtained from the statutory bodies, before the commencement of the project.
- viii. Whether the purchases of machineries, electrical equipments, steel, cement etc. were made through tendering.
- ix. Whether 'e-tendering' process was adhered to.
- x. Whether the purchase committee accorded sanction for the proposals after proper verification and scrutiny.

#### *6.8.13. Business Analysis*

The different ratios shall be worked out in order to make a scientific business analysis of the federation. Working capital ratio may be worked out to ascertain the current assets liability position. Gross profit ratio may be calculated so that it can be seen whether the business is being managed profitably. For sales planning, net profit ratio can be utilised. So also expenses ratios, operating ratios operating profit ratio and stock turnover ratio can be calculated to assess the business and financial position of the institution.

(Chapter XII of the Part I of the Kerala Co-operative Audit Manual may be referred for further guidelines of ratio analysis)

#### *6.8.14. Verification of Human Resources*

The details of human resources shall be examined by the auditor. Whether the recruitment/appointment was made through the Kerala Public Service Commission as prescribed, whether the employees have the required qualifications including technical qualifications necessary for the post shall be ascertained. The auditor shall verify service registers of the employees and satisfy that all service particulars are properly entered in it. The guidelines referred to in chapter X of the part II of the Kerala Co-operative Audit Manual may be followed while auditing the employees matters.

#### *6.8.15. Training to employees*

The employees shall be provided with ample training based on the Training Need Analysis (TNA). The technical employees shall be provided with adequate training periodically in order to uphold the efficiency of the plant operations. The programmes conducted at the training centre owned by the federation shall be verified. The contents of the programme, duration, participation and the expenditure per head may be verified.

#### *6.8.16. Information Technology System*

The system adopted in the KCMMF and its units shall be examined to ascertain whether the system is adequate and efficient enough to carry out the functions of the federation. The ERP (Enterprise Resource Planning) software shall be verified to satisfy that it is adequate for the Information Technology requirements of the federation. The guidelines outlined in chapter VII of the part I of the Kerala Co-operative Audit manual may be followed while auditing the Information Technology System of the federation.

#### *6.8.17. Performance Analysis of Dairy Units and Cattle Feed plants*

The performance of the dairy units, cattle feed plants and other production units shall be analysed using modern scientific methods. The economic performance of the unit, its profitability, its efficiency as well as the transparency in business transactions shall be studied and recorded. The management efficiency shall be ascertained and suggestions may be made in case of any lacune. Break even analysis shall be made and corrective measures may be advised in case of stagnation.

#### *6.8.18. Internal Audit and Inspection*

The federation shall have an internal audit and inspection wing to weed out discrepancies and distortions. The work of the internal audit and inspections team shall be well planned and programmed. Senior officials at the Head office shall be in charge of the divisions. The frequency of inspection and the internal audit shall

be scheduled in advance and the reports shall be placed before the Audit committee as well as the Board of Directors. The Auditor shall see the internal audit reports as well as the inspection reports and its compliance.

#### *6.8.19. Extension Activities*

The apex federation shall be organizing many extension activities for bringing more farmers under the umbrella of Co-operative Sector. The existing members shall be enlightened through awareness programmes and welfare schemes. The extension activities shall be planned with specific targets in respect of enrolment of farmers, organization and registration of APCOS, farmers groups and other types of clubs etc. The auditor shall check the measures taken in connection with the extension programmes. The expenditure involved, the budget allocation, the procedures followed and the manpower deployed for the implementation shall be examined.

#### *6.8.20. Animal Husbandry, Artificial Insemination etc.*

Apart from the extension programmes, the federation may be undertaking animal husbandry activities, especially artificial insemination, either through the Primary Dairy Societies or directly. If Special centres are run by the federation or Regional Milk Producers Unions for promoting animal husbandry activities including artificial insemination and distribution of preventive medicines, the auditor shall examine the arrangements for these activities to see that the expenditure incurred is with the approval of Board of Directors and in compliance with the rules and procedures.

#### *6.8.21. Welfare schemes for the cattle farmers*

The welfare schemes implemented by the federation and the Regional Milk Producers Unions through the Anand Pattern Co-operative Societies shall be verified. The amount spent for the schemes and the benefits out of the schemes shall be ascertained.

*6.8.22. Reconciliation of accounts with Regional Unions, Dairy Units, Cattle Feed Plants and Products Units.*

There should be a system of regular reconciliation of accounts with Regional Milk Producers Unions, Dairy Units, Cattle Feed Plants as well as Products unit. The auditor shall verify the statement of reconciliation and satisfy that the accounts are reconciled properly. He shall verify the statement of confirmation to satisfy the reconciliation. The accounts with other agencies and dealers shall also be verified with the statement of confirmation and see that the balance agree together. The accounts with financial institutions, Central/State Governments and National/State Level Apex Federations shall also be checked and the balance outstanding ascertained.

*6.8.23. Inter Unit Reconciliation*

It should be ensured that the inter unit accounts are reconciled properly. The auditor shall collect statements of confirmation with respect to the transactions and compare them to see that the inter unit accounts are reconciled.

*6.8.24. Export of Milk Products*

The initiative on the part of the federation for the export of its quality milk products abroad shall be examined. The licences may be verified to see that all formalities were followed in the export activities. The outstanding amount, if any, shall be verified in the audit.

*6.8.25. Purchase of Milk and Skimmed Milk Powder from Neighbouring States*

During lean seasons, when the procurement of milk is less, the federation shall be purchasing milk from neighbouring states, to meet the excess demand. The purchase details of milk as well as the Skimmed Milk Powder shall be examined in audit. The purchase price, the transportation charges, the processing charges etc. shall be verified. The net result of the purchase of milk and skimmed milk powder from other states and the sales of it shall be scrutinized and reported.

#### *6.8.26. Price fixation of milk and milk products*

The mechanism of price fixation shall have a double edge. The farmers shall be paid remunerative prices, competent for meeting their farm expenses plus a margin for their livelihood. i.e. the cost of production shall be a major consideration in fixing the sales price of milk and milk products. At the same time the interests of the consumers of milk in the state shall also be protected. i.e. the prices of various brands of milk and milk products shall be reasonable. The auditor shall examine the price fixation arrangements and see that it is efficient and transparent. The market rate of other brands of milk shall also be considered while fixing the price.

#### *6.8.27. Inspection of Affiliated Societies*

Apex Federation shall make arrangements for the inspection of affiliated societies in accordance with sub section (7) of section 66 of Kerala Co-operative Societies Act. The auditor shall verify the inspection reports as well as the compliance report and satisfy that they were placed before the Board of Directors and see that they were discussed in the meeting.



## **Chapter VI**

### **6.9. AUDIT OF REGIONAL CO-OPERATIVE MILK PRODUCEERS UNIONS**

- 6.9.1. Introduction
- 6.9.2. Procurement of Milk
- 6.9.3. Processing, Marketing and Sales of Milk
- 6.9.4. Marketing of Products
- 6.9.5. Supervision and Inspection of Affiliated Societies
- 6.9.6. Extension Activities
- 6.9.7. Welfare Schemes
- 6.9.8. Insurance Schemes
- 6.9.9. Financial Assistances
- 6.9.10. Reconciliation of accounts with Apex Federation, Dairy Units, Cattle feed plants and Anand Pattern Co-operative Societies
- 6.9.11. Infrastructure Development and Capacity Expansion
- 6.9.12. Promotional activities
- 6.9.13. Verification of Dairy Plants
- 6.9.14. Implementation of Government Schemes
- 6.9.15. Verification of Human Resources

### *6.9.1. Introduction*

The Regional Milk Producers Unions are registered Co-operative Societies under Kerala Co-operative Societies Act 1969. Middle level Co-operative Societies affiliated with the Kerala Co-operative Milk Marketing Federation Ltd. (KCMMF) known as Milma (brand name), having area of operation in a number of Districts. The Anand Pattern Co-operative Societies (APCOS) are affiliated to the Regional Milk Producers Union. The Regional Milk Producers Union shall make arrangements for the procurement of milk from the societies and process the milk at the dairy plants and chilling plants owned by the Regional Unions and the Apex Federation. The Procurement and Inputs Division of the Regional Milk Producers Unions are entrusted with the supervisory and extension activities for promoting the dairy farming, through various schemes and programs. The Regional Milk Producers Unions are working with the prime objective of socio-economic progress and development of the dairy farmers by organizing the production, processing and marketing effectively and efficiently. To achieve this object, the Regional Unions shall organize more Anand Pattern Co-operative Societies and undertake various promotional, developmental activities beneficial to the dairy farmers.

The Regional Milk Producers Unions shall collect milk from the Primary Societies (APCOS) and pay the milk value to the societies promptly. The Regional Unions shall provide veterinary and artificial insemination services and other technical inputs for the promotion of milk production and supply preventive medicines. It shall render financial assistances to the member societies by way of milk price incentives, cattle feed subsidy etc, which shall be distributed to the farmers by the primary milk society. The Regional Unions shall provide technical assistance to the member societies with respect to cattle breeding activities,

artificial insemination, procurement and measuring of milk through electronic equipment etc. The most vital assistance provided to the Apcos are the administrative help from the part of the Regional Milk Producers Union. The P&I wing visits the societies and assists them for the proper management of procurement and sales of milk, book keeping and accounting, office administration and convening of the Board meetings.

(Ref. Circular No. 20/2016 dated 8.12.2016 of the Director of Dairy Development)

#### *6.9.2. Procurement of Milk*

The transportation arrangements made by the Regional Union for the procurement of milk shall be verified. Whether procedures were followed in tendering the transportation of milk from the societies to the dairy plants, is to be examined. Whether the lowest quote has been accepted is to be checked. The milk collected from the farmers at the Primary Milk Producers Co-operative Society (APCOS) shall be tested and the excess milk after local sales shall be sent to the Regional Union. The procurement details from member societies shall be scrutinised and the reason for the uneven decrease if any, of milk from any society shall be specifically verified.

#### *6.9.3. Processing, Marketing and Sales of Milk*

The processing facilities arranged in the dairy plants and chilling plants shall be reviewed in the audit. Whether the system is efficient enough to preserve and manage the quality of milk shall be ascertained. The expenditure incurred for the processing shall be verified and satisfied that it had been reasonable.

The functions of the marketing cell shall be examined in detail. Whether registers and books of accounts are maintained properly in the cell is to be

checked. The expenditure incurred for the promotion of marketing and sales of milk shall be scrutinized. Whether all rules and procedures have been followed in the payments shall be enquired. The increase of sales due to marketing efforts shall be assessed. The marketing strategy shall be reviewed periodically based on market trend analysis and surveys.

#### *6.9.4. Marketing of Products*

A variety of milk based products are marketed by Milma agents, Primary Societies, Milma Shoppies and other Units.

The inputs of production, milk, sugar and other flavours and spices shall be verified and the conversion ratio shall be ascertained to see that there shall be a standard conversion ratio for every product, which shall be verified in every production unit. The expenditure/cost of production shall be scrutinized and satisfied that they are within limits. The stock details of raw materials as well as the products shall be examined to see that the stock keeping system is proper and efficient. The details of agencies and distributors, appointed for promoting sales of milk and other products, shall be verified to see that the distribution network functions well. The expenditure for advertisements on account of sales promotion shall be assessed.

#### *6.9.5. Supervision and Inspection of affiliated societies*

Sub section (7) of section 66 of KCS Act authorises the Federal Society to inspect the affairs of the affiliated societies. The inspection reports of the P&I supervisors shall be placed before the Board of Directors of the Regional Milk Producers Unions. The auditor shall go through the inspection reports and ensure that the observations are considered for rectification by the management.

#### *6.9.6. Extension activities*

The extension activities undertaken by the Unions shall be put under review to see that they are worthy enough for the promotion of dairy farming and subsidiary activities. The interest free loan scheme for the purchase of milchy cows, adoption of calf scheme, free cattle feed distribution scheme, subsidised cattle feed distribution, artificial insemination, etc are some of the activities undertaken by the Unions. The auditor shall examine whether proper accounts and records for the extension activities undertaken are maintained and whether the expenses have been approved by the Board of Directors of the Regional Union and whether the expenditure incurred has been reasonable and according to the rules and procedures. The building grants or managerial subsidy paid to the Primary Societies, shall also be ascertained.

#### *6.9.7. Welfare Schemes*

The welfare schemes adopted by the Regional Union shall be making great impact in the social well being of the farmers as well as their families. Hence the education loans, educational grants and scholarships for different courses shall be reviewed positively to see if the disbursements have the approval of the Board of Directors. The financial assistance to the dependants of members of the affiliated societies by way of after-death assistance shall have the sanction of the Board of Directors.

#### *6.9.8. Insurance schemes*

The various insurance schemes implemented by the Regional Milk Producers Union shall be verified. Cattle Insurance Scheme, Dairy Farmers Insurance Schemes, Prime Minister's Jeevan Jyothi Beema Yojana Insurance Schemes etc. shall be examined to see that the premium if any, from the enrolled members were collected and remitted properly. The accounts of such enrolment as well as the records of remittance shall be kept properly.

#### *6.9.9. Financial assistances*

The various types of financial assistances such as grants, subsidies etc. received from Central/State Government or NDDB or any other financial agencies shall be properly accounted. The Auditor shall see that the Books of Accounts are kept up to date and the assistance received is recorded in the books of accounts and registers of grants and subsidies. The utilization of the grants/subsidies shall be watched and the submission of utilisation certificate ensured.

#### *6.9.10. Reconciliation of accounts with Apex Federation, Dairy Units, Cattle feed plants and APCOS*

The accounts section of the Regional Milk Producers Union shall arrange for the regular reconciliation of accounts with the Apex Federation, Dairy Units and Cattle feed plants and APCOS. The auditor shall verify the reconciliation statements prepared by the Regional Union and compare it with the confirmation statements. The transactions with the Primary Ksheerolpadaka Co-operative Societies shall be verified to ensure that they are reconciled. If any discrepancy in the of accounts is noticed, it shall be verified in detail and the reasons for the discrepancy shall be inquired.

#### *6.9.11. Infrastructure Development and Capacity Expansion*

The infrastructure development such as construction of new plant and building, purchase and installation of modern machinery, shall be examined. It should be ensured that the rules and procedures were followed, necessary approvals from the concerned authorities such as PWD, Town Planning and Corporation or Local Self Government Department, obtained prior to the beginning of the construction work. The estimate and plan approved by the authorities concerned and the valuation certificates of the buildings shall also be verified. The

rate of construction shall be checked with the approved rates of the Government. The expenses of such construction shall be checked to see that the amount spent had the approval of the Board of Directors and the Administrative Department. The sanction order for such construction shall be verified and ensured that the amount spent is recouped, if spent out of the General funds, as specified in the sanction order.

The expansion of plant capacity of Dairy Plants and chilling plants are crucial in the promotion and development of the Milk Producers Union. It should be carried out with prior planning and proper care. The auditor shall scrutinise the whole steps and procedures in connection with the expansion work of such plants. The capacity utilisation shall be assessed and reported.

#### *6.9.12. Promotional activities*

Seminars, Conferences and Short term awareness and Orientation training programmes for the Dairy Farmers and employees of Primary Societies and the Regional Union shall be significant and the impact of such programmes organized shall be studied by the union. The results of the advertisements through media, TV Channels as well as social media shall be assessed.

#### *6.9. 13. Verification of Dairy plants*

As the dairy plants are maintaining separate books of accounts and registers, the auditor shall examine the details of the working of the dairy plants, with special reference to the expenditures of the plants. The processing and manufacturing activities shall be reviewed and the capacity utilization of the plants shall be assessed. The Trial Balance/Receipts and Disbursements accounts, Manufacturing and Trading account prepared by the plant officials shall be scrutinised. The Profit and Loss account and Balance Sheet of the plants shall be examined and analysed. It should be ensured that the accounts of the dairy plants are incorporated in the main accounts and financial statements of the Regional Milk Producers Union.

#### *6.9.14. Implementation of Government Schemes*

The schemes of the Central/State government for the promotion of Dairy Farming Sector shall be implemented by the Regional Milk Producers Union through its affiliated member societies, in association with the Apex Federation. The schemes so implemented shall be reviewed by the Board of Directors and the auditor shall see that the financial assistances granted for the implementation of such schemes were brought to the books of accounts of the Union. The amount spent on the schemes and the results of such projects shall be assessed by the auditor and reported. How far the schemes were beneficial to the dairy farmers shall be ascertained.

#### *6.9.15. Verification of Human Resources*

In order to manage the dairy business efficiently and effectively, the human resources shall be technically qualified, experienced and professionally trained. Whether the persons posted for the technical assignments have technical qualifications as prescribed shall be checked. Whether the recruitment policies were followed and the procedures complied with should be examined in audit. The guideline issued in the part II of the Kerala Co-operative Audit Manual (Chapter X) shall be referred to and followed while auditing the employees particulars.



## **Chapter VI**

### **6.10. AUDIT OF ANAND PATTERN CO-OPERATIVE SOCIETIES (APCOS)**

- 6.10.1.* Introduction
- 6.10.2.* Procurement of Milk
- 6.10.3.* Sales of Milk
- 6.10.4.* Purchase and sales of cattle feed
- 6.10.5.* Business Analysis
- 6.10.6.* Verification of Movable assets
- 6.10.7.* Verification of Immovable assets
- 6.10.8.* Verification of Investments
- 6.10.9.* Extension and Awareness Programmes
- 6.10.10.* Animal Husbandry and Artificial Insemination
- 6.10.11.* Welfare Schemes and Insurance Schemes
- 6.10.12.* Grants and Subsidies
- 6.10.13.* Suspense Assets and Suspense Liabilities
- 6.10.14.* Service Matters of Employees
- 6.10.15.* Reconciliation of accounts with Dairy Plants, Regional  
Unions and other dealers
- 6.10.16.* Maintenance of books of accounts
- 6.10.17.* Affiliation of Dairy Society with SCU
- 6.10.18.* General aspects
- 6.10.19.* Audit classification of Dairy Co-operatives

#### *6.10.1. Introduction*

Co-operative Dairy Farming had undergone a strategic change consequent to the white Revolution, and as a part of II<sup>nd</sup> phase of it, Kerala Co-operative Milk Marketing Federation and Regional Milk Producers Unions were established. Grass root level Primary Dairy Co-operative Societies were also organized, which is popularly known as APCOS (Anand Pattern Co-operative Societies). Most of the traditional Dairy Ulpadaka/Vyavasaya Co-operative Societies were converted as Anand Pattern Co-operative Societies. Some of them continued the old traditional system in spite of the advantages of APCOS. Organisation of Primary Dairy Co-operative Societies at the village level was the major activity of the Procurement and Input wing of the Regional Milk Producers Union as well as the Division entrusted with promotional activities of the Apex Federation. The special feature of the Anand Pattern Co-operative Society (APCOS) is that it is set up in a given pattern as modelled in Anand, Gujarat. All functions of the society is specifically designed and organized in a professional manner. Milk Collection and testing is carried out using electronic equipment. The quality of milk is assessed efficiently and milk value determined based on the chart prepared by the Apex Federation/Regional Milk Producers Unions.

#### *6.10.2. Procurement of Milk*

Samples shall be collected from the members and tested to ascertain the level of FAT and SNF. The price of the milk poured by the members shall be based on the price chart supplied by the Regional Milk Producers Unions/Apex Federation.

a. Production Register/Purchase Register: The auditor shall examine the procurement details and verify the Production Register/Purchase Register and compared payment Register. The milk supplied by the members shall be recorded in the register, which shall be the proof of record for determining the purchase bonus out of the net profit.

b. Dairy Register : The procurement, sales, local sales and the quantity of milk supplied to Dairy Plant, amount receivable from Regional Milk Producers Union, amount payable to the members are prepared and the abstract of such accounts are recorded in Dairy Register.

The quality of the milk shall be tested correctly using, electronic Testing machines (Milk O Tester) and the FAT and SNF content recorded, which shall be verified in audit. The auditor shall check the Dairy Register and compare it with Purchase/Production Register and Milk Value Payment Register.

Ref. 1. Circular No. 15/2016 dated 31<sup>st</sup> August 2016 of the Director of Dairy Development

c. Payment Register : The details of milk supplied and the milk value paid to the members on each day shall be recorded in the Payment Register. The cumulative total of the payment shall be worked out and payment shall be made after obtaining the thumb impression or signature of the member. Since the qualification of a member to contest the election to the Board of Directors is dependent on the required quantity of milk supplied to the society, this register shall be maintained correctly. The auditor shall verify this register to ascertain the milk value payment details and satisfy that the payment is made genuinely.

### *6.10.3. Sales of Milk*

Primary Milk Producers Society shall be selling milk locally apart from the sales to the Regional Milk Producers Union. The sales bills shall be checked to verify the quantity of sales as well as the rate of local sales. The local sales register shall also be verified to see that the register is maintained properly and correctly. The local sales register shall be checked with Day Book and General ledger. The quantity of milk sent to dairy plant shall also be verified in the audit. The quantity of milk procured, quantity of local sales, quantity of milk sent to dairy, shall be checked to see that the society is getting the required quantity of pouring excess in the milk collection.

The milk bill from the dairy shall be verified to satisfy that the value of milk obtained is as per the price chart published by the Regional Union/Apex Federation.

Ref. 1. Circular No. 15/2016 dated 31.8.2016 of the Director of Dairy Development

### *6.10.4. Purchase and sales of cattle feed*

Accounts of the Cattle feed purchased and sold shall be scrutinised in audit. The purchase may be either from Milma cattle feed plants or from public sector /private traders. The purchase bills shall be verified and the rate of feed per bag and the quantity purchased shall be ascertained. It should be ensured that the quantity purchased (number of bags and weight) is taken to the Purchase Register and the Stock Register on the date of purchase itself. Separate folios may be used for entering the details of different feeds in the stock Register. When the feed is sold, it shall be entered in the Stock Register and the balance arrived at, subtracting the quantity sold. It should be ensured that the sales price of cattle feed purchased

from private traders are fixed considering the transportation and handling charges and the margin to the society. The incentive/subsidy/managerial subsidy allowed by the Government/Apex Federation/ Regional Union shall be properly accounted in the books of accounts of the society. It should be ensured that the subsidy sanctioned to the farmers is disbursed to them properly. The managerial subsidy allowed to the employees of the society shall be disbursed to them also. The auditor shall check the payments to satisfy that the subsidy payments are made to the deserving only. The cattle feed advance register shall be verified with sales bills and the recovery shall be checked with the milk value Payment register.

Ref. 1. Circular No. H1/4731/2001 dated 29<sup>th</sup> March 2001 of the Director of Dairy Development

2. Circular No. C2/1033/2008 dated 17<sup>th</sup> January 2008 of the Director of Dairy Development

#### *6.10.5. Business Analysis*

The Board of Directors of the society shall make periodical business analysis and based on the inferences, they shall make policy shifts with respect to the promotional activities, propaganda and awareness programmes, etc. The Auditor shall see that each item of business has been beneficial to the society, that no erosion has happened, so that the gross profit of the society is maintained at the required level. The pouring excess as laid down shall be ensured while collecting the milk at the collection centres. So also the conversion ratio of milk (i.e. litre to kilogram) while it is sent to the Union plant shall also be verified. The cattle feed purchase and sales shall also be scrutinised and the margin received in the trading shall be checked. The closing stock of cattle feed shall be verified to ascertain the exact position of cattle feed business. Various ratios may be calculated to assess the business and decisions may be taken based on such ratios.

#### *6.10.6. Verification of Movable Assets*

The purchase of all movable assets shall be checked and ensured that they are entered in the Stock Register of the society. The annual stock verification statement shall be verified with the stock register. Physical verification of such items shall be made by the auditor to ensure the actual possession of the items by the society. The damaged items may be noted and shown separately in the stock statement. Certificate of Possession of the assets should be obtained from the Board of Directors.

#### *6.10.7. Verification of Immovable Assets*

The immovable assets such as land, building, plants etc. shall be verified in the audit. The actual possession and enjoyment, title deeds in respect of ownership, encumbrances if any, location, payment of taxes and fee etc, shall be verified in respect of such assets. Whether society maintains a Register of fixed assets and if so, whether the details are entered in the Register, is to be examined. Whether the purchase of land or land and building is in accordance with the directions of the Registrar shall be verified.

- Ref. 1. Circular No. 41/2018 dated 26/10/2018 of the Director of Dairy Development
2. Circular No. 6/2002 dated 30/01/2002 of the Director of Dairy Development
  3. Circular No. B2/1356/2002 dated 20/01/2003 of the Director of Dairy Development
  4. Circular No. B2/15423/2003 dated 15/02/2003 of the Director of Dairy Development
  5. Circular No. B2/16929/2003 dated 15/01/2004 of the Director of Dairy Development

#### *6.10.8. Verification of Investments*

The society's investments by way of term deposits shall be verified and the return on such investments, compared with the existing market rate. The shares with Regional Union/Apex Federation shall be verified. The share certificates shall be scrutinized. The return of such investments by way of dividend shall also be assessed. The Register of investments kept in the society shall be checked to see that it is kept up to date and signed by the Chief Executive of the society.

#### *6.10.9. Extension and Awareness Programmes*

The extension programmes spearheaded by the Apex Federation or the Regional Milk Producers Union shall be implemented through the Anand Pattern Co-operative Societies or Traditional Milk Producers Co-operative Society. The procedures of the implementation of such extension programmes shall be analysed. The results, the expenditure incurred and the revenue generated from such activities shall be reviewed. The awareness programmes for educating the farmers, shall be held with a vision to improve the farming techniques as well as the general standards.

#### *6.10.10. Animal Husbandry and Artificial Insemination*

The animal husbandry activities in association with the Animal Husbandry department shall be undertaken by the society. The insemination services shall be made available so that the cattle population can be increased. The subsidy or grant made available to the society for organising the activities shall be accounted properly. The registers maintained in the society in respect of artificial insemination and incentives / subsidy shall be verified in the audit.

#### *6.10.11. Welfare Schemes and Insurance Schemes*

The implementation of the Ksheera Karshaka Kshema Nidhi Scheme implemented by the Government of Kerala for the welfare of Dairy Farmers shall be verified. The premium shall be remitted to the Kshema Nidhi Board promptly and the accounts, registers and records shall be kept up to date. The claims shall be submitted as prescribed.

Ref. 1. Circular No. 10/2017 dated 06//03/2017 of the Director of Dairy Development

The insurance schemes for the betterment of Dairy Farming such as cattle insurance, calf feed subsidy scheme, cattle adoption schemes or calf adoption programmes shall be examined to satisfy that the society has undertaken all necessary steps for the implementation of these schemes and accounts and registers maintained properly.

#### *6.10.12. Grants and Subsidies*

The grants, subsidies and financial assistance received from the Central/State Governments or any other agencies such as National Dairy Development Board, Apex Federation or Regional Milk Producers Union shall be properly accounted and recorded in appropriate registers. The auditor shall examine the receipt of such grants, its utilization and submission of utilization certificates to the concerned authorities and ensure that they are included in the Balance Sheet. Whether the grants and subsidies received were utilized for the purpose for which it was granted shall also be ascertained.



#### *6.10.13. Suspense Assets and Suspense Liabilities*

The receipts and payment of suspense asset accounts and suspense liability account are to be posted in the personal ledgers promptly and it should be seen by the auditor that the amount due to the society is realized in time. The outstanding shall be verified with the statements and confirmations obtained.

- Ref. 1. Circular No. C3/15028/07 dated 23/10/2007 of the Director of Dairy Development  
2. Circular No. 15/2016 dated 31/08/2016 of the Director of Dairy Development

#### *6.10.14. Service Matters of Employees*

The guidelines for the recruitment of staff to the Anand Pattern and other Dairy Co-operative Societies were issued by the Registrar and the government from time to time. As per SR0478/96 dated 11<sup>th</sup> June 1996, Government of Kerala has issued a notification exempting Dairy Co-operative Societies from the operation of Rules 189 and 199. Uniform staff pattern and the pay and allowances of the Primary Dairy Co-operative Societies were sanctioned as per GO(P) No. 2/2016/Agri. Dated 14<sup>th</sup> January 2016. The classification of societies based on the milk collection per day was the major criteria for fixation of staff pattern. The qualification for various categories was also notified. The recruitment procedures were also streamlined and directions given. Chapter X of the part II of the Kerala Co-operative Audit Manual shall be referred for more clarifications.

- Ref. 1. Circular No. 3/1995 dated 17/02/1995 of the Director of Dairy Development  
2. Circular No. H2-16530/1994 dated 24/04/1998 of the Director of Dairy Development  
3. Circular No. 15/2016 dated 31/08/2016 of the Director of Dairy Development  
4. Circular No. 48/2018 dated 01/12/2018 of the Director of Dairy Development

*6.10.15. Reconciliation of Accounts with Dairy Plants, Regional Unions and other dealers*

The auditor shall call for the reconciliation statements of the accounts with Dairy Plants, Regional Unions and other dealers to see that they are properly reconciled. If any unusual unreconciled figures are noticed, it shall be inquired and the reason for the same shall be verified and reported. Provision may be created for such amounts, if necessary.

*6.10.16. Maintenance of Books of accounts*

Book keeping and maintenance of accounts shall be ensured in the Primary Societies by the Board of Directors and the Chief Executive. Apart from the usual books of accounts maintained in a Co-operative society such as Day Book, General Ledger, Personal Ledgers, Admission Register etc., a few additional books and registers are to be kept in the Dairy Co-operative Society such as purchase Register, Payment Register, Dairy Register, Cattle Feed Advance Register, Dividend Register, Bonus Register etc. The auditor shall check whether these books are maintained properly, authenticated by the Chief Executive.

Ref. 1. Circular No. 15/2016 dated 31<sup>st</sup> August 2016 of the Director of Dairy Development

2. Circular No. 19/2017 dated 25/07/2017 of the Director of Dairy Development

*6.10.17. Affiliation of Dairy Society with State Co-operative Union*

The Primary Co-operative Society shall be affiliated with State Co-operative Union. The auditor shall check whether the society is affiliated with the State Co-operative Union and has paid the affiliation fees.

Ref. 1. Circular No. C2/8628/2004 dated 06/12/2004 of the Director of Dairy Development

#### *6.10.18. General aspects*

The auditor shall examine the following points also while auditing an APCOS/Traditional Ksheerolpadaka Co-operative Society:

- 1) Whether the Bylaws are amended in accordance with the latest amendments in KCS Act and Rules.
- 2) Whether staff security is collected as prescribed.
- 3) Whether the Staff Security is invested in a profitable manner.
- 4) Whether the provident fund collected from employees, is invested/ remitted as prescribed.

(Ref. 1. Circular No. 19/15 of the Director of Dairy Development)

- 5) Whether the Registers of Staff Security and Provident Fund are maintained properly and are up to date.
- 6) Whether the General funds of the Society utilised was in compliance with the directions.

(Ref. 1. Circular No. 14/17 dated 25/05/2017 of the Director of Dairy Development)

- 7) Whether the funds spent by the society is for the petitions and appeals, related to the society.
- 8) Whether the Chief Executive had taken steps for reporting the cases of misappropriation as directed by the Government of Kerala.  
(Ref. No. 5/2004/Fin. dated 1.12.2004 of the Secretary, Finance, Government of Kerala)
- 9) Whether the employees are enrolled in the Kerala Co-operative Employees Pension Scheme.
- 10) Whether the monitory disputes were filed before the appropriate authority as prescribed.

### 6.10.19. Audit Classification of Dairy Co-operatives

No. ADL 2.35829/84.

Office of the Registrar of Co-operative Societies,  
Trivandrum, dated 4-1-1986.

CIRCULAR No. 2/86

*Sub:—Audit—Audit classification of Dairy Co-operative Societies— Standards— Prescribed.*

The National Dairy Development Board has pointed out that the present system of Audit Classification of Societies is not relevant to the Primary Milk Producers/ Supply Co-operative Societies and District/Regional Co-operative Milk unions as the salient features/aspects of these co-operatives are not taken into account and requested to suitably modify the present basis of Audit Classification of these societies. Considering this and the standards adopted in Gujarat State for audit classification of Dairy Co-operatives, the following standards are prescribed for Audit Classification of dairy co-operatives in the State with immediate effect.

		<i>Be awarded</i>	<i>Maximum Marks</i>
(1)	(2)	(3)	(4)
A. Primary Milk Producers Milk Supply Co-operative Societies			
1. No. of Suppliers			
(i)	If More than 60% member are Supplying milk to the Society	5	5
(ii)	Between 56% to 60%	4	..
(iii)	Between 50% to 55%	3	..
(iv)	Below 50%	2	..
2. Milk Collection (Quantity)			
(i)	If 12% increase in milk compared to last	5	5
(ii)	If between 8% to 12%	4	..
(iii)	If upto 8% compared to last year	3	..
(iv)	If upto 5%	2	..
(v)	If upto 3%	1	..

*Accounting :*

If cash book and other accounts books are written daily, If the closing balance is written in words in cash book daily and is signed daily by the Chairman/Secretary. Accounts are accurate and exact and honestly written. All other accounts files registers are kept clean and systematically.

10 10

*Cash on hands:*

If cash on hand is kept upto the limit prescribed in the byelaws or by the resolution of the committee. If it is felt by verification of cash book that unnecessary cash on hand is not kept.

5 5

*Deduction of marks:*

If cash on hand is over the prescribed limit in more than 50% days during the prescribed of audit (-3)

If it is between 25% and 50% (-2)

If it is less than 25% deduct marks from 5 as per the merit

*5. Administrative control and management :*

Administration and Management of the Society is run as per act, rules and byelaws, managing committee meeting is held regularly and all accounts, milk collection, shortage are verified by the committee every year and periodically and signed by the Chairman. Cash on hand is verified, securities are verified regularly and Chairman is taking interest in the milk business of the society

10 10

*6. Audit and its Rectification:*

If rectification of audit objections are done regularly and are 100%. Satisfactory and the rectification notes are sent to Auditors regularly and a copy of the same is available with the society

10 10

*Deduction from the above marks:*

A. If more than 25% audit objections are not complied with 3 months (-3)

B. If it is less than 25% (-2)

C. Over and above the rectification of audit objections done practically may be verified and the marks should be allotted accordingly.

7. Training of the staff: If all the staff of the society is trained	5	5
8. If suggestions regarding milk business are adopted by the society and suggestions made by the Co-operative Department are carried out.	5	5
9. If all the expenditures are made in the limit of budget provisions and the expenditure of the current year is limited to the previous year or 10% more. The expenditure may be more/less according to the milk collection compared to last year	3	3
10. <i>Business activities:</i> If the totals of the milk purchase register tally 100% with the payment register, and the Chairman/Secretary sign it regularly.	5	5
11. If pass book is supplied to all the milk suppliers and necessary records such as sample bottle No. quantity of milk fat % and price of milk are properly maintained	5	5
12. If dairy register is maintained regularly, and cheaper and costlier purchase, of milk is calculated every shift and noted in the purchase register and while comparing the general fat % of society with the union, there is a difference of less than 0.3% then full marks, if the difference is more than that deduct 2 marks and if it is more than 1.25% then no marks	5	5
13. If 100% samples of the milk bought are tested regularly and also there is system of 5% interest and clear record of the same is maintained.	6	6
14. If the profit of milk trading cattle feed trading and other trading accounts are maintained as per prescribed limit and all registers Such as sale stock registers are maintained properly	5	5
15. If the excess of milk is maintained properly	5	5
16. If the society is taking keen interest to extension activities	5	5

### 17. *Capital investments*

If the payment of milk is done from the own working capital, while calculating the working capital the total of fix and floating assets should be deducted from total sharecapital, reserve fund and building fund

	6	6
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### 18. Marks to be deducted in general

- |   |      |  |
|---|------|--|
| A. If there are unrecoverable loans upto 20% to 30%   | (-2) |  |
| B. If it is more than 30%   | (-3) |  |
| C. If sample milk sale amount is to be recovered and insurance premium money of the staff is not paid           | (-1) |  |
| D. If there is misappropriation of dash and stock   | (-3) |  |
| E. If the members are paid over and above the bonus and other funds are not in accordance to the milk business. | (-3) |  |

Total marks obtained.

Total marks to be deducted.

Net total marks

#### *Classification:*

- |                          |   |        |
|--------------------------|---|--------|
| 1. If more than 60 marks | A | class. |
| 2. If between 50 and 59: | B | class. |
| 3. If between 40 and 49. | G | class. |
| 4. Less than 40%         | D | class. |

## **B. Distinct Regional Co-operative Milk Unions**

### *Financial:*

- |    |   |   |   |
|----|---|---|---|
| 1. | In case the Union accounts are written systematically and accurately and required registers, files and statements are made regularly and promptly up to 5 marks are to be given | 5 | 5 |
|    | Up to five marks may be awarded provided (1) Union s administration is generally run as per the Act, rules and  |   |   |
| 2. | byelaws and (2) statements concerning income, expenditure and trading results are prepared and placed before the Board periodically and disbursed.                              | 5 | 5 |
|    | If proper arrangements and records exist for procurement custody and disposal of raw materials (other than milk), stores etc., limits for maximum                               |   |   |
| 3. | quantities of items fixed and actual quantities are within those limits unserviceable and absolute items are disposed of in time upto 5 marks may be given.                     | 5 | 5 |

4.	If the trade and other dues are categorised into good, doubtful and bad and proper steps are taken for recovery up to 5 marks may be given.	5	5
	<i>Note:-If the overdues (outstanding more than three years) exceed the 30% of the total overdues, then no marks shall be awarded.</i>		
5.	If the loan, subsidy and other aid rendered to the Union by the Government, Indian Dairy Corporation and other bodies are utilised for the purpose specified, recorded in concerned registers and loans are repaid as per the term up to 4 marks may be given.	4	4
6.	In case the Union is repaying the dues of the respective parties in the required time period, two marks are to be given	2	2
7.	If the union is making payment regularly to the affiliated societies as per the below given Schedule:		
(i)	If payment is within 7 days of supply	4 marks	
(ii)	" 10 "	3 "	
(iii)	" 15 "	2 "	
(iv)	" 30 "	1 "	
	<i>Note;—The Union Offering advance payment of more than 80% of dues to its members within the time limit mentioned above is to be given marks as per the above schedule.</i>		
8.	If cash is generally kept within the limits fixed by the Board and if a perusal of the cash book shows that no unnecessary and superfluous cash is kept, then up to 5 marks are to be given	5	5
9.	If the financial position of the union is better compared to the previous year and the required funds are sufficiently built up, up to 5 marks can be given, keeping in view the operational results of the year	5	5
	<i>Note:- If depreciation, interest, funds, etc. are not provided as per byelaws lesser marks are to be given.</i>		
10.	If the defects brought out in audit and inspection memo are satisfactorily rectified and if the rectification report is sent to the concerned auditor in time along with the Board resolution up to 5 marks are to be awarded	5	5



*Professional :*

- |   |      |   |
|---|------|---|
| 11. If the dairy plant run by the Union is working to more than 80% of its capacity up to 5 marks are to be awarded   | 5    | 5 |
| 1. For working 70% and more   | 4    |   |
| 2. For working 60% and more   | 3    |   |
| 3. For working 30% and more   | 2    |   |
| 4. For working less than 50%  | Nill |   |
| <i>Note :- Capacity utilisation shall be calculated with reference to utilisation during the peak month or fortnight of the year as compared to (a) utilisation as projected in the report on the scheme or the project or (b) installed capacity, in case the projected capacity be not stated</i> |      |   |
| 12. If the cattle feed plant run by the union is working to more than 80% of its capacity 5 marks are to be awarded.  | 5    | 5 |
| 1. For working 70% and more   | 4    |   |
| 2. For working 60% and more   | 3    |   |
| 3. For working 30% and more   | 2    |   |
| 4. For working less than 50%  | Nill |   |
| <i>Note :- Capacity utilisation shall be calculated with reference to utilisation during the peak month or fortnight of the year as compared to (a) utilisation as projected in the report on the scheme or the project or (b) installed capacity, in case the projected capacity be not stated</i> |      |   |
| 13. If standards for loss of fat in production of milk products are generally fixed, and excesses over prescribed limits are analysed, up to 5 marks may be given.  | 5    | 5 |
| 14. In case where the difference between the fat percentage noted by the societies and the union is more than 0.3 percent and there is a system of such mark interest by the union and a system to investigate such difference exists, then 3 marks may be given.                                   | 3    | 3 |
| 15. If the staff possess prescribed qualifications, have undergone proper training, recruitment body/committee is created for appointment of staff and rules have been made for recruitment, upto 5 marks are to be given   | 5    | 5 |
| 16. If the directions of the Co-operative Department and professional guidance are acted upon promptly and adequately upto 4 marks are to be given.   | 4    | 4 |

*Developmental:*

- |     |   |          |   |
|-----|---|----------|---|
| 17. | (i) If, on an average, more than 60% of the affiliated societies are supplying milk to the union during the leanest month, the Unions shall be awarded 5 marks.   |          | 5 |
|     | (ii) If the number is 56 to 60%   | 4 marks  |   |
|     | (iii) 50 to 55%   | 3 marks  |   |
|     | (iv) 40 to 49%  | 2 marks  |   |
|     | (v) Less than 40%   | 1 marks  |   |
| 18. | If milk procurement during the year is more than 10% than that of the preceding year, the union shall be awarded three marks.   | 3        | 3 |
|     | (i) If the increase is between 5% and than 10%  | -2 marks |   |
|     | (ii) If the increase is between 2% to 4.90%   | -1 marks |   |
| 19. | If the Union has specialised staff for guiding the affiliated societies such staff have discharged their duties regularly and exhibited interest for solution of daily problems up to 5 marks may be given.   | 5        | 5 |
| 20. | In case training arrangements were made, for the employees of the affiliated societies, and also meetings were held with the office bearers of the societies at periodical intervals as to cover all societies at least once every year then up to 3 marks are to be given. | 3        | 3 |
| 21. | If there exists a sytem for supplying cattle feed, ghee, semen etc., to the affiliated societies as per their requirement up to 3 marks are to be given.  | 3        | 3 |
| 22. | In case the union is supplying standard testing equipment, acid etc., to the affiliated societies at reasonable price as per the requirements upto 3 marks are to be given.   | 3        | 3 |
| 23. | In case the scheme pertaining to animal husbandry cum- medical aid are formulated and implemented by the Union in the District, upto 3 marks may be awarded on the basis of targets and achievements.   | 3        | 3 |

- 24 If the milk price given total by the affiliated societies is more than the previous year by 5% or more keeping in view the inflationary trends (figure to be supplied by CEO) upto 3 marks to be given. 3 3

Total 100

*Total Marks Secured*

*Audit Classification*

1. 1.60 or more
2. 50 to 59
3. 3.40 to 49
4. Below 40

- A
- B
- C
- D

Sl.No

Details

Marks

- (i). Financial
- (ii). Professional
- (iii). Developmental

45

27

28

**Total**

**100**

*Sd/-*

*K. N. SURENDRAN*

*Addl. Registrar of Co-operative Societies (Audit).*

## **Chapter VI**

### **6.11. AUDIT OF KERALA STATE HANDICRAFTS APEX CO-OPERATIVE SOCIETY LTD (SURABHI)**

- 6.11.1. Introduction
- 6.11.2. Loans and advances to affiliated societies
- 6.11.3. Financial assistances from the Government
- 6.11.4. Government Guarantee
- 6.11.5. Marketing of Handicrafts
- 6.11.6. Verification of Fixed Assets

#### *6.11.1. Introduction*

The Kerala State Handicrafts Apex Co-operative Society started functioning even before the enactment of Kerala Co-operative Societies Act 1969, as an Apex Society for the development, production and marketing of handicraft products. The Apex Society aims at the promotion of handicraft products and the artisans by arranging the production and marketing of the handicrafts products. To achieve the object, the Apex Society has set up sales showrooms in different parts of the State. It also organises trade fairs and handicrafts exhibition cum sales during festival seasons and also takes part in different trade fairs and exhibitions. The apex society arranges for the collection and disbursal of raw materials to the artisans or to the affiliated societies. They purchase the handicraft products from the member societies and arrange the sales of the products at a better price. The apex society shall also, make contracts with the member societies on consignment basis for the sales of handicraft products. The purchase of raw material, the labour charges or wages paid, the sales price and turnover shall be verified by the auditor.

#### *6.11.2. Loans and advances to affiliated societies*

The apex society shall be lending to its affiliated societies for the production of handicrafts. The ledger of loans and advances shall be scrutinized and the rate of interest shall be verified with the rate of interest prescribed by the Registrar or the Government. The collection of loans issued shall be closely monitored and ensured that legal action has been initiated against the defaulter members. The balance outstanding at the end of the year shall be verified and satisfied to see that the amount as per loan ledger, General ledger and Day book are in conformity.

#### *6.11.3. Financial assistances from the Government*

Since the Government, either Central or State, has been providing financial assistances to the traditional artisans co-operatives, the amount of assistance received during the year by way of grants, subsidies, share capital assistance and loans and advances shall be verified to satisfy that they are accounted properly in the Society. The repayment schedule may be checked in the case of loans and share capital assistances to see that repayment is made as specified in the sanction order.

#### *6.11.4. Government Guarantee*

The Government guarantee provided to the Apex Society shall be verified to see that the society has utilized the facility properly. Whether the society had paid the Guarantee Commission, if payable, shall also be examined. The register of Government Guarantee shall be checked by the auditor.

#### *6.11.5. Marketing of Handicrafts*

The handicrafts produced by the member societies or artisans shall be marketed properly so that they may be able to run their business smoothly. The Apex Society shall set up sales show rooms or sales emporiums at different places, which will enable the sales of handicrafts in an effective manner. Another mode of

marketing handicrafts may be through exhibition cum sales in trade fair, in connection with festival sales, engaging commission agents may also be experimented. The auditor shall verify the sales in the showrooms as well as the exhibition centres and see that all sales are accounted properly. The expenditure in connection with the exhibition cum sales and trade fairs shall be examined in detail to see that it is reasonable and supported with proper vouchers and bills. The sales price of each item shall be checked to satisfy that it is in conformity with the rate approved by the Board of Directors or Sub Committee.

#### *6.11.6. Verification of Fixed Assets*

The value of fixed assets as well as the number of items owned by the society shall be verified with the stock register and annual stock verification statement. It should be ensured that all purchases are entered in the stock register as well as the General ledger. Physical verification may be conducted in case of any difference in the stock balance.

## Chapter VI

### **6.12. AUDIT OF POULTRY FARMING SOCIETIES**

- 6.12.1. Introduction
- 6.12.2. Loans and Advances to members
- 6.12.3. Egg collection and Sales
- 6.12.4. Egg Collection Register
- 6.12.5. Stock Register
- 6.12.6. Supply of Feed
- 6.12.7. Confirmation from IPD units
- 6.12.8. Hatcheries
- 6.12.9. Chicken Meat Production and Sales

#### *6.12.1. Introduction*

In order to generate more employment opportunities in rural areas Poultry Farming Co-operative societies are organized. The society undertakes the responsibilities of providing credit/finance and arranges loans and advances to its members from Central/State Governments, banks, financial institutions and other developmental agencies. National Co-operative Development Corporation (NCDC) provides financial assistances for various activities of the Poultry Farming Co-operative Societies.

#### *6.12.2. Loans and Advances to members*

For construction of poultry sheds, purchases of birds, feed etc loans and advances are disbursed to the members, which may be arranged from banks and financial institutions. The auditor shall ensure that those loans are disbursed to the members on the very same terms and conditions stipulated by the financing

agencies. It should be seen that the repayments are made promptly. The utilization of subsidy, if available, shall be ensured. The auditor shall verify the loan ledger and see that the disbursement as well as the remittances or recovery are posted in the ledger and balances arrived at correctly.

#### *6.12.3. Egg collection and sales*

The collection of egg as well as the sales shall be verified. The eggs collected by the society from the members are sold to the nearest IPD units or to other agencies. Procurement and sales of egg shall be compared and if considerable difference is noticed, it shall be enquired in audit. The purchase rate and sale rates shall be compared.

#### *6.12.4. Egg Collection Register*

The daily collection of eggs is entered in this Register. The details are subsequently entered in the personal accounts of the members. The auditor has to check the entries in both these registers as well as individual postings in the personal accounts.

#### *6.12.5. Stock Register*

The weekly sale of eggs as revealed in the consolidated stock register should be compared with the total of the Daily Egg Collection Register, and if any difference is noticed, it should be verified in detail. The auditor should satisfy that the percentage of damages allowed is minimum and within the reasonable limit and supported by proper and valid authorization.

#### *6.12.6. Supply of feed*

The society shall arrange for the supply of feed to the farmers and if it is supplied on credit, it should be ensured that the value of feed supplied on credit is recovered from the value of egg procured from the farmers. The auditor shall verify the purchase and sale of feeds and see that it is beneficial to the members and the society as well.



#### *6.12.7. Confirmation from IPD units*

If the society adopts credit sale of eggs to IPD units, the auditor shall obtain confirmation from such units and ensure that the balance outstanding agrees with the accounts of the society.

#### *6.12.8. Hatchery*

If the society manages a hatchery for generating more chicks, it shall be verified to satisfy that the activities are properly accounted.

#### *6.12.9. Chicken meat production and sales*

If the society is organizing the production of chicken meat, it shall be conducted with the necessary licenses and approvals from the concerned authorities. The provisions of the Food Safety and Security Act shall be complied with by the society. The auditor shall check all the accounts and records related to such activities.

## **Chapter VI**

### **6.13. AUDIT OF KERALA STATE RURAL WOMEN'S ELECTRONIC INDUSTRIAL CO-OPERATIVE SOCIETY LTD (RUTRONIX)**

- 6.13.1. Introduction
- 6.13.2. Maintenance of Books of Accounts, Suspense Assets and Suspense Liabilities
- 6.13.3. Filing of Returns
- 6.13.5. Verification of Employees Service Particulars
- 6.13.6. Reconciliation of Bank accounts, Branch/ Franchisee accounts or members accounts.
- 6.13.7. Verification of activities undertaken by RUTRONIX

#### *6.13.1. Introduction*

Primary Women Industrial Co-operative Societies are the members of the federation. The federation aims at the organization of Electronic Industry on Co-operative lines by mobilizing financial assistances from Central and State Governments, Khadi and Village Industries Commission, Kerala Khadi and Village Industries Board, Co-operative Banks, Nationalized Banks and NABARD. It aims to organise Women's Industrial Co-operative Societies in rural areas. It is enabled by ensuring the technical assistances and advice from the Information Technology Department, Government of India, and other Quasi Government organizations, and thereby increase the production/manufacturing of electronics or computer products. The federation shall, in association with Kerala State

Electronic Development Corporation (KELTRON) and with the financial assistance of Kerala Khadi and Village Industries Board, and other financial institutions, undertake the electronic development schemes and projects and also with the prior approval of Registrar, undertakes the marketing and sales and services of electronic products of Government or private sector companies. The Federation shall make arrangements for the manufacturing of electronic equipments, through its affiliated societies and conduct computer courses through franchisees.

#### *6.13.2. Maintenance of Books of Accounts*

The books of accounts as prescribed in Rule 29 of KCS Rules shall be maintained by the federation. The auditor shall verify the books and registers and satisfy that all books, ledgers and registers are kept up to date as prescribed. The auditor shall check the ledger of suspense assets and suspense liabilities and see that the entries in the ledgers are matching with the entries of General ledger and Day book.

#### *6.13.3. Filing of Returns*

It should be ensured that the federation had filed the returns and statements as provided in Section 66C of Kerala Co-operative Societies Act and Rule 33 of KCS Rules.

#### *6.13.4. Verification of Employees Service Particulars*

The auditor shall verify the service particulars of staff. The guide line provided in chapter X of part II of the Kerala Co-operative Audit Manual shall be followed. The circulars of the Khadi and Village Industries Board and or the orders or notifications of the Department of Industries shall also be referred to for more clarity with respect to the service particulars of the employees.

*6.13.5. Reconciliation of Bank accounts, Branch/Franchisee accounts or members accounts.*

The federation shall adopt a system of periodic reconciliation of bank accounts and the balance outstanding at the end of the year shall be compared with the letter of confirmation from the banks. The auditor shall examine the reconciliation and if any discrepancy is noticed, a clarification shall be obtained from the Chief Executive. The branch accounts as well as the franchisee accounts shall also be reconciled periodically. The statement of outstanding balance shall be checked with the personal ledgers, General ledger and Day book to satisfy the correctness of the balance outstanding.

*6.13.6. Verification of activities undertaken by RUTRONIX*

The activities undertaken by the federation shall be scrutinized to satisfy that all receipts and payments related to the business are brought in to the books of accounts of the federation. Whether the books of accounts or registers necessary for such activities are kept up to date shall also be enquired. Whether the initiatives are supported with resolutions of the Board of Directors shall also be ascertained. The efficiency, the capacity utilization and the economy shall be analysed.

## Chapter VI

### AUDIT OF HOSPITAL CO-OPERATIVE SOCIETIES

#### **7.1. AUDIT OF KERALA CO-OPERATIVE HOSPITAL FEDERATION LTD (HOSPITAL FED)**

- 7.1.1. Introduction
- 7.1.2. Verification of Movable assets
- 7.1.3. Verification of Immovable assets
- 7.1.4. Verification of Sundry creditors and Sundry debtors
- 7.1.5. Verification of educational institutions managed by the federation
- 7.1.6. Employees of the federation
  - 7.1.6.a. EPF
  - 7.1.6.b. Staff security
- 7.1.7. Rectification of defects

##### *7.1.1. Introduction*

The Kerala Co-operative Hospital Federation (Hospital Fed) was established to coordinate, guide and assist the functions of primary cooperative hospital societies in the state. The main object of the Hospital Fed is to augment the health care facilities of the state by assisting the hospitals run by cooperative hospital societies or by establishing multi specialty hospitals with modern health equipment and facilities. It also aims at the medical research, production and distribution of medicines and surgical instruments and other items related to medical sector. The federation manages nursing college and a physiotherapy college named Co-operative Institute of Health Sciences. The apex federation aims at the

establishment of health education institutions leading to the degree courses such as MBBS, BDS, BSc nursing, pharmacy courses, medical laboratory technology courses and paramedical courses. It also provides financial assistance to the member hospital societies, guidance to the hospital societies and also work in association with Central/ State governments for the implementation of Central/ State Health Care programmes and projects.

#### *7.1.2. Verification of Movable Assets*

The movable assets shall be valued to see that they are properly accounted. The stock verification statement and the stock register shall be checked and compared with the Day Book and General Ledger and ensured that the stock register is properly maintained, incorporating all particulars of the items. Depreciation charged shall be verified in comparison with the Balance Sheet figures.

#### *7.1.3. Verification of immovable assets*

The land and building purchased or constructed shall be verified to see that they are in the actual possession and enjoyment of the Apex Federation. The ownership deed, tax paid receipt, encumbrance certificate, location and possession certificate etc, related to the land owned shall be scrutinised. The procedures of purchase or construction of land and building as laid down shall be verified to see that all formalities such as tendering, valuation of building etc, are followed.

#### *7.1.4. Verification of Sundry creditors and Sundry debtors*

The amount of advances paid shall be verified to see that such payments have been made with valid reasons. The recovery of such advances shall be examined. It should be ensured that ledgers of sundry creditors and sundry debtors are maintained up to date.

#### *7.1.5. Verification of Educational institutions*

The auditor shall examine the details of the educational institutions managed by the Apex Federation. Whether the institutions had adopted the guidelines and directions of the University or other authorities shall be verified. Whether the accounts of the educational institutions are incorporated in the accounts of the Federation is to be ascertained. The details of affiliation, admissions, fee collected and other administrative matters of the educational institutions shall be verified. The financial position of the institutions shall be analysed and reported in the audit.

#### *7.1.6. Employees of the federation*

The details of staff appointed in the federation shall be scrutinized. The guide lines outlined in Chapter X of the part II of the Kerala Co-operative Audit Manual shall be referred to while auditing the staff details.

(a). *Employees Provident Fund* :- The details of employees Provident Fund collected and remitted to the provident fund commissioner shall be verified and satisfied to see that the books and registers in respect of Employees Provident Fund are maintained properly.

(b). *Staff Security* :- It should be ensured that staff security as prescribed, is collected and invested. The register of staff security shall also be verified.

#### *7.1 7 Rectification of Defects*

The defects pointed out in the audit shall be rectified by the federation and the rectification report shall be submitted to the Director of Co-operative Audit and the Registrar of Cooperative Societies as stipulated in Subsection to 2(c) of section 65 of the Kerala Co-operative Societies Act 1969.

## Chapter VII

### 7.2. AUDIT OF CO-OPERATIVE HOSPITAL/DISPENSARIES

- 7.2.1. Introduction
- 7.2.2. Vouching of Receipts
- 7.2.3. Verification of Collection Register
- 7.2.4. Purchase of Medicines
- 7.2.5. Purchase of Laboratory Equipment
- 7.2.6. Reimbursement of date expired medicine
- 7.2.7. Grants and subsidies received

#### 7.2.1. *Introduction*

The Co-operative Hospitals and Dispensaries were set up with the objective of providing health care facilities to the rural people with modern medical equipment and better health care at an affordable rate. The under privileged and downtrodden, who are unable to meet the medical expenses at the private hospitals, shall be able to get modern medical services from the Co-operative Hospitals and Dispensaries, since they work on the principles of humanitarian services. As the co-operative hospitals and dispensaries were exempted from the provisions of clause (c) of Subsection (1) of section 7 of the Kerala Co-operative societies Act, the services of co-operative hospitals shall be available to all sections of people irrespective of geographical limitations. Establishment of more Hospitals and Dispensaries in co-operative Sector will provide more job opportunities to the health workers as well as paramedical staff. The auditor shall examine the operations of the Co-operative Hospital or Dispensaries and make his suggestions for the improvement of the medical services.



### *7.2.2. Vouching of Receipts*

Collections of hospitals/dispensaries mainly consist of registration fees, cost of medicines, service charges, X-ray and ECG charges, service charges for other laboratory investigations, room rent for in patients etc. These collections are classified and entered in a register. The consolidated total is taken to the Day book. The collections on account of each items is to be checked with the help of the concerned registers, outpatient and inpatients tickets, bills/receipts etc. The auditor shall ensure that the society has realised the charges in accordance with the sub rules approved or rates fixed by the Board of Directors or subcommittee from time to time. The receipts/bills should also be checked with the collection register to see that all collections are accounted in the books of accounts of the hospital society promptly.

### *7.2.3. Verification of Collection Register*

The auditor must be vigilant to ascertain as to whether all the issues of medicines and consumable laboratory articles are made under proper orders of the Medical Officers and whether cost of the same has been realized from those who are liable to pay.

### *7.2.4. Purchase of Medicines*

Indents of medicines are to be duly approved by the Medical Officer in charge of purchase of medicines, or by the Board of Directors. The Secretary shall approve the indents if the cost of medicines are above a desirable level. All purchase should be made from approved sellers or manufacturers and after observing the store purchase rules to the extent possible. The auditor should ensure that the Medical Officer has satisfied and certified about the quantity and quality

etc. of the medicines purchased. The purchases should be the minimum required for a reasonable period. Special care should be taken to see that no medicine is distributed and used after the date of expiry. The auditor should check the details of indents, stock kept in the pharmacy and sales of medicines to ensure that the society has adopted an error free mechanism to maintain accuracy and transparency in medicine purchase and sales.

#### *7.2.5. Purchase of Laboratory Equipment*

For purchase of laboratory equipment too, indents duly approved by the Medical Officer in charge of purchases or by the Board of Directors is required. All purchases should be made from approved agencies or manufacturers observing the store purchase rules to the extent possible. The auditor should ensure that the details of laboratory equipment are properly entered in the stock register. The annual stock verification statement shall be verified by the auditor to arrive at the value of laboratory equipment.

#### *7.2.6. Reimbursement of date expired medicine*

The pharmacy in charge should take steps for the timely return of date expired medicines. The auditor should watch whether the society has taken timely action to get reimbursement of date expired medicines in the stock. At the same time, care should be taken to see that the value of such stock are not included in the total value of stock while arriving at the closing stock.

#### *7.2.7. Grants and subsidies received*

The grants and subsidies from Government or other agencies, shall be accounted properly and recorded in the books of accounts and registers. The auditor shall verify the books of accounts and registers and satisfy that they are properly accounted. The utilisation of the grants and subsidies shall also be watched to see that utilisation certificate has been submitted to the concerned authority.

## **Chapter VIII**

### **AUDIT OF SC/ST CO-OPERATIVE SOCIETIES**

#### **8.1 AUDIT OF KERALA STATE FEDERATION OF SCHEDULED CASTE/ SCHEDULED TRIBE DEVELOPMENT CO-OPERATIVES LTD. (SC/ST FED.)**

- 8.1.1. Introduction
- 8.1.2. Analysis of Business activities and functions
- 8.1.3. Ayurdhara Pharmaceuticals
- 8.1.4. Panchakarma Centre
- 8.1.5. Fuel Pump
- 8.1.6. Sales show room
- 8.1.7. Cane – Procurement, Minor Forest Produce Procurement
- 8.1.8. Working Women’s Hostel
- 8.1.9. Maintenance of Accounts
- 8.1.10. Verification of Grants and Subsidies
- 8.1.11. Annual Stock Verification
- 8.1.12. Reconciliation of Accounts with Primary Societies, Branches and Units
- 8.1.13. Verification of Service Particulars of the Employees
- 8.1.14. Suspense Assets and Suspense Liabilities
- 8.1.15. Refund of Government Loans
- 8.1.16. Inspection and Internal Audit
- 8.1.17. Arbitration and Execution
- 8.1.18. Welfare and Development of SC/ST Sections

### *8.1.1. Introduction*

The Apex Federation of Primary Scheduled Caste/Scheduled Tribe Co-operative Societies in the State is established for improving the socio economic conditions of scheduled caste and scheduled tribe population. It aims at providing integrated credit facilities to the people through Primary Co-operative Societies for marketing of agricultural produce, minor forest produce and produce of small scale and cottage industries. The federation not only provides credit facilities to the affiliated primaries, but also provide raw materials as well as inputs needed for their activities. The SC/ST federation undertakes the activities instrumental for the welfare of Scheduled Caste and Scheduled Tribe Communities. They include collection and marketing of minor forest produces, agricultural produce and goods manufactured by the members of Primary SC/ST Societies by setting up cottage and small scale industries.

The Ayurdhara Ayurveda Medicine factory established by the SC/ST Federation has been manufacturing Ayurvedic medicines of varieties and marketing them through its branches, Government Ayurveda hospitals, Pharmacies and other private medical distributors. The Panchakarma Centres of the Federation provides various kinds of treatments. With a dealership form Indian Oil Corporation it manages a fuel pump. The activities undertaken shall be individually verified to have a comprehensive assessment of each of them.

### *8.1.2. Analysis of Business activities and functions*

The Apex Federation is required to provide financial assistances to the Primary SC/ST Societies. Whether the federation has provided financial assistances by way of loans and advances to its affiliated societies shall be verified. Whether they provide guidance and advice on the developmental activities for the

welfare of Scheduled Caste/Scheduled Tribe Communities shall be scrutinised. The auditor shall examine the business activities of the federation and see that they are in correlation with the objectives laid down in the bylaws. The profitability and efficiency of each activity undertaken shall be analyzed choosing the various ratios such as Current ratio, Quick ratio, Gross profit ratio, Net profit ratio, Stock turnover ratio etc. The trend analysis shall also be made to understand the progress of business over a period of time.

#### *8.1.3. Ayurdhara Pharmaceuticals*

The plant and machinery installed in the Pharmaceutical factory, the infrastructure facilities arranged and the raw materials and other inputs for the manufacturing of Ayurveda Medicines, the manpower deployed for the production/manufacturing unit etc. shall be verified. The amount of expenditure shall be examined, whether the procedures of tenders and such formalities were followed shall be ascertained. Whether the Pharmaceutical unit is functioning efficiently and profitably shall be verified. The conversion ratio of manufacturing raw materials to medicines shall be examined to satisfy that the output is satisfactory. Books of accounts shall be maintained exclusively for the unit and stock register of raw materials as well as medicines and other products shall also be maintained. The auditor shall examine the manufacturing account and profit and loss account of the unit and satisfy that the unit is running at profit. The details of wages and salaries paid to the staff should be checked.

#### *8.1.4. Panchakarma Centres*

The charges of the Panchakarma Centre shall be verified with respect to the number of inpatients as well as outpatients. It should be ensured that the Panchakarma centre is running on profit. Separate Profit and Loss Account may

be prepared to see that all receipts of service charges as well as the price of medicine is accounted in the respective head itself.

#### *8.1.5. Fuel Pump*

The fuel pump run by the federation shall be verified in the audit. The daily collections of the pump shall be properly accounted by keeping up to date invoices and registers. The stock register shall be verified by the auditor to see that the filling of the Oil Corporation is properly accounted. Similarly when sale is effected, the stock shall be deducted to the tune of quantity of fuel sold. The auditor shall check the incoming quantity as well as the sales by checking the inward registers and the sales invoices and daily sales register with the stock register of fuels. Separate stock register for diesel and petrol and engine oil,grease and any other petroleum products shall be maintained, which shall be certified daily by the fuel pump in charge. Trading Account and Profit and Loss Account for the fuel pump shall be prepared to see that the pump makes profit. Any shortage of cash or fuel shall be reported and dealt with seriously. It should be seen that the loss due to evaporation is limited to the permissible level.

#### *8.1.6. Sales show room*

The receipts on account of sales and payment on account of purchases shall be examined. The sales invoices, the daily sales register, the purchase or procurement invoices and the stock register along with the stock verification statement shall be scrutinized so that any shortage can be detected. If salesman liability system is followed, the liability register shall be checked with the purchase invoices and the sales invoices or bills.

#### *8.1.7. Cane – Procurement, Minor Forest Produce Procurement*

The federation shall keep up to date records in connection with the cane procurement as well as the minor forest produce procurement. The rate of procurement and the quantity procured shall be recorded in the registers. The Stock Register shall be checked with the purchase invoices as well as the sales bills. The stock register and the annual stock verification statement shall be closely

checked by the auditor to see that there was no omission or commission in respect of procurement of cane and minor forest produces as well as in the sales of them.

#### *8.1.8. Working Women's Hostel*

The establishment of Working Women's Hostel with the financial assistance of Scheduled Caste/Scheduled Tribe Department shall be examined and see that the rules and procedures were complied with in the construction and the establishment of the hostel. There should be a system of management of the hostel and the auditor shall see that the income and expenditure of the hostel is being properly accounted and audited.

#### *8.1.9. Maintenance of Accounts*

The SC/ST Federation shall keep all the Books of Accounts in accordance with Rule 29 of Kerala Co-operative Societies Rules, and the auditor shall examine whether those registers and books of accounts as prescribed were kept up to date. The registers peculiar to the business/activities undertaken by the Federation shall also be prepared and kept up to date. The stock register of the raw materials and finished goods shall be maintained by the federation, which shall be checked in the audit. Each unit, and branch shall maintain own books of accounts and records pertaining to the activities in order to depict a fair and correct picture of the financial position of the branches/units. The subcommittee/ audit committee of the federation shall review the status of the maintenance of accounts and report to the Board of Directors. The federation shall file returns and statements as specified in section 66 C and Rule 33 of the Kerala Co-operative Societies Act and Rules 1969.

#### *8.1.10. Verification of Grants and Subsidies*

The grants and subsidies or any other financial assistance received from the Government, Central as well as State and the agencies like National Co-operative Development Corporation (NCDC), National Federations/Corporations for the development of Scheduled Caste or Scheduled Tribes shall be accounted by the

federation in the books of accounts and utilized properly. The utilization of the grants and subsidies shall be verified to ensure that they were utilized for the purpose for which they were granted. The utilization certificate shall be submitted to the concerned authorities and the auditor shall verify the file relating to the utilization certificates.

#### *8.1.11. Annual Stock Verification*

The closing stock of the federation at the end of the financial year shall be verified as prescribed in chapter IX of the Part I of the Kerala Co-operative Audit Manual, by the officers authorized. The auditor shall examine the annual stock verification statements, with the Stock Register, Day Book and General Ledger. He should see that the stocks held at different units/ branches were consolidated and carried over to the Balance Sheet.

#### *8.1.12. Reconciliation of Accounts with Primary Societies, Branches and Units*

The Co-operative Apex Federation shall adopt a regular system of reconciliation of accounts with the Primary Societies, Branches and Units. The auditor shall verify the reconciliation statements to satisfy the proper reconciliation. Any discrepancy of considerable amount and period shall be specially enquired, to obtain a written clarification of the Chief Executive.

#### *8.1.13. Verification of Service Particulars of the Employees*

The service particulars such as recruitment, pay fixation, promotion, transfer and postings, leave sanction maintenance of service register, annual increment, provident fund, employees welfare fund, disciplinary action, retirement and pension etc. shall be verified in the audit. The guidelines provided as per chapter X of the part II of the Kerala Co-operative Audit Manual shall be adhered to while auditing the employees service affairs.

#### *8.1.14. Suspense Assets and Suspense Liabilities*

The federation shall prepare separate personal ledgers in respect of suspense accounts. The details of amount due to the federation shall be recorded in Suspense Asset ledger and the amount due by the Federation shall be accounted in the ledger of Suspense Liability. The balance outstanding at the end of the year shall be consolidated by checking these ledgers in comparison with the Day book and General ledger.



#### *8.1.15. Refund of Government Loans*

The ledger in respect of Government loans received shall be verified in audit, along with the loan sanction order to ascertain the rate of interest as well as the schedule of repayment. Whether the prepayment was made as per the schedule shall be checked to see that the interest on loans was also remitted as laid down in the terms and conditions. Confirmation of outstanding may be obtained from the offices concerned and verified in the audit.

#### *8.1.16. Inspection and Internal Audit*

There should be a system of internal audit by the senior officers of the apex federation in order to ensure accuracy and transparency in book keeping and accounting. The auditor shall examine the internal audit report and inspection reports, if any, of the primaries, branches and units of the federation, and see that the defects or suggestions were considered by the Federation and rectified the defects properly. If there is any un rectified defect, the auditor shall mention it in the report.

#### *8.1.17. Arbitration and Execution*

The apex federation shall take appropriate timely action on defaulted loans and advances made to the Primary Scheduled Caste/Schedule Tribe Co-operative Societies. The auditor shall examine the defaulted cases and see that legal action was taken by the Federation on each case. The statement of arbitration and execution cases shall be obtained and compared with the particulars in the respective ledgers and registers.

#### *8.1.18. Welfare and Development of SC/ST Sections*

The Kerala State Federation of Scheduled Caste/Scheduled Tribe Development Co-operative is committed for the welfare, development and growth of Scheduled Caste and Scheduled Tribe communities. Whether the activities under taken by the apex federation served the purpose is to be verified. How far the projects have succeeded, and how many Scheduled Caste and Scheduled Tribe members have been benefited from the projects, to what extent the income of the members has increased etc shall be analysed and an evaluation of the projects shall be included in the auditor's report.

## Chapter VIII

### **8.2. AUDIT OF PRIMARY SCHEDULED CASTE/ SCHEDULED TRIBE CO-OPERATIVE SOCIETIES**

- 8.2.1. Introduction
- 8.2.2. Verification of deposit accounts
- 8.2.3. Verification of MDS and other schemes
- 8.2.4. Loans and advances to members
- 8.2.5. Production and Processing
- 8.2.6. Other activities
- 8.2.7. Welfare and development of SC/ST Population
- 8.2.8. Appropriation of Net Profit
- 8.2.9. Verification of Staff matters
- 8.2.10. Verification of computerized accounts
- 8.2.11. Arbitration and Execution
- 8.2.12. Debt Relief Schemes
- 8.2.13. Welfare Fund
- 8.2.14. Risk Fund
- 8.2.15. Verification of assistances
- 8.2.16. Verification and disposal of damaged or dead stock.

#### *8.2.1. Introduction*

In order to improve the living conditions of Scheduled Caste/Scheduled Tribe population, Government has implemented several socio-economic welfare programmes. The organization of Primary Co-operative Societies exclusively for the Scheduled Castes and Scheduled Tribes was a step initiated by the Government of Kerala for the upliftment of the population. The objective of the co-operative society shall be, the all round growth and development and welfare of the scheduled castes/tribes population. The membership of the society is restricted to scheduled caste/scheduled tribe people only. The department of scheduled caste/scheduled tribe provides maximum financial assistances by way of plan fund as well as non plan allocation.

### *8.2.2. Verification of deposit accounts*

If the society collects deposits from its members, the auditor shall verify the Deposit ledger, General ledger and Day book and see that they are properly accounted. The serial numbers of deposit certificate in respect of term/fixed deposits shall be checked with the register kept for the purpose. The rate of interest, the nominations, etc. shall be verified. Whether the identification details of the depositor (KYC Norms) was collected shall also be checked.

### *8.2.3. Verification of MDS and other schemes*

If the society conducts MDS or any other similar schemes the auditor shall examine it in detail. Chapter V of the part II of the Kerala Co-operative Audit Manual shall be referred to and adopted for audit of accounts of MDS/other schemes.

### *8.2.4. Loans and advances to members*

The Scheduled Caste/Scheduled Tribe Co-operative Societies, only few of the members have own land. Hence majority of them shall be eligible for short term loans and advances only, even though there are provision for long term and medium term loans in their bylaws. The auditor shall check the loan ledgers and stock register of gold, if gold loan is disbursed. He shall verify the Gehan Register, in case Gehan is registered. The individual maximum borrowing power shall also be examined while auditing the loan accounts.

### *8.2.5. Production and Processing*

Apart from the agricultural activities, the Scheduled Caste/Scheduled Tribe society may be engaged in the production of various articles by setting up cottage and small scale industries, which shall be a source of generating employment opportunities to the members of the co-operative society. The auditor shall verify the stock register of raw materials as well as the finished goods. The percentage of out turns shall also be ascertained to ensure the optimisation of production.

#### *8.2.6. Other activities*

The Scheduled Caste/Scheduled Tribe Co-operative Societies may be involved in certain other activities too in order to create more employment opportunities, such as minor forest produce collection, bee keeping, goat rearing, provision stores, Neethi Stores, tailoring units and garment making, driving schools and computer training centre, fertilizers depot etc with the financial assistance provided by the Central/State governments and other agencies like NCDC. The auditor shall examine the details of the units and see that the accounts related to such units are kept up to date and the profit and loss account is prepared and the profitability analysed.

#### *8.2.7. Welfare and Development of SC/ST Population*

All the schemes, projects and activities are undertaken with the objective of increasing the employment opportunities of the Scheduled Caste/Scheduled Tribe Communities. The auditor shall assess the implementation of these schemes and projects and ascertain how far they have helped towards the betterment of the living conditions of the SC/ST population.

#### *8.2.8. Appropriation of Net Profit*

If there is net profit in the working of the society, it should be appropriated in accordance with the provisions of KCS Act and Rules and Bylaws of the society. The auditor shall see that the appropriation was done in accordance with the law and carried over to the books of accounts of the society.

#### *8.2.9. Verification of Staff Matters*

The auditor shall examine the details of employees such as recruitment, transfer and postings, leave particulars, annual increment, promotion, pay fixation, disciplinary action etc. The auditor shall adhere to the provisions of KCS Act and Rules and the guidelines as per the Kerala Co-operative Audit Manual Part II, Chapter X for the verification of staff matters.

#### *8.2.10. Verification of computerized accounts*

If the society is computerized, the auditor shall refer to chapter VII of the part 1 of the Kerala Co-operative Audit Manual and follow the guidelines provided in it.

#### *8.2.11. Arbitration and Execution*

The auditor shall examine the status of arbitration and execution cases and satisfy that the legal action was taken timely.

#### *8.2.12. Debt Relief Schemes*

The Debt Relief Schemes of the Central and State Governments, for the benefit of Scheduled Caste and Scheduled Tribe people shall be verified and seen that all accounts related to the schemes are properly handled and accounted.

#### *8.2.13. Welfare Fund*

The auditor shall scrutinise the Welfare Fund Schemes for the employees of SC/ST Societies to see that contributions were remitted timely.

#### *8.2.14. Risk Fund*

Whether the society had collected the premium from the borrowers and remitted to the development fund board, shall be ascertained.

#### *8.2.15. Verification of assistances*

The Auditor shall verify whether the society keep a register for monetary assistances received from Government/Apex Society. The Auditor should ensure that the conditions prescribed in the sanction order has been fully complied with by the Society. The timely repayment of loan or payment of dividend on share capital shall be ascertained.

#### *8.2.16 Verification and disposal of damaged or dead stock.*

The verification and valuation of all assets including trade stock should be conducted by the Auditor as prescribed. The Auditor should also verify the timely disposal of damaged/dead stock made by the society, as per rules.

## Chapter IX

### 9.1. AUDIT OF EDUCATIONAL CO-OPERATIVE SOCIETIES

- 9.1.1. Introduction
- 9.1.2. Employees of Society
- 9.1.3. Disposal of Profit
- 9.1.4. Annual Stock Verification
- 9.1.5. Courses and Programmes
- 9.1.6. Verification of Infrastructure
- 9.1.7. Verification of deposits made by students

#### *9.1.1. Introduction*

Educational Co-operative Societies were registered and started in the State with a view to provide employment opportunities to the educated unemployed youths as well as to facilitate the higher education to those who could not get admission in the affiliated colleges. Usually the 'A' Class membership is restricted to the employees of the society. In some societies it shall be open to Graduates and Post Graduates, who will accept teaching as their profession. The objectives of the educational Co-operative Societies shall be the establishment of educational institutions for generating employment opportunities to the educated unemployed persons, and to conduct training programme and coaching classes. The society aims at eradication of illiteracy by undertaking educational activities for spreading literacy among the people. They also organize job oriented technical courses and other short term courses. The educational societies shall be undertaking allied activities such as coaching classes for Co-operative Examinations, Publication of

journals, books etc. The courses of undergraduate and post graduate levels are conducted in collaboration with the school/Directorate of Distance Education of different Universities. The auditor shall examine the whole arrangements and satisfy that the systems and arrangements are in compliance with the provisions of the Bylaws. The auditor shall verify the files relating to the affiliation and recognition of course offered by the Educational Co-operative Society.

#### *9.1.2. Employees of the Society*

The employees of the society shall be 'A' Class members. The service particulars of the employees shall be verified with the registers kept in the society. The educational qualifications, pay and allowances and service conditions of teaching and non teaching staff as approved by the Board of Directors of the society shall be verified in audit.

#### *9.1.3. Disposal of Profit*

Whether the annual General body has approved the appropriation of net profit, shall be ascertained. Whether the appropriation approved by the General Body has been carried over to the Day Book and General Ledger shall also be examined.

#### *9.1.4. Annual Stock Verification*

The Annual Stock verification of furniture, equipment and text books and note books, if any, shall be conducted as prescribed in the part I of the Kerala Co-operative Audit Manual. The auditor shall verify the Stock Register and the stock verification statement with the Day Book and General Ledger. If any shortage of furniture or equipment or other stocks is noticed, it shall be checked in detail and reserve may be created for deficit stock.



#### *9.1.5. Courses and Programmes*

The auditor shall ascertain the details of courses conducted, number of students admitted in each course and each batch, the affiliated university etc. The fees for each course as per prospectus shall be checked with the fee collection details. The fee collection register shall be checked to see that no omission in fee collection has occurred. The auditor shall verify whether there are any fee dues at the end of the financial year. He shall verify all programmes such as coaching classes for competitive examinations as well as training programmes. The income from each programme or course shall be compared with the expenditure for each course and programme.

#### *9.1.6. Verification of Infrastructure*

The infrastructure facilities of the educational Co-operative Society shall be ascertained to see that the requirements of the students are satisfied. The ownership title shall be examined if the society owns land, by verifying the title deeds, possession certificate, land tax receipt etc. The building, if owned by the society, shall be verified with the valuation certificate issued by the PWD Engineer.

#### *9 1.7 Verification or deposits made by students*

The deposits such as caution deposits received from the students shall be verified and ensured that they are properly accounted in the register to satisfy their prompt repayment on completion of the course.

## Chapter IX

### 9.2. AUDIT OF SCHOOL/ COLLEGE CO-OPERATIVE SOCIETIES

#### 9.2.1. *Introduction*

The Co-operative societies in schools and colleges shall be organised to facilitate the distribution of text books and other teaching aids and study materials to the students. The minimum age prescribed for membership in the KCS Act & Rules shall not be applicable to this type of cooperative societies. The membership shall be open to the students as well as to the staff members of the school/college. The major objective of the society shall be promoting cooperation, self-reliance and savings mentality among the students. It shall also frame small savings schemes for the economic and social welfare of the members. Purchase and sale of articles needed for the educational activities and the member's day to day life, shall be undertaken by the society. The management of the society shall be vested in an elected committee of fixed members plus the President (usually the Principal or Head Master). Secretary shall be selected from among the elected A class members. Majority of the committee shall be A class members and 'B' class members (students) shall also be given a few seats. The auditor shall concentrate on the following points while auditing the society:

#### 9.2.2. *Points to be verified.*

- i. Whether the society has an elected managing committee,
- ii. Whether the Books of accounts are written up to date,
- iii. Whether the transactions are properly accounted in the cashbook and vouchers kept date wise and serially numbered,

- iv. Whether the annual stock verification was carried out and stock verification statement made available for audit.
- v. Whether the society has taken up the distribution of text books for the students,
- vi. Whether the businesses carried out by the society are making profit,
- vii. Whether the accounts with text book depot or other schools, or a group society, have been reconciled properly.
- viii. Whether the secretary was paid honorarium in accordance with the Government direction.
- ix. Whether the society had prepared indents for the purchases of text books and whether it is in conformity with the actual number of students
- x. Whether the society remitted the sale value (if due) of text books to the depot promptly.

## Chapter X

### **AUDIT OF LABOUR CONTRACT CO-OPERATIVE SOCIETIES**

#### **10.1. AUDIT OF KERALA STATE LABOUR CO-OPERATIVES FEDERATION LTD. (LABOURFED)**

##### 10.1.1. Introduction

##### 10.1.2. Labour Contracts

##### 10.1.3. MVR Institute of Skill and Developmental Studies

##### 10.1.4. 'Labour Today'

##### *10.1.1. Introduction*

Kerala State Labour Co-operatives Federation was established as an Apex Federation of Primary Labour Contract Co-operative Societies of the state, with the objectives of promoting the economic and social welfare of the unskilled, semi skilled and skilled labour and organising co-operatives for the purpose. The federation may undertake the activities in furtherance of the objectives. The Labour Fed shall promote the Labour Contract Co-operatives and strengthen them to diversify their activities, and set up industries and plants in collaboration with other co-operatives for the manufacture of construction equipment, construction materials and allied materials necessary for the construction work. The federation shall supply tools, equipment and implements, accessories, store items to the Primary Labour Contract Societies. It shall also undertake research and consultancy work to provide advanced technical knowhow to its member societies and collect information necessary for the growth of labour co-operatives and supply to the members with appropriate analysis.

#### *10.1.2. Labour Contracts*

Whether the federation undertakes labour contracts, project management and consultancy works of buildings and allied engineering works of the Government, local bodies, and private sector shall be verified in the audit. Whether the federation has obtained the approval or competency certificate for undertaking such contract work shall also be examined.

#### *10.1.3. MVR Institute of Skill and Developmental Studies*

The auditor shall examine the functions of the institute and see that it is in accordance with the approved sub rules as well as the Bylaws of the Labour Federation and the Kerala Co-operative Societies Act and Rules. The auditor shall examine the research and development activities of the institute as well as the training programmes organised by the institute, whether these short term training programmes and skill development programmes were beneficial to the members and employees of the Primary Labour Contract Co-operatives. The man power deployment, the course fees collected and other income from the institute, the expenditure incurred for each course or programme shall be scrutinized. Whether these accounts are incorporated in the main accounts of the federation shall be examined. The registers showing the details of number of participants, duration of the short term courses, training programmes etc. shall also be verified.

#### *10.1.4. 'Labour Today'*

The publication details of the 'Labour today' shall be examined. The number of copies printed, the number of subscriptions, the subscription amount received, advertisement tariff, advertisement income received if any, the expenditure for printing, the postage for despatch, other contingent expenses etc., shall be ascertained. Whether the journal got the registration from the News Paper Society of India shall also be ascertained. Whether the account related to the publication is incorporated in the books of accounts of the federation shall be verified.

## **Chapter X**

### **10.2. AUDIT OF LABOUR CONTRACT CO-OPERATIVE SOCIETIES**

- 10.2.1.* Introduction
- 10.2.2.* Borrowings
- 10.2.3.* Deposits from members
- 10.2.4.* Works undertaken
  - 10.2.4.i).* Labour Contracts
  - 10.2.4.ii).* Hollow bricks units
  - 10.2.4.iii).* Stone crusher Unit
  - 10.2.4.iv).* Survey work
- 10.2.5.* Purchase of Land
- 10.2.6.* Purchase of machinery
- 10.2.7.* Workshop
  - 10.2.7.i).* Fabrication Unit
  - 10.2.7.ii).* Heavy Machinery
  - 10.2.7.iii).* Automobile /Vehicle Department
- 10.2.8.* Furniture works unit
- 10.2.9.* Quality control
- 10.2.10.* Financial assistances from the government
- 10.2.11.* Government Guarantee
- 10.2.12.* Maintenance of Fluid Resources
- 10.2.13.* Maintenance of Books of Accounts – Accounting Software
- 10.2.14.* Annual Stock Verification
- 10.2.15.* Reconciliation of account
- 10.2.16.* Certification of works completed
- 10.2.17.* Training to employees
- 10.2.18.* Welfare schemes/activities

### *10.2.1. Introduction*

Primary Labour Contract Co-operative Societies are set up for generating employment opportunities among the members. The societies undertake contract works for building construction, roads and bridges and other public works. The society enables its members by providing equipment and machinery necessary for carrying out the construction or maintenance works. The materials and inputs necessary for the construction works shall also be arranged by the society either by manufacturing or by purchasing them, and make available to the workers/members. Apart from undertaking the contract works, the Labour Contract Societies may undertake ancillary activities for the enhancement of Labour Co-operatives, such as building materials supply, hollow bricks manufacturing unit, stone crusher units, mechanical workshops etc. The society may be providing machinery and equipment necessary for the work either on lease or rent basis. The capacity development or skill upgradation training to its workers shall be the obligation of the labour contract society. In order to promote savings habits among the members, the society may be conducting different kinds of deposit schemes such as Thrift Deposit, Day Deposit schemes etc. The society may be running workshops for the assemblage and repair of machines, vehicles etc. It shall also arrange for ensuring the quality of material purchased as well as the quality of work completed. It shall use good quality machines and equipment in order to maintain the high quality of works undertaken. The Labour Contract Society may be running furniture and equipment units also for providing necessary furniture and equipment to its members/work sites.

#### *10.2.2. Borrowings*

The maximum limit prescribed in the bylaw shall be ascertained to satisfy that the limit is kept. The cost of borrowings shall be checked to see that it is reasonable and matching with the existing market rate. The personal ledgers in respect of borrowings shall be verified to see that they are in conformity with the Day Book and General Ledger. Confirmation statements may be obtained from the financial institutions and compared to ensure the accuracy of balance outstanding at the end of the year.

#### *10.2.3. Deposits from members*

Whether there is an enabling provision for collecting deposits, in the bylaw of the society, shall be ascertained. The personal ledgers of different type of deposits such as Thrift, Recurring, Monthly Deposit and Daily Deposit shall be verified with the receipts/chellans, Day Book, General Ledger to see that the receipts as well as repayments are properly accounted. The rate of interest on each type of deposit shall be verified to see that the rate prescribed by the Registrar of Co-operative Societies is being followed.

#### *10.2.4. Works undertaken*

*i) Labour Contracts :* The construction works undertaken by the society shall be verified in detail. Whether gross contract amount is within the permitted limit shall be ascertained. The completion certificate shall be verified to satisfy that the society is operating properly and efficiently. The income generated out of the work undertaken and the expenditure incurred for carrying out the work shall be compared to ensure that the society gets its share as margin of profit. The auditor shall ascertain whether necessary approvals were obtained before starting the



construction work. Whether the rules and regulations were followed shall also be ascertained, while carrying out public works such as roads, bridges etc.

*ii) Hollow bricks units :* In order to facilitate the construction works, Labour Contract Co-operative Societies may set up Hollow Bricks Units of their own. The manufacturing of bricks, and the inputs and raw material given for manufacturing such as cement, sand etc. shall be compared. The income from the unit as well as the expenditure on account of production of the unit shall be verified to satisfy that the unit is running on profit. The stock register of bricks as well as the distribution and delivery accounts shall be checked.

*iii) Stone crusher Unit:* The operations of the crusher unit may be scrutinised to see that the aggregates/stone/rubbles are handled and transported to the required sites promptly so that the crushing work will go on seamlessly. The income as well as the expenditure of the unit shall be examined. The accounts of the unit such as stock of each item shall be maintained properly, verified by the unit in charge.

*iv. Survey work :* Before starting the work, the Labour Contract Society may undertake a survey and investigation of the work and the site. The feasibility of the work may be revealed by this survey and investigation.

#### *10.2.5. Purchase of Land*

The purchase of land by the society shall be in accordance with the guidelines issued by the Registrar of Co-operative Societies. The auditor shall verify the procedures adopted for the purchase of land by the society.

- Ref. 1. Circular No. 26/2018 dated 4/5/2018 of Registrar of Co-operative Societies
- 2. Circular No. 36/2018 dated 29/06/2018 of Registrar of Co-operative Societies

3. Circular No. 7/2019 dated 15/02/2019 of Registrar of Co-operative Societies

*10.2.6. Purchase of machinery*

Whether the purchase was made by adopting the rules and procedures shall be ascertained. Whether every purchase was taken to the stock register shall also be verified. It should be ensured that for every new purchase of machine and equipment, annual maintenance contract or appropriate insurance schemes were being adopted.

*10.2.7. Workshop*

The auditor shall check the workshop run by the society, whether it is undertaking the fabrication work or maintenance and repair of heavy machinery or automobiles or vehicles. The whole account related to the workshop shall be scrutinised in detail.

*10.2.8. Furniture works unit*

The furniture works unit shall be checked to see that the raw materials used and the products obtained/released are in conformity. The stock register may also be checked.

*10.2.9. Quality control*

The Labour Contract Society shall ensure the quality of the materials purchased and used in their work to ensure the quality of works undertaken. For this purpose, the society shall use better quality of machinery and equipment in the execution of the work. The society shall set up a quality testing lab as well as engage a team of experts for quality tests and experiments.

#### *10.2.10. Financial assistances from the government*

The financial assistances to the society by way of grants, subsidies, share capital contribution loans and advances and guarantee commission shall be properly accounted in the society. The auditor shall check the register to ascertain the receipt of the financial assistances. The utilization shall be ascertained and the utilisation certificate verified.

- Ref. 1. Circular No. 59/2005 dated 20/12/2009 of Registrar of Co-operative Societies
2. Circular No. 59/2018 dated 15/11/2018 of Registrar of Co-operative Societies
3. Circular No. 15/2015 dated 23/03/2015 of Registrar of Co-operative Societies
4. Circular No. 38/2015 dated 10/08/2015 of Registrar of Co-operative Societies

#### *10.2.11. Government Guarantee*

If the society gets Government guarantee, it shall be recorded properly and the auditor shall verify the sanction order as well as the register of Government Guarantee, and ascertain whether the society has remitted the guarantee commission to the Government.

#### *10.2.12. Maintenance of Fluid Resources*

The auditor shall examine whether the society has maintained fluid resources as per Rule 63 of the Kerala Co-operative Societies Rules.

#### *10.2.13. Maintenance of Books of Accounts*

The Books of accounts maintained by the society shall be checked to see that they were kept in accordance with Rule 29 of the KCS Rules. The accounting software shall be examined if the society has adopted computerization to see that the software used is comprehensive and effective in the maintenance of accounts. The auditor shall verify the work register, muster roll, EMD Register etc.

Ref. 1. Circular No. 27/2017 dated 5/5/2017 of Registrar of Co-operative Societies

2. Circular No. 62/2020 dated 18/08/2020 of Registrar of Co-operative Societies

#### *10.2.14. Annual Stock Verification*

The closing stock of all assets including cash in hand shall be physically verified by the stock verification officer at the close of the financial year. The guidelines issued as per chapter IX of the part I of the Kerala Co-operative Audit Manual shall be adhered to.

#### *10.2.15. Reconciliation of account*

The Labour Contract Society shall make a systematic arrangement for the periodical reconciliation of accounts with the Apex Federation, other financial institutions, Government and other business dealers. The reconciliation statement shall be checked and satisfied by the auditor.

#### *10.2.16. Certification of works completed*

The works undertaken and completed by the Labour Contract Society shall be certified by a competent authority. The auditor shall verify the work in progress as well as the completion certificate to satisfy that the society has undertaken the work as per permit issued.

#### *10.2.17. Training to employees*

The employees shall be provided technical or administrative training for effective and efficient management of the society. The skill up gradation and capacity development shall be achieved through various training modules. The TNA may be made and the employees may be deployed for such trainings in accordance with the Training Need Analysis.

#### *10.2.18. Welfare schemes/activities*

The welfare schemes implemented by the society for the betterment of its members may be verified in audit. The various employees benefit schemes such as EPF, ESI and Group Gratuity schemes shall be scrutinized. The pension schemes if any, adopted by the society shall also be examined.

## Chapter XI

### AUDIT OF WOMEN'S CO-OPERATIVE SOCIETIES

#### ***11.1. KERALA WOMEN CO-OPERATIVE FEDERATION LTD (VANITHA FED)***

##### *11.1.1. Introduction*

In order to achieve socio-economic development of women, the Kerala Women Co-operative Federation, undertake integrated credit and service activities through the Primary Women Co-operative Societies. To reach the goal of socio-economic upliftment of women, the Kerala Women Co-operative Federation undertakes various developmental and welfare schemes and projects. The organization of Primary Women Co-operative Societies, arranges and disburses loans and advances to the Primary Societies, co-ordinates and monitors the activities of the Primary Societies, undertakes projects and schemes conducive to the growth of women shall be the federation's major activities. The federation shall take up manufacturing and processing units and import and export of agricultural and other produce. The federation shall impart training to the members of Primary Societies with respect to the setting up of small scale and cottage industries, dairy farming, Poultry etc. The Kerala Women Federation known as "Vanitha Fed" shall attempt either through its activities or through its affiliated member Primary Women Co-operatives, empower the womenfolk, especially the marginalized and lower income group of women in our society through engaging them in agricultural, small scale and cottage industries, cattle farming, goat rearing, poultry, catering units, training centres, electronic industry etc. Permission was granted for the collection of deposits to Kerala Women Co-operative Federation as per circulars as shown below.

Ref. 1. Circular No. 17/2020 dated 6/3/2020 of Registrar of Co-operative Societies

2. Circular No. 36/2020 dated 15/05/2020 of Registrar of Co-operative Societies

#### *11.1.2. Business Activities*

The auditor shall carefully examine the businesses and ascertain their profitability.

a. Kera Kanthi coconut oil and soap : The purchase and sale of Kera Kanthi natural coconut oil shall be verified to see that the federation gained from the business. It should be ensured that all transactions related to the purchase, sale and sales promotion expenses are properly accounted. The stock at the end of the year shall also be examined in the audit.

b. Loans and Advances : In respect of the loans and advances issued to the affiliated societies, the federation shall keep the personal ledgers and the auditor shall examine the following:

- i) The rate of interest on the loans issued,
- ii) The details of security/ mortgaged property, for the loan sanctioned,
- iii) The amount disbursed and the instalments refunded,
- iv) If there is overdue, the amount of overdue in respect of principal and interest,
- v) Details of legal action initiated, in case of defaulted loans.

The federation shall keep the books of accounts in respect of loans issued as per clause (n) of sub rule (2) of Rule 29 of the KCS Rules. The auditor shall verify the ledgers to satisfy that they are properly maintained.

c. Neethi Medical Stores : The purchase and sale of the Neethi Stores shall be checked and the guidelines provided as per chapter I ((2) of Part II of the Kerala Co-operative Audit Manual (1.2.32(b)) shall be considered while auditing the Neethi Medical Stores.

### *11.1.3. Arbitration and Execution*

Whether legal action was initiated against the defaulted cases shall be ascertained. The details of Arbitration and Execution cases, if any, shall be closely examined to see that the federation has taken steps to protect and preserve its assets.

### *11.1.4. Verification of Employees Matters*

Whether the Vanitha Federation has got approved the staff pattern, shall be verified. The particulars of employees shall be checked, considering the points elaborated in chapter X of part II of the Kerala Co-operative Audit Manual.

### *11.1.5. Verification of immovable assets*

The immovable assets such as land and building shall be verified. Whether the property is in the actual possession and custody of the federation, whether taxes such as land tax, building tax are paid promptly should be ascertained. The original deed as well as the encumbrance certificate may be verified. The register of immovable assets shall also be checked.

### *11.1.6. Collection of Deposits*

The Registrar of Co-operative Societies had permitted the Women Federation to collect deposits from PACS. The auditor shall verify the deposit ledgers to satisfy that the rate of interest paid is in conformity with the rate prescribed by the Registrar.

Read. 1. Circular No. 17/2020 dated 6/3/2020 of Registrar of Co-operative Societies

2. Circular No. 36/2020 dated 15/05/2020 of Registrar of Co-operative Societies



## Chapter XI

### **11.2. AUDIT OF PRIMARY WOMEN CO-OPERATIVE SOCIETIES**

*11.2. 1* Introduction

*11.2. 2.* Deposits

*11.2. 3.* Borrowings, maximum borrowing power

*11.2. 4.* Financial assistances to the Women Co-operatives

*11.2. 5.* Interest receivable and payable

*11.2. 6.* Loans and Advances

*11.2. 7.* MDS /other deposit schemes

*11.2.8.* Verification of branches/ units

*11.2.9.* Verification of training centres/nursing schools/crèches/old age homes etc

*11.2.10.* Reconciliation of accounts with apex federation and other societies

*11.2.11.* Self- help Groups

#### *11.2.1. Introduction*

Women Co-operative Societies are organized with the objective of ensuring employment opportunities among the unemployed women and to achieve economic and social progress and prosperity among them. These co-operatives aim at promoting savings mentality and habits among women and conduct various deposit schemes. They arrange finance needed for managing the businesses undertaken by the members of the co-operative societies. In order to attain socio-economic prosperity and well being of women, these co-operative societies

undertake the following activities: Cottage and small scale industries, Consumer Store/Maveli Store/Stationary Stores/Neethi Stores/Margin Free Shops, Readymade garments unit, Textile shops, Knitting/tailoring unit, Catering unit, Coffee shop, Canteens, Restaurants, Hostels, Old age homes, Crèches, Day Care Centres, Chittty/ Kury/Benefit fund, Assemblage and repairs of home appliances book binding, note book manufacturing and sales, gardening, orchid/floriculture, food products, curry powder, pickles, beverages, training and capacity development, skill development of women entrepreneurs. The above list is not exhaustive depending on the local geographical potentials. The guidelines provided as per part I of the Kerala Co-operative Audit Manual shall be adhered to while auditing the Women Co-operatives. Since the Women Co-operatives undertakes most of the activities by the Primary Agricultural Credit Co-operative Societies, the guidelines provided in chapter I(2) of part II of the Kerala Co-operative Audit Manual shall also be referred to while auditing these primary Women Co-operative Societies.

#### *11.2.2. Deposits*

The following points shall be ascertained while auditing the deposit accounts:

- i. Whether the women co-operative society has provision in its bylaws permitting collection of deposits,
- ii. Whether the society has verified the KYC details and collected the copy of identify proof and kept it in the society,
- iii. Whether the society has paid interest in accordance with the rate prescribed by the Registrar of Co-operative Societies,
- iv. Whether the society has maintained the deposit ledgers up to date, posting all transactions in respect of deposits,

- v. Whether the statement of deposits agree with the Balance Sheet figures. If any difference is noted, it should be verified in detail and provision may be created in case of difference,
- vi. Whether the society has adopted sub rules for deposits, approved by the Registrar.

#### *11.2 3. Borrowings, maximum borrowings power*

The auditor shall examine the borrowings of the society to satisfy that the cost of borrowings is moderate and reasonable. The borrowings ledger shall be verified to see that it agrees with the General Ledger and Day Book. The maximum borrowing power shall be scrutinised to satisfy that the limit prescribed as per bylaw is followed.

#### *11.2 4. Financial assistances to the Women Co-operative 's*

The guideline for the sanction of financial assistance to Women Cooperative Societies by way of subsidy and share capital was issued as per G.O.no. 21/2019 Co-operation dated 12/6/2019. The auditor shall examine the guidelines to see the utilisation of grant/subsidy or share capital to satisfy that the amount was utilised for the purpose for which it was granted. The repayment of share capital contribution shall be scrutinized to satisfy that prompt repayment was made. It should be ensured that the dividend due to the government is remitted promptly.

(Ref. Circular No. 1. 59/202018 dated. 15/11/2018 of Registrar of Co-operative Societies  
2. 15/202015 dated. 25/03/2015 of Registrar of Co-operative Societies  
3. 38/202015 of Registrar of Co-operative Societies

#### *11.2 5. Interest receivable and payable*

The interest receivable on account of loans and advances and the interest payable on deposits shall be checked to satisfy that the receivable as well as the payable amount is arrived at precisely and provision was made in respect of overdue interest.

### *11.2 6. Loans and Advances, IMBP and overdue provisioning.*

The auditor shall examine the following while auditing the loans and advances:

1. Whether the loan is sanctioned by the Board of Directors,
2. Whether the Agreement/ Bond was executed before the disbursal of the loan amount,
3. Whether Gehan was registered for loan where property is mortgaged,
4. Whether the sureties signed the Bond/Agreement as co-obligates,
5. Whether the rate of interest was in accordance with the rate notified by the Registrar,
6. Whether the details of the borrowers as well as the amount of loan posted in the loan ledger,
7. Whether instalments/EMI were refunded regularly,
8. Whether legal action was initiated against the defaulter,
9. Whether the books and registers in respect of loans, advances were maintained as mentioned in Rule 29 of KCS Rules,
10. Whether the over dues of principal as well as interest were considered for provisioning as per prudential norms,
11. Whether recovered instalments were posted in the personal ledger properly,
12. Whether the statements of loans and advances are in conformity with the Balance Sheet,
13. Whether the limit prescribed for disbursal of loans was strictly followed in every case.

### *11.2.7. MDS/ other deposit schemes.*

If the society conducts MDS/other deposit schemes the auditor shall adhere to the guidelines provided in chapter V of the part II of the Kerala Cooperative Audit Manual. The auditor shall verify the statements of outstanding, MDS/deposit scheme to satisfy that it is in conformity with the Balance Sheet. If any discrepancy is found it should be enquired in detail and adequately provisioned.

### *11.2. 8. Verification of business unit.*

The business units run by the Women Cooperative shall be scrutinized to see that they are running in profit. The Manufacturing, Trading account, Profit and Loss Account as well as the Balance Sheet of each unit shall be prepared and

financial ratio analysis made to check whether they are making profit or loss. In case of manufacturing units/ production units, outturn analysis shall be adhered to. Whether proper books and registers are kept in the units shall also be enquired.

*11.2.9. Verification of training centres, nursery schools, creches/old age homes etc.*

The computer training centre for women, tailoring centre, Driving School, etc. shall be verified to see that the income from the units are incorporated in the society's accounts.

*11.2. 10. Reconciliation of accounts with the Apex federation and other societies*

Periodical reconciliation of transactions with apex federation as well as other cooperative institutions shall be ensured. The auditor shall verify the reconciliation statement to see that the accounts are correctly reconciled. He shall examine the transactions to know whether the outstanding amount is settled or realised. If long pending amount is noticed, it shall be verified and written clarification from the chief executive shall be called for.

*11.2. 11. Self-help groups*

The transactions with the self-help groups either by way of loans and advances or subsidies shall be examined. In case of loans and advances, the repayment details shall be ascertained from the personal ledger. The sub-rule pertaining to the self-help groups shall be examined and ensured that it was approved by the Registrar.

## Chapter XII

### AUDIT OF TOURISM CO-OPERATIVE SOCIETIES

#### **12.1 *AUDIT OF KERALA STATE CO-OPERATIVE TOURISM FEDERATION LTD (TOURFED)***

- 12.1.1. Introduction
- 12.1.2. Tourism Activities
- 12.1.3. Reconciliation of Accounts

##### *12.1.1. Introduction*

The Kerala State Co-operative Tourism Federation Ltd. (TOURFED) was established with the purpose of organizing Primary Tourism Co-operative Societies to facilitate infrastructure development in the tourism sector. It initiates Tourism Development Projects in different fields of Tourism such as Ayurveda Tourism, Echo Tourism, Adventure Tourism, Pilgrimage Tourism, Farm Tourism, Village Tourism and Cultural Tourism. It provides tour packages to the tourists from inside and outside Kerala. Establishing Ayurveda Resorts, hotels, arranging house boats, luxury coaches and tourist cars for the service of tourists, Tourism Federation tries to attract maximum tourists to our state. It offers booking services for rail, road and air travels for the convenience of tourists. It aims at functioning as a channel agency for the technical, financial and administrative functions of tourism sector. The federation provides technical and financial advice to the affiliated societies and takes up training and empowerment of the human resources engaged in the tourism services.

### *12.1.2. Tourism Activities*

The tourism activities to augment and promote infrastructural development of Tourism Sector by the Tour Fed shall be scrutinized. Whether the federation has obtained necessary approvals from the authorities, shall be enquired. Each project or scheme undertaken by the federation shall be examined to ensure that all income generated out of the programmes are brought to the books of accounts correctly, and the expenses incurred are reasonable and competitive. It should be ensured that the rules and procedures were followed while incurring the expenditure. All books and registers necessary for the industry shall be kept up to date and the auditor shall examine them in detail. The profit and loss of each project shall be prepared separately and analysed to make a conclusive decision.

Ref. 1. Circular No. 51/2019 dated 4/12/2019 of Registrar of Co-operative Societies

2. Circular No. 32/2020 dated 30/04/2020 of Registrar of Co-operative Societies

### *12.1.3. Reconciliation of accounts*

The federation shall adopt a periodical system of reconciliation of accounts with Primary Tourism Co-operative Societies and the institutions, to which it has financial transactions. The auditor shall verify the reconciliation statements to satisfy that the accounts are reconciled properly. The transactions of next period may also be checked to satisfy the reconciliation.

## Chapter XII

### 12.2. AUDIT OF PRIMARY TOURISM CO-OPERATIVE SOCIETY

- 12.2.1. Introduction
- 12.2.2. Source of funds
- 12.2.3. Financial Assistances
- 12.2.4. Tourism Activities
- 12.2.5. Deposits from members
- 12.2.6. MDS/DDS
- 12.2.7. Loans and Advances
- 12.2.8. Reconciliation of Accounts

#### *12.2.1. Introduction*

Tourism Co-operative Societies are organized with various objectives to promote tourism in the state. The Primary objective is to augment the employment opportunities through tourism activities. To reach this destination, the tourism co-operative societies undertake numerous activities such as arrangement of travels between tourism centres, setting up or tie up with hotels and restaurants, home stays of house boats for the convenience of tourists, arranging trucking in hill ranges and tourist facilitation Centres. They promote Ayurveda tourism, Responsible tourism, Adventure tourism, Cultural tourism, Health tourism, Echo tourism and Heritage tourism. To attract more tourists, the traditional artistic and cultural programmes are organized and promoted. They also arrange transportation or travel facilities for the tourists by road, rail and air, by chartering flights etc. conduct tourism courses as well as training to the tourist guides and tourists. In connection with the tourism week, the societies organize food fests, trade fairs and exhibition cum sales of handicrafts and artistic items. They also undertake the



propaganda for attracting tourists and organises awareness campaigns. To undertake research and development in tourism activities is the most important objective of Tourism Co-operative Societies. They also take up consultancy work for the promotion and growth of tourism and related operations.

#### *12.2.2. Source of funds*

The auditor shall ascertain the sources of funds to see that the society had tried their level best to mobilize the funds in order to facilitate the working of the society effectively and efficiently.

#### *12.2.3. Financial Assistances*

The financial assistances received by the society by way of Grants/ Subsidies, Share Capital Contribution, Loans and Advances shall be verified to see that they were accounted properly in the society. The outstanding shall be verified with the Registers to ascertain the accuracy of balances. The utilisation of such financial assistances shall also be verified.

- Ref. 1. Circular No. 59/2009 dated 20/12/2009 of Registrar of Co-operative Societies
2. Circular No. 15/2015 dated 25/03/2015 of Registrar of Co-operative Societies
3. Circular No. 59/2018 dated 15/11/2018 of Registrar of Co-operative Societies

#### *12.2.4. Tourism Activities*

Various tourism activities undertaken by the Primary Tourism Co-operative Society shall be verified in detail. The impact of the work shall be analysed to see that it has helped the promotion of tourism in the state. The books and registers in respect of the projects, schemes and units shall be kept up to date which shall be checked by the auditor. The Profit and Loss account of each project shall be prepared separately and verified in audit to see that such projects are beneficial to the society.

#### *12.2.5. Deposits from members*

Whether there is bylaw provision permitting the society for collection of deposits is to be checked. Whether the sub rule of deposits got approved by the Registrar of Co-operative Societies should be ascertained. The deposit ledgers may be verified to see that all receipts as well as payments are accounted appropriately. The rate of interest paid on deposits shall be checked to see that it is in conformity with the rate prescribed by the Registrar.

#### *12.2.6. MDS/DDS*

The DDS/MDS if conducted by the society shall be verified in detail. whether it is conducted with the approval of the Registrar, is to be verified. The ‘Variyola’ or sub rule as well as the personal ledgers of MDS/DDS shall be scrutinized. The amount receivable as well as payable on account of MDS/DDS shall be verified to satisfy that they are in conformity with the books of accounts of the society.

#### *12.2.7. Loans and Advances*

If the society makes loans and advances to its members, the auditor shall check the loan application, resolutions sanctioning the loans, loan ledgers and agreement or bond executed with the borrower. The repayment shall be verified and legal action ensured in case of default.

#### *12.2.8. Reconciliation of Accounts*

The accounts with apex federation and other financial institutions shall be reconciled periodically. The auditor shall examine the reconciliation to satisfy that they are properly reconciled.

## **Chapter XIII**

### **MISCELLANEOUS CO-OPERATIVE SOCIETIES**

#### **13.1. AUDIT OF SOCIAL WELFARE CO-OPERATIVE SOCIETIES**

13.1.1. Social Welfare Co-operative Societies shall be registered irrespective of the geographical limitations and usually with an area of operation of one or two wards/divisions of Panchayats/Municipality/Corporation.

These type of Co-operative Societies shall undertake activities for the betterment of economic and social welfare of its members. In order to achieve the objective, it shall carry out the consumer business by setting up shops and stores for the marketing and sales of groceries, stationeries and food articles. It shall also undertake procurement and processing of the above items through its stores and sales depots. The Welfare Co-operative Societies may be social Welfare Societies or Residence Welfare or Farmers Welfare Societies. The objectives, functions and features shall be similar and the difference shall be marginal. The Social Welfare Co-operative Societies shall run home appliances showrooms for the convenience and benefit of its members. In some cases, the Welfare Co-operative Societies shall take up the public distribution system and manage ration shops for the supply of food items and groceries. They shall organize Mini Trade Fairs and depots for the benefit of consumers in association with other Co-operative Institutions or Public Enterprises. The Welfare Co-operative societies shall provide assistances to its members for labour and employment, trade and commerce, self-employment, medical treatment and education of wards.

Co-operative Societies shall arrange for the purchase and sale of agricultural produce of its members and shall organise the processing and value addition of such produce and market it to ensure better remunerative prices to the members. It shall also act as an agent of the Marketing Federation and Kera Karshaka Federation in order to market the produce of its members.

The Welfare Co-operative Society shall assist the members for the construction of Recreation Centres, Health Clinics, Cattle breeding Farms etc. It shall also manage the maintenance and up keeping of the above institutions by providing financial as well as human resource assistances.

The Social Welfare Co-operative Societies shall undertake the management of canteens, hostels for women and other public welfare activities. The society shall also take up the servicing of home appliances, electronic items etc., which it had supplied. Marketing of fertilizers, seeds and agricultural implements, and agricultural schemes, providing services to the members such as remittance of electricity charges, water charges and different kinds of taxes shall also be undertaken by the society. Dry cleaning Centre, DTP Centre, Photo Copy centre etc. may also be run by the society.

#### *13.1.2. Affiliation of the Society:-*

Whether the society is affiliated to Co-operative Union and whether enrolled in the Deposit Guarantee Scheme, and Co-operative Risk Fund Scheme shall be verified.

#### *13.1.3. Borrowings from Financial Institutions:-*

The rate of interest on borrowings shall be compared with the existing rate. The balance outstanding at the end of the year shall be compared with the confirmation from the banks and financial institutions.

#### *13.1.4. Financial assistance from Government, NCDC etc :-*

The financial assistances by way of share capital contribution, Grants/subsidies and loans and advances shall be verified to ensure that they were properly accounted in the books of accounts of the society. The utilisation of grants and subsidies and the repayment of share capital and loans and advances shall be verified in audit.

#### *13.1.5. Collection of Deposits:-*

The Social Welfare Co-operative Societies shall conduct different types of deposit schemes, apart from savings deposits and fixed deposits. The Day deposit schemes like Pigmy deposits etc. shall be verified to see that these are conducted in accordance with the approved sub rules of the Registrar. Home safe deposits shall be collected through Home Safe Boxes. The auditor shall ensure that the rate of interest is paid in accordance with the rate prescribed by the Registrar. The balance outstanding shall be examined with the deposit ledgers and General ledger. In some societies, trade deposits may be collected in order to facilitate the distribution of groceries and home requirements. The pass books shall be debited when a purchase is made and the balance along with interest at prescribed rate shall be refunded to the depositor, in the case of trade deposit. The loan sanctioned on the security of fixed or term deposit shall be examined to satisfy that the rate of interest on loans is more than the rate of interest of the deposit.

#### *13.1.8. Loans and Advances :-*

The Welfare Co-operative Societies shall grant loans and advances to its members. Usually ordinary loans, Business loans and Security loans may be issued. The auditor shall ensure that the society has got the loan sub rules approved by the Registrar of Co-operative Societies. The auditor shall pay special attention to the following points:

- i. The rate of interest charged on different type of loans,
- ii. The security, either mortgage or personal security,
- iii. The bond or agreement executed,
- iv. The refund of instalments,
- v. Legal action against defaulters,
- vi. Share linking as per the direction of Registrar,
- vii. The overdues of Board of Directors,
- vii. The provision of strong room and security arrangements, if Gold Loans are issued,
- viii. The proper appraisal of gold by experienced gold appraiser and maintenance of gold stock register,
- ix. Whether the gold stock is adequately insured,
- x. Whether there is periodical physical verification of gold stock.

#### *13.1.9. Neethi Store, Neethi Medical Stores*

The Welfare Co-operative Society shall be managing Neethi Medical Stores and Neethi Stores for the benefit of customers in the area. The Board of Management of the society shall ensure the proper maintenance of Books of accounts in the stores to see that the stores are operating in profit. The auditor shall check the account of the Neethi Medical Stores as well as the Neethi Stores to see that the annual stock verification is carried out properly.

#### *13.1.10. Compliance with Food Safety and Security Act 2006*

The Social Welfare/Residence Welfare/Farmers Welfare Co-operative Society which is carrying out the consumer/Food items shall comply with the provisions of the food safety and security Act 2006. The auditor shall check the compliance.

## Chapter XIII

### 13.2. AUDIT OF INSURANCE CO-OPERATIVE SOCIETIES

The idea behind the formation of Insurance Co-operative Societies was to provide seamless and effective insurance services to the consumers and to check the flow of funds to private Insurance Companies. Hence, the Co-operative Insurance Societies undertake the insurance business subject to the provisions of Insurance Regulatory and Development Authority Act (IRDA) 1999 and the Kerala Co-operative Societies Act 1969. The Societies have to comply with the directives from the Registrar of Co-operative Societies as well as the Insurance Regulatory and Development Authority (IRDA).

The auditor shall examine the whole arrangements made by the Insurance Co-operatives and the insurance schemes as well as the policies, which shall be studied and compared with the other popular schemes alive in the market. Whether the schemes opted is the best available option, shall be ensured. The insurance premium collected should be properly invested, in accordance with the provisions of the bylaws as well as the terms and conditions of the insurance schemes/policies.

The auditor shall see that the society has kept necessary books of accounts to ensure that the premium collected, amount invested or remitted to other public sector companies have been properly recorded and accounted.

It shall be verified and satisfied that the society is doing its business in accordance with the provisions of the Kerala Co-operative Societies Act, Rules and Insurance Regulatory and Development Authority Act, and the circulars of the Registrar of Co-operative Societies. The auditor shall adhere to the guide lines provided in Part I of the Kerala Co-operative Audit Manual, while auditing the Insurance Co-operative Societies. It should be ensured that the society keeps its records and registers in accordance with the provisions and requirements of IRDA as well as the Kerala Co-operative Societies Act and Rules.

The insurance business transactions should be properly recorded and registers maintained. If the society acts as an agent, it should pay incentives to the agents or field officers based on the collection of premium amount, hence it should keep registers properly for premium receipts and remittance to the public sector insurance companies.

The incentive shall be worked out, verifying these registers as well as the confirmation from the insurance companies. The transactions with the insurance companies and other financial institutions shall be reconciled periodically, and it should be satisfied by the auditor.

The auditor shall examine the constitution of the Board of Directors to see that it is in accordance with section 28 of Kerala Co-operative Societies Act and Rules and Society's bylaw.

Whether the Annual General Body Meeting was conducted in accordance with section 29 of the KCS Act shall also be ascertained. Whether the mandatory business as laid down in the Act were completed in the Annual General Body shall also be ascertained. The staff particulars may be examined with reference to Chapter X of the Part II of the Kerala Co-operative Audit Manual. The powers, duties and responsibilities of the Board of Directors, Chairman/President and Managing Director/Secretary/Chief Executive shall be ascertained from the bylaws to examine whether they have exercised/performed/fulfilled properly.



## **Chapter XIII**

### **13.3. AUDIT OF MOTOR TRANSPORT CO-OPERATIVE SOCIETIES**

While auditing the accounts of the motor transport co-operative societies, the auditor shall pay more attention to the points mentioned below in addition to the guidelines provided in the Part I of Kerala Co-operative Audit Manual.

- a. Accounting of daily collection of vehicles
- b. Cost of repairs and renewals; and
- c. Proper maintenance of spare parts and tools.

In order to examine the daily collections, the auditor has to examine the following records.

- i. Trip Card
- ii. Challan of Remittance
- iii. Collection Register of Vehicle (Bus)

The trips card contains the vehicle number, date etc and also provides columns for recording the number of tickets sold denomination wise. It is by means of this card that the conductor works out the total number of tickets sold. The collection of a day is remitted to the society by means of a challan.

Vehicle Collection Register is opened with the challan of remittance and is intended to record the daily collections of all the vehicles, and Batta etc paid to the operating staff. It is from this register, that total collection of the day is posted to the Day Book. The Vehicle (Bus) Collection Register contains columns for vehicle (Bus) number, date, shift number, challan number, amount, name of the conductor and driver batta etc paid to them.

In case of lorry services, the rate is fixed per Kilometer. To hire a lorry, the Parties have to book the lorry by paying an advance. After the transporting is completed the lorry driver can receive the balance of hire charges and issue a temporary receipt for the balance amount. The collections during return trip can be made by the driver, by issuing temporary receipt. The collections by the lorry driver have to be verified with reference to the duplicate of the temporary receipt book, trip sheet etc. The society has to issue regular or permanent receipt thereafter. The auditor has to check the daily collections of buses and lorries carefully.

In case of societies which run workshops, indents for the supply of spare parts for the repairs of the vehicles should be signed by the foreman. The replaced or condemned parts should be accounted for separately. The auditor has to vouch the issue of spare parts with reference to the concerned ledgers viz, the stock ledger etc.

The stock register has to be checked with the indents and the log books of the concerned vehicles. The stocks have to be verified at the close of the accounting year.

With regard to the consumption of petrol or oil it varies from vehicle to vehicle and depend on the age of the vehicle. The auditor has to compare the consumption of fuel, with reference to that of the previous year. The society should send the vehicles for mileage test to the competent authority in time. If the study of log book reveals any sudden increase in consumption of fuel for a particular period the matter should be examined in detail and ascertained as to whether there is any convincing reason for the same. The auditor shall verify whether permit from the Motor Vehicles Department has been obtained for operating the services, in case of Bus route services. It should be verified whether the society has maintained the Collection Register, Operational Register and Tourist Bus Advance Register.

## Chapter XIII

### 13.4. AUDIT OF AUTORICKSHAW CO-OPERATIVE SOCIETIES

Apart from the general audit points referred to in Part I of the Kerala Co-operative Audit Manual, the following points may also be considered while auditing the Autorickshaw Co-operative Societies

i. Allotment of Auto Rickshaws: The societies normally get allotment of auto rickshaw chasis, through state quota, on recommendation of Government/Registrar. The auditor has to verify whether the society maintains proper records with regard to the purchase of auto rickshaws, also indicating the chasis number, date of purchase etc. He has also to examine the procedure followed by the society in the body building of auto rickshaws and whether the work has been done observing the necessary formalities.

ii. Allotment of Vehicles:- The vehicles should be allotted to members on proper resolution of the managing committee and according to the priorities. The vehicles should be registered with the transport authorities and necessary taxes remitted to ply the vehicle on the road. Insurance policies covering the risk in respect of each vehicle should also be verified. It should be verified whether the total loan debited in the name of allottee, on account of a value of vehicle, cover all expenses, incurred by the society to put the vehicle on road. The auditor should also verify acknowledgements in token of receipt of the vehicle and also Hire purchase/Hypothecation deed executed in favour of the society hypothecating the vehicle.

iii. Remittance of collections:- It should be ensured whether members were prompt in remitting the daily collections towards the loan accounts as stipulated in the agreement. Instances of failure should be enquired in detail with special reference to the action taken for recovery.

iv. Running of workshop:- It should be ascertained whether the members are availing the services of the workshop. The economy of the workshop shall also be examined in audit.

v. Loans and advances:- If the society disburses loans and advances to its members, it shall be verified with the Loan Ledger, General Ledger and Day Book and the minutes of the Board of Directors to verify the resolutions, sanctioning the loans and advances.

vi. Verification of petrol pumps, spare parts shops, driving schools service stations, pollution testing centre etc.:- The auditor shall verify whether the society has got necessary permits/ licences/approvals from the authority concerned such as Motor Vehicles Department, Pollution Control Board, Local Self Government Department etc.

vii. Deposits or Deposit schemes: If the society collects deposits from its members or conducts different deposit schemes such as Day Deposit schemes, Mutual Benefit schemes or Monthly Deposit schemes, the auditor shall verify the approved sub rules of the scheme. The guidelines provided in chapter V of Part II of Kerala Co-operative Audit Manual shall also be referred to.

## **Chapter XIII**

### **13.5. AUDIT OF CO-OPERATIVE PRINTING PRESS**

The Co-operative Printing Press shall be established to provide quality printing to the book sellers, and other customers. The society shall own printing press and carry on the business of printing, book binding and other works related to publishing of books and periodicals at a reasonable rate. The registers kept in the press as well as the stock of items shall be examined carefully in the audit. Whether the printing order form and the receipt of printing charges are in agreement shall be ascertained. The society shall maintain books of accounts as prescribed in the Rule (Rule 29 of KCS Rules). Apart from the books and registers prescribed, the Co-operative printing press shall maintain the register of job contract, work order register, register for paper, ink etc, production register, wages register, stock register of finished goods etc. The auditor shall check these registers to satisfy that the accounts are kept in an appropriate manner. Whether the society had filed the returns and statements as stipulated in section 66C of the KCS Act shall also be examined. The stock register of every item printed shall be verified to satisfy that the opening stock added with the quantity of printed items and the issued items added with the closing items tally. The purchase details of paper and other materials, maintenance of printing machines etc shall also be examined.

The salary and allowances, wages and other benefits paid to the employees shall be verified. It should be ensured that the statutory payments due by the society in respect of Employees Provident Fund/Pension Fund, Welfare fund etc are paid or remitted promptly. Whether the financial assistances received are accounted in the books of accounts of the society shall also be verified to satisfy that the grants received were utilised properly.

## Chapter XIII

### 13.6. AUDIT OF LITERARY CO-OPERATIVE SOCIETES

i. Membership : Usually the membership in Literary Co-operative Societies may be limited to writers. If the bylaws provide for the admission of persons other than those engaged in literary work, to a limited percent, the auditor shall ascertain whether the society has complied with the limits prescribed.

ii. Printing Section : If there is a printing press owned by the society, all printing works shall be done in that press itself, to the maximum extent possible. Wherever deviations have been noted in executing the printing with other press, it has to be examined whether the society has followed the normal procedures viz., inviting of tenders/quotations etc. before entrusting the work with other parties. The printing order form given from the Publication Department for printing should be checked with the register kept in the press to ascertain whether manuscripts of books given for printing are kept unattended for long.

The auditor has to ascertain whether the society has observed the necessary formalities for purchase of paper, ink and other materials. While examining them, the auditor will make an assessment of the consumption of printing materials required for printing a specified number of books, with those issued for the purpose and decide whether they are reasonable. He will also enquire about the percent of wastage, if any, allowed by the society and compare it with the actual wastage. The printing unit shall be assessed and, short comings if any, shall be reported with suggestions for improvement.

iii. Publication Section: All publications shall have the prior approval of the Board of Directors. As the books are to be published as per priority, the auditor has to examine the deviations, if any, from the approved policy and see whether such deviations are justifiable. In case the society takes up printing, publishing and sale of books at its cost on behalf of authors, care should be taken to see that the society takes up the printing and publishing of books which are saleable, in order to avoid locking up of money.

(a). Copyright Investment Register :- The auditor has to ascertain whether the committee has laid down specific norms for fixing the value of copyright and whether these norms have been followed.

The copyright investment register has to be examined to ascertain whether all the titles have been published or whether they are ready for publication. In the case of titles pending unpublished for long, the reason for such pendency shall be ascertained. The copyright agreement may be checked with copy right investment register, the day book with the voucher for payment of amount and with the copyright investment register.

(b). Royalty:- In case, of books published on royalty basis, the royalty agreement has to be examined to ascertain whether the agreement has been executed as soon as the selection of title is made. It should also be ascertained whether the society has printed and sold only the number of copies as agreed. Printing of books beyond the valid period of agreement should also be located in audit. If it is for pre-publication sale, the agreement must have been executed before starting the work of pre-publication. Since the offer of pre-publication concession extends to a specific period only, it may be ensured that such concessions were allowed only to those who remitted money within the time limit specified for the purpose. Since the royalty payable is calculated on the basis of books sold, the auditor will verify the stock register to see that no excess payment is allowed on this account. Statement showing the sale of books, amount of royalty payable etc shall be prepared both for publication and distribution of books. The auditor will also examine the subsidiary rules, if any, framed by the society for the payment of royalty and ensure that there is no violation. The concerned board resolution should also be verified.

iv. Distribution section: The terms of agreement of distribution of books has to be verified in order to ascertain the mode of payment of sale proceeds, commission etc. It may be ensured whether payment has been made to the party, before the actual sale of books, which is against rules. It may be verified whether payment on account of sales of books, has been made entirely on the basis of the half yearly verification of stock at various Depots/Agency/Branches. Proper realization of commission on sales is another important aspect which has to be looked in to by the auditor. It should also be assessed whether the commission realised on sales is sufficient to meet the expenses in connection with the sales of such books.

v. Agency System :- Accounts relating to the agencies are to be checked. The agreements executed by the agencies should be verified to assess the security deposit to be furnished by the agency, the maximum value of books that could be entrusted to the agency for sale etc., and regarding the fulfilment of those conditions. The liability register, in respect of each agency should be checked to ascertain whether the agencies remit the sales proceeds regularly as per terms of agreement and the periodical reconciliation of balances outstanding with them.

vi. Closing stock: The method of arriving at cost price for calculation of closing stock is an important factor. Unrealistic calculation of closing stock shall affect the profit or loss of the society.

a. Publication Books: The opening stock of books at face value and cost price/value will be taken from the previous audit certificate. The face value of publication books published during the audit year will be added to the opening stock of books at face value and the total arrived at. Similarly, along with the opening stock of books at cost price/value, the cost price/value of books (which include material cost, printing expenses etc.) published during the year will be added and the total cost price/value arrived at. In order to calculate the percentage of cost to face value of books, the total of cost value/price arrived at, as above will be divided by the total of face value. The annual verification of stock will reveal the face value of closing stock. Multiplying the face value of closing stock by the percentage of cost price will reveal the closing stock at cost price for the preparation of final accounts.

b. Outright purchases: In case of outright purchases of books, cost price will be the actual purchase price. The cost can be arrived at by deducting the commission earned in effecting the purchase. The method of calculation of percentage of cost and assessment of the value of closing stock at cost price will be the same as in the cost of publication books.

c. Charging of depreciation on books: Depreciation has to be charged on books according to the age of books. The rate at which such depreciation has to be charged will be fixed by the Registrar from time to time. The rate now fixed is as follows:



- i. No Depreciation on books which are up to 5 years old
- ii. Depreciation @ 5% to be charged on books which are 5 to 10 years old
- iii. Depreciation @ 10% to be charged on all books which are more than 10 years old.

vii. Different Book club Schemes : These are schemes designed to boost up sale of books. It may be verified that such schemes have been started on proper resolution of the Board of Directors of the society. The sub rules formulated for each scheme should be examined. The auditor has to ascertain whether they are complied with.

viii. Branches: The control of sales units/branches will be exercised by the sales wing of the Head office of the society. The books/publications for sale will be distributed among the branches from the main godown. In order to ensure proper accounting of books transferred from the main godown to branches the transfer bills of books issued by the godown keeper have to be checked with the liability register/stock register maintained at branches. With regard to the checking of sale proceeds of branches, the auditor will check the daily extracts of sales with the ledger and the ledger with the Day book. Whether the branches are operating economically shall be checked by the auditor.

ix. Reconciliation of Branch accounts: It should be ensured that the society conducts periodical reconciliation of branch accounts.

Monthly reconciliation of head office account with the accounts of publication, distribution and the sales wings of the society should be ensured. Similarly reconciliation of agent's accounts with head office account is also necessary. The working results of each unit shall be assessed realistically and deficiencies if any pointed out indicating suggestion for improvement.

The auditor has to check whether all the stock in sales depots, godowns, press, head office etc. are adequately insured and the policies kept alive.

x. Verification of Book Festival: The impact of Book Festivals on books sales shall be assessed and the expenditure on account of the festivals shall be reviewed.

xi. Financial assistance from Government: Whether financial assistance sanctioned by the Government have been duly accounted in the books of accounts of the society is to be ascertained. The utilization of grants and subsidies shall be examined and proper utilisation ensured.

## Chapter XIII

### 13.7. AUDIT OF LIFT IRRIGATION OF CO-OPERATIVE SOCIETIES

Lift Irrigation Co-operatives are setup in rural areas for supporting the farming activities by facilitating the irrigation of agricultural land. The society arranges for the agricultural development works, making canals and rivers and bunds. The lift irrigation societies shall also undertake the lift irrigation projects within the area of operation of the society. The water charges received by the society shall be verified and it shall be compared with the rate approved by the Board of Directors. The pumping of water shall be examined to satisfy that the pumping charges received by the society are duly accounted in the books of accounts. The rate approved by the managing committee shall be scrutinised to see that the society has received the pumping charges at the same rate. The expenses incurred on the pumping of water shall be verified. The maintenance and repairs of the motors as well as the motor sheds shall be ascertained to see that they are reasonable. The electricity charges paid and the pumping charges collected by the society shall be compared with. The auditor shall verify the resolutions of the General body. If the Annual General Body is not held, it shall be reported to the administrative department. Whether the Annual General Body Meeting has been conducted and the society has approved the statutory reports shall be ascertained. Whether the Budget for the forthcoming year is approved shall be ascertained. The society shall maintain books of accounts in accordance with Rule 29 of KCS Rules and the auditor shall verify the same to satisfy that they are properly maintained. It should be ensured that the Annual Stock Verification is carried out in accordance with the directions of Registrar (Ref; Audit Manual Part I Chapter IX)

## **Chapter XIV**

### **AUDIT OF OTHER TYPES OF COOPERATIVES**

#### **14.1. AUDIT OF INDUSTRIAL CO-OPERATIVE SOCIETIES**

*14.1.1.* Introduction

*14.1.2.* Production and Processing

*14.1.2.(i)* Use of Raw Materials

*14.1.2.(ii)* Receipt of Finished Goods

*14.1.2.(iii)* Payment of Wages

*14.1.2.(iv)* Costing

*14.1.2.(v)* Price Fixation

*14.1.3.* Out turn Analysis

*14.1.4.* Reconciliation of Accounts

#### *14.1.1. Introduction*

The Cottage and Small scale industrial units play a significant role in the growth and prosperity of the rural economy. The production and services related to pottery, carpentry, blacksmithy, leather products and metallic industries are organized under the auspices of the Industrial Co-operative Society. Various products manufactured by these production units shall be satisfying the demands of the consumers. The rural employment opportunities shall be augmented through these small scale and cottage manufacturing units. The manufacturing units may be placed either in the factories set up by the society or in the workshops of the members itself. The cottage and small scale units are categorised into modern industries and traditional and heritage industries. Co-operative Societies were registered exclusively for weavers, coir weavers and manufactures, fishermen and dairy farmers, which are separately dealt with in this Manual.

#### *14.1.2. Production and Processing*

The Industrial Co-operative Societies carry out the manufacturing and processing of different products. For this purpose, they have to set up plant and machinery and workshops. The purchase of equipment and machinery shall be verified by the auditor to ascertain whether rules and procedures of purchases were followed. The society may be running the production units in its own workshops or supplying raw materials to the members who shall return the products. In the former case, members may be getting wages on daily basis and in the latter case, the members may be getting the price of the finished goods that they have manufactured. The cost of raw materials shall be deducted from the price of finished goods. The workers may be employed on piece rate basis also. The auditor shall check the following points with respect to the production and processing activities of the unit.

*14.1.2.(i) Use of raw materials* : The society should keep a specification chart indicating distinctly the raw material required for producing a particular item. The quantity of raw materials issued to a member, to manufacture a particular product shall be compared with the specification chart to ascertain whether they had a reasonable correlation, if there is high level of variation, such cases should be enquired in detail. The raw material issued should be checked with the register. The auditor has also to ensure that the society has an efficient system of inventory control and the stocks have been adequately insured and the policies kept alive.

*14.1.2.(ii). Receipt of finished goods* : It should be ensured that the finished goods delivered is properly accounted in the society. The raw material issue register should be compared with the register of finished goods.

*14.1.2.(iii). Payment of wages* : In order to maintain the high quality of finished goods, technical advice should be available to assess the workmanship of the finished products and to decide on the rate of wages payable in respect of different varieties, if piece rate system is followed. While checking the wages, the auditor shall ensure that wages have been paid only in accordance with the rate fixed by the technical experts. This can be ensured by checking the wages register/muster rolls, with the approved schedule of wages.

*14.1.2. (iv) Costing* : The elements which constitute the total cost of any product are (a) Direct expenditure (b) Indirect expenditure. Direct expenditure includes material cost, labour and direct expenses. Indirect expenses includes the marketing and distribution expenditure, factory expense, office or administrative expenses etc.

Every production unit should have an estimate of the probable cost of a unit of a particular commodity proposed to be produced by it. The statement which shows the estimated costs is termed as cost sheet. The total of factory cost and office overhead will be the cost of production or actual cost. The auditor may compare the actual cost of a particular unit with the estimated cost to see how they correlate. If the actual cost exceeds the estimated cost heavily, the auditor has to investigate the reason for such increase, and appraise the Board of Directors about it. He shall examine whether the increase in the cost of production has been noticed in direct expenditure or indirect expenditure or has occurred as a result of non production of the items to its optimum level.

*14.1.2. (v) Price Fixation :* The selling price of a product is decided by adding a fixed percentage of profit on the actual cost of the product. The auditor shall verify whether the selling price has been fixed, taking in to consideration all the factors related to the production and marketing of the product subject to the approval of the Board of Directors or subcommittee.

#### *14.1.3. Out turn Analysis*

The raw material and inputs applied in the manufacturing process should have a correlation with the output or finished goods. The auditor shall ascertain the percentage of out turn in respect of each product to satisfy that the percentage level of out turn has been maintained in each batch of production. If any considerable variation is noticed in the percentage, he shall make a detailed enquiry and reason for such shortage shall be reported. Natural and usual fluctuations in the percentage of out turn shall be considered.

## **Chapter XIV**

### **14.2. AUDIT OF RUBBER KARSHAKA CO-OPERATIVE SOCIETIES**

#### *14.2.1. Introduction*

Primary Rubber Karshaka or Rubber Ulpadaka Co-operative societies are started with the area of operation of a village or a Taluk. The major objective of the society is to assist the rubber growers for the scientific cultivation of rubber. The Rubber Karshaka Co-operative Societies shall make arrangements for the availability of high yielding rubber plants. They shall also arrange rubber nurseries for the distribution of better quality plants. The small scale rubber farmers are unable to arrange spraying of copper sulphate and other medicines, as it requires aerial spraying with the help of helicopter. Hence, the cooperative society shall arrange for the aerial spraying by taking the helicopter on rent and the members shall be charged according to the extent of rubber trees sprayed. The co-operative society shall purchase modern equipments required for the rubber cultivation and shall let it to the members for their use. They shall also take up the collection of latex and other products and enable their sales at moderate rates, as agents.

#### *14.2.2. Collection of Deposits*

The various deposit schemes undertaken by the society shall be verified to see that they are having approved sub rules and approval of the Registrar. Recurring deposits, savings deposits and fixed/ term deposits may be checked with the ledgers and Day book.

#### *14.2.3. Maintenance of Fluid Resources*

The auditor shall ensure that the society maintains fluid resources in accordance with Rule 63 of the Kerala Cooperative Societies Rules. He shall verify the register of fluid resources to satisfy that the society has kept the fluid resources sufficiently.



#### *14.2.4. Credit Deposit ratio*

The credit deposit ratio shall be verified to ensure that the society keeps the CD ratio at a higher level. If the ratio is below the minimum required, the auditor shall enquire into it and the reason for such a low level shall be analysed and reported.

#### *14.2.5. Membership in statutory schemes*

The Auditor shall examine whether the society has enrolled in the statutory schemes such as Deposit Guarantee scheme, Co-operative Risk fund Scheme etc for the benefit of the members of the society.

## Chapter XIV

### **14.3. AUDIT OF LIME SHELL CO-OPERATIVE SOCIETIES**

The limeshell collected by the members from various lakes and back waters shall be procured by the society. The limeshell co-operative societies are registered with the objective of improvement of economic status of the members, by implementing the schemes for the enhancement of the employment opportunities of the members. The co-operative society shall mobilize funds by way of borrowings from banks and financial institutions for the management of limeshell business. The society shall act as an agent for the sale of limeshell after processing. The quick lime or burnt lime obtained through processing of limeshell, shall be supplied through agencies or franchisees. The lime shell society may be running provision stores and consumer stores for the benefit of members. The society shall provide loans and advances to its members for the purchase of tools and equipment necessary for shell mining as well as for the processing of lime shell. The auditor shall examine whether the society has a valid licence for lime shell mining and whether it is sublet to the members as per the resolutions of the Board of Directors. Whether the members had supplied the lime shell collected to the society on the same day itself, shall be ascertained and whether the payment of value of limeshell was made in accordance with the provision of the bylaw. The value of lime shell collected by the members and supplied to the society, shall be paid the rate as prescribed in the bylaws. The auditor shall verify the bylaw provision to satisfy that the rate prescribed in the bylaw is complied with and applied to all members uniformly. Whether any member collects lime shells and sell it to any other agencies other than the society shall be enquired by the Board of Directors and if

any such instances are noticed, such members shall be removed from the membership of the society in accordance with the bylaw as well as the provisions of the KCS Act and Rules and the auditor shall verify whether the procedures were strictly followed in such removal. Whether the society had prepared necessary sub rules for the business of the society and got approved by the Registrar shall be ascertained. The other businesses undertaken by the society shall also be verified by the auditor. The deposits if collected by the society, shall be checked in the audit to see that the following points are satisfied:

1. The society has provision in the bylaw enabling the collection of deposits.
2. The society has sub rules for the deposits approved by the Registrar.
3. The rate of interest paid is in accordance with the directives of Registrar.
4. The society keeps books of accounts and registers for the deposits collected.
5. The society keeps fluid resources in accordance with Rule 63 of KCS Rules.

The Auditor shall examine the following points too

- i) Whether the society has conducted the annual General Body meeting and fulfilled the mandatory obligations
- ii) Whether the society is affiliated to the Co-operative Union.

## Chapter XIV

### 14.4. AUDIT OF WASHERMEN CO-OPERATIVE SOCIETIES

#### *14.4.1. Introduction*

Washermen Cooperative Societies are established for ensuring and augmenting the employment opportunities of persons engaged in washing and laundry. It shall enable the members for improvement in their profession by purchasing of equipment for washing and sales to its members either on cash sales or on credit basis. These type of societies shall arrange for installing laundry to provide job opportunities to its members. The society shall undertake the activities conducive for the wellbeing of its members.

#### *14.4.2. Special points to be examined*

1. Whether the society has kept its registered bylaws and categorical statement in the society.
2. Whether the membership was restricted and allotted to the persons specified in the bylaws only
3. Whether the sub rule for deposit has got approved by the Registrar, if the society is collecting deposits from its members.
4. Whether the society is paying interest on deposits, as per the directions of Registrars of Co-operative societies.
5. Whether the election to the Board of Directors was held in accordance with KCS Act and Rules.
6. Whether Annual General Body meeting was held in accordance with section 29 of KCS Act and provisions complied with.
7. Whether the Annual General Body meeting had the minimum required quorum as specified in the bylaws.

8. Whether the annual report, annual financial statements, audit report, budget profit appropriation and Bylaw amendments were approved by the Annual General Body meeting.
9. Whether the society has got approved the sub rules for the loans and advances.
10. Whether appropriate legal action was taken on overdue loans.
11. Whether annual stock verification was conducted in the society and whether the auditor has considered the stock verification statement while arriving at the annual closing stock.
12. Whether there is any default/overdue in the loans and advances disbursed to the Board of Directors.
13. Whether the society had filed returns and statements to the Registrar as prescribed in section 66C of the KCS Act.

## Chapter XIV

### 14.5. AUDIT OF TODDY TAPPERS/PRODUCERS CO-OPERATIVE SOCIETIES

While auditing Toddy Tappers/Producers Co-operative Societies, the following points shall be considered in addition to the guidelines in Part I of the Kerala Co-operative Audit Manual.

14.5.1. Accounting of business: Accounting of Toddy Tappers/Producers Co-operative Societies can be broadly classified in to three major heads.

- a. Tapping of Toddy
- b. Pooling and distribution
- c. Sales through shops
- a. Tapping of Toddy :

1. Coconut trees are hired by the societies and allotted to the tappers. The rate of hire charges (Chethupattom) will be decided by the Board of Directors of the society from time to time for tapping the trees, the owners are paid “chethupattom” direct by tappers which will be ultimately met by the society. The auditor has therefore to see whether ‘Chethupattom’ is paid only on proper bill passed by competent authority.

2. Chethu cooly includes wages payable to tappers, charges incurred for transporting toddy from the field to the storing place and the dearness allowance. It has to be ascertained whether ‘chethu cooly’ is paid at the rates prescribed by the Board of Directors and are supported by bills duly approved by competent authority. Since ‘chethu cooli’ bills serve the purpose of acquittance also, the auditor will verify these bills to ensure that proper acknowledgements have been obtained for payments made. The auditor has also to verify the wage rolls on account of payment made towards “Orukkufees” “upakarana fees”, Ayudha allowances and dearness allowance.

b. Pooling and Distribution :

1. Pooling : Toddy tapped are carried to the various shops/stores by the tappers. Toddy will be measured and taken to stock by the shop managers/stores managers and necessary entries made in the “Kallu alavu pass book” of the tappers. Wage bills are prepared by the managers from the books maintained at the shops. While checking the wage bills, “kallu alavu pass books” of the tappers may be called for at random and correctness of the toddy measured and accounted in the shops/stores verified.

The shop managers would be sending a “store memo” to the head office indicating the stock of toddy in the shop/store every day. Based on the “store memos” received from different shops and stores, a consolidated stock register will be maintained at the head office. It has to be cross checked during the audit. Whether the actual quantity measured and stored as per store memo tally with the actual quantity measured as shown in the weekly “chethucoolli bills” sent to the head office by the managers. The store memos should also be checked with the stock register.

14.5.2. Distribution : When the toddy pooled in the stores are distributed to the toddy shops for sale, it has to be checked, whether proper invoices and delivery notes are prepared and signed by the store managers and acknowledged by the Shop Managers. Issues from the stores have to be verified by checking the “Issue Register”/Daily stock Statement, maintained at the store, with the invoice, prepared by the manager. The report of messengers who distribute the toddy to the shops may also be checked with the ‘Daily stock statement’ sent by the Store Manager, to see whether the supply as indicated by both reports tally.

c. Sales through shops :

1. Toddy received from the store and toddy, if any, measured at the toddy shops by the tappers, where there are no stores, are sold at rates fixed by the Board of Directors. The shop managers will be sending ‘a daily shop statement’ to the head office indicating the stock of toddy, sales and other petty expenses incurred in connection with the sale and the net sale proceeds handed over to the messengers. The messengers account has to be checked with the daily shop statement at random to see whether the toddy supplied at shop has been accounted properly. While

checking the vouchers of petty expenses at shops, the auditor should ensure that incurring of such expenses is within their competence, and supported by proper vouchers. In checking these vouchers the auditor may use his discretion to check them entirely or at random or depend on the effective internal checking, if any in force.

In order to ensure that all the sale proceeds entrusted to the messengers are remitted in the head office. The messengers account may be checked with the daily shop statement regularly. The liability, if any, of each shop manager is to be worked out and reconciled daily.

ii. Destruction of Toddy : Unsalable toddy has to be destroyed or transported to various distilleries as per permit. In case of destruction, it has to be ascertained that destruction has been made under the supervision of competent authorities, as authorized by the Managing Committee. Reports on the destruction of toddy may also be verified.

iii. Accounting of sale proceeds : Toddy sales receipts remitted in office by the messengers as per challan is first accounted in the 'cash book' maintained by 'cashiers'. A daily abstract will be prepared and the shop sales receipts and expenses are entered in the main Day Book from the subsidiary cash book. It has to be ensured whether daily receipts and expenses as exhibited in the subsidiary cash book are properly carried over to the main day book and whether all the daily receipts and payments are entered in the subsidiary cash book.

II. (a) Contribution to Kerala Toddy Workers Welfare Fund : It has to be ascertained whether welfare fund contributions at the rate prescribed under the act have been remitted monthly to the concerned authority before the due date.

(b) Remittance of 'KIST', Tree Tax etc. : The terms on which the toddy shops have been entrusted to the society, may be ascertained by verifying the relevant orders in this regard. Timely remittance of 'KIST', Tree Tax etc. has to be verified in audit.



(c) Abkari Act and Rules: It may be ascertained whether the society has complied with the statutory requirements, if any prescribed in the Abkari Act and Rules, in conducting the toddy shops and other transactions related to it. Daily receipt and sales of stock are to be reconciled in respect of each shop and store, and each store and head office. The auditor shall review the working result of each shop during the audit period and appraise the managing committee of its performance with suggestions, if any, for improvement.

III. Maintenance of Books of Accounts : In addition to the books of accounts specified in Rule 29 of the KCS Rules, the industry specific books and ledgers shall be kept up to date by the society. Production register, Raw materials register, Conversion register etc. shall be verified in the audit.

IV. Verification of Sub Rules : The auditor shall examine whether the society has got approved the sub rules in respect of ancillary activities such as collection of deposits, disbursal of loans and advances and MDS/MBS/DDS schemes.

## Chapter XIV

### 14.6. AUDIT OF CO-OPERATIVE CANTEENS/RESTAURANT

Special attention shall be paid while auditing the co-operative canteens or restaurants etc. Following points deserves the auditor's attention.

#### *14.6.1. Production Register/Conversion Register*

Raw materials required for the preparation of various food items will be supplied from the main stock of the chief cook daily/weekly which will be entered in the production register/conversion register. It should be ensured that issue of articles from the main stock, are properly accounted in the books of accounts maintained by the chief cook. The relevant resolutions of the managing committee/business committee fixing, production ratios of each unit of eatables, with a specified quantity of raw materials, should be verified and it should be ensured whether such minimum ratios have been achieved in producing finished products by the chief cook.

- a. Number of meals that can be prepared by cooking one kilogram of rice.
- b. For preparing 100 cups of tea how much quantity of milk, sugar and tea powder is required or with one litre of milk, the number of cups of tea/coffee that could be prepared etc. The auditor shall ascertain conversion ratio of each item by checking the Production/conversion register.

The production register has to be checked with the sales register to see whether the entire production has been sold in the canteen and if not the arrangements made to destroy perishable items.

#### *14.6.2. Liability Register*

The liability register maintained at the kitchen, showing the liability of cook in respect of articles supplied from the main stock, should be checked with production register to see the cost of articles supplied to the kitchen in comparison with the cost of articles prepared. If there are wide variations, the causes for such abnormal variations should be investigated.

#### *14.6.3. Coupon Redemption Register*

Where sales have been effected on the basis of coupons sold in advance to the members, the auditor should check this register with the coupon issue register to ascertain that the total value of coupons, sold in advance has been correctly recorded in this register in order to assess the actual liability of the society, in meeting the demands of the members. Similarly the daily/weekly sales made on the basis of coupon, should be entered in this register, reducing the liability of the members. While preparing the final accounts, the outstanding as revealed by this register should be treated as a liability of the society. The arrangements made by the society in destroying coupons returned on account of sales should be examined. It should be examined whether the society conducts periodical reconciliation of unused coupons kept with the members.

#### *14.6.4. Credit Sale of Coupons*

In societies, where the system of credit sale of coupons is followed, the auditor should check the personal accounts of the members who avail such facilities. The outstanding balances under this head should be treated as an item of asset while preparing the final accounts.

In certain societies, a different procedure is followed for issuing coupons on credit. At the time of issue of coupons on credit, a loan equal to the value of coupons issued on credit will be shown as issued in his name. In such cases, the auditor should check the loan ledger with the recovery schedules/statement etc. He shall examine the credit sales register as well as the credit sales coupon register.

#### *14.6.5. Compliance with Food Safety and Security Act 2006*

The Canteen/Restaurant Co-operative Society shall comply with the provisions of Food Safety and Security Act such as licensing etc, since these societies are dealing with food articles as defined by the Food Safety and Security Act 2006.

#### *14.6.6. Sub rules for deposits etc*

It should be verified whether the society had got approved from the Registrar of Co-operative Societies, the subrules for conducting and the collection of deposit schemes and deposits from its members.

#### *14.6.7. Dairy Farms etc*

The society shall be running dairy farms or agricultural farms for obtaining milk, ghee, vegetables etc for the use of the canteens or restaurants. In such cases, the auditor shall verify all accounts and transactions related to the farm.

## Chapter XIV

### **14.7. AUDIT OF INDIAN COFFEE BOARD WORKERS CO-OPERATIVE SOCIETY**

#### *14.7.1. Introduction*

Indian coffee house is a restaurant chain in India, run by a series of worker cooperative societies. Indian Coffee house was established as a worker Co-operative in 1957 and its first outlets opened at Bangalore and New Delhi. The chain of 400 outlets all over India, is managed by 13 Co-operative societies, which are self managed and symbolic of worker's independence. In Kerala the Thrissur branch started in 1958.

The two Co-operatives in our state in the name of Indian Coffee House are :

- i. India Coffee Board workers Cooperative Society Ltd No.4227 Trissur and
- ii. India Coffee board workers cooperative Society Ltd No. 4317 Kannur.

The administrative control vests with the Industries department in the case of first cooperative society and Department of Cooperation in the case of second coffee workers cooperative society.

#### *14.7.2. Employees Matters*

Service particulars of the employees shall be verified in the audit to satisfy that the directions of the Government and Registrar are complied with. Refer to chapter X of Part II of Kerala Co-operative Audit Manual.

#### *14.7.3. Business of the Cooperative Society*

The preparation of vegetarian and non-vegetarian items with a unique recipe is the most attractive feature of Indian Coffee Houses. The purchases for the food preparation shall be checked to satisfy that a policy is formulated and a purchase committee is monitoring the purchase operations. The quantity and quality of materials purchased shall be verified. As most of the products are perishable and therefore norms should have been formulated in terms of maximum quantity to be prepared at a time, judiciously managing the supply cycle as well as avoiding wastage. The freshness and quality of the materials purchased by Branch Managers is to be ensured which shall be inspected by the authorised team from Head Office, periodically. The maintenance of quality and safety of dishes supplied is of supreme priority in the Indian Coffee Houses, which is the major attraction of its customers. Apart from the in house restaurant services, the Coffee Houses may be undertaking external pantry contracts, parcel services, community pantry services as well as door to door sales. The auditor shall go through all these accounts to see that every transaction of purchase as well as sales is included in the society's financial statements. He shall examine the Production/Conversion Register, Purchase Register, Stock Register and Advance Register.

#### *14.7.4. Pricing of Items*

Whether there is a pricing policy, which takes in to account, the cooking and preparation cost of food items and beverages, whether there is a mechanism for the review of prices in accordance with market trend, and increase or decrease of prices of groceries and other materials, and wages, electricity charges, cooking gas etc are to be examined. The prices shall be ratified/ approved by the Board of Directors, if there is a system of subcommittee.

#### *14.7.5. Marketing Strategy*

The Coffee Houses may be adopting different marketing strategies. The identification of certain branches as vegetarian and some others as non-vegetarian is a fair marketing strategy attracting both types of customers. The Auditor shall examine the strategy and advice the society if any change is required.

#### *14.7.6. Financial Analysis*

The gross profit and the net profit of the society shall be compared with previous years. In order to have a scientific understanding of its financial position, various financial as well as operating ratios shall be worked out. Refer to chapter XII of the Part I of the Kerala Co-operative Audit Manual for detailed guidelines.

#### *14.7.7. Disposal of Waste*

The arrangements made by the society for the disposal of waste shall be verified and if found unsatisfactory, the auditor shall suggest measures for better disposal methods.

#### *14.7.8. Food Safety and Security Act 2006*

Whether the society had obtained license from the food safety and security department and compliance with the food safety and security act 2006 is to be verified.

#### *14.7.9. Quality Control*

Since the prospect of the society mainly depends on the better quality of food items supplied in the ICHs, there should be a fair level of quality control mechanism in the society.

#### *14.7.10. Training to the employees*

The workers should be enabled with better quality training on hospitality, customer care, hygiene, as well as modern techniques of restaurant management and sales managem.

## Chapter XIV

### 14.8. AUDIT OF TAILORS CO-OPERATIVE SOCIETY

The persons who are engaged in tailoring profession and who have passed Diploma or Certificate in tailoring shall be admitted as members of the Tailors Co-operative Society. The society shall undertake schemes and projects for supporting the members who have involved in self-employment projects. It shall provide loans and advances to its members for the establishment and expansion of tailoring units. The society shall arrange for the purchase of tailoring machines and other equipment necessary for sewing and tailoring works and sell it to the members at reasonable rates, either on cash or credit basis.

The Co-operative Societies may be managing tailoring institutes for providing vocational training to the unemployed youths. The auditor shall verify the projects undertaken by the society to ensure that it has got necessary approval from the authority concerned. The auditor shall see that necessary books and ledgers of loans and advances, deposits and monthly deposit schemes /Day Deposit Schemes are maintained in the society. While auditing the accounts of the society, he shall verify the purchase details of machines and ensure that rules and procedures are strictly followed in purchases. The society shall be managing stitching materials shop, tailoring institutes for men and women or exclusively for women, tailoring unit or shops and showrooms for the sales of sewing machines and other equipments and machines.

#### 1. Stitching Materials Shop

Materials required for household tailoring shall be supplied through the show rooms. The auditor shall see that the purchases and sales in the show room are properly accounted and stock register is maintained properly.



## 2. Tailoring Institutes

Whether necessary approval obtained for running such institute from the authority concerned shall be verified. Necessary books and registers, for recording the details of trainees, details of fees collected, payment of remuneration to the master tailors etc shall be kept up to date in the society. The auditor shall examine it to satisfy that all transactions are entered in the Registers and ledgers.

## 3. Tailoring Shop

The works undertaken in the stitching unit should be properly recorded. The work assignments shall be verified with reference to the rate of each piece of work. The register of customer's details shall be verified with the receipts and Day Book.

## 4. Show room for sewing machines:

Sales showroom shall be opened by the society for supplying the sewing machines and other equipment to its members as well as to the public at reasonable rates. The licenses obtained from the authority shall be verified by the auditor. The purchases and sales shall be properly accounted and incorporated in the main accounts of the society. The Books of Accounts in the show room shall be verified by the auditor to satisfy that no purchase or sales omission happened in the society. If any such instance is noticed, it should be reported immediately. The stock register shall also be maintained correctly and checked by the auditor to satisfy the proper maintenance of closing stock, which should be verified periodically by the Board of Directors or by authorised officials.

## 5. Other activities:

### (a) MDS/DDS

The society may be conducting monthly deposit schemes or Day deposit schemes for the benefit of its members. The guidelines provided as per chapter V of Part I of the Kerala Co-operative Audit Manual shall be adhered to while auditing such schemes. Whether the society has got approved the sub rules for the conduct of MDS/DDS shall be ascertained.

(b) Hire purchase loan : The hire purchase loans issued to the members shall be verified and ensured that repayment is made without any overdues. If there are any overdues, it should be taken up legally. The auditor shall examine the legal steps initiated against the defaulters. The loan ledger shall be checked with Day Book and General Ledger to satisfy the outstanding balances.

(c) Deposits : The society may be collecting fixed /term deposits, savings deposits and the special deposit schemes for the children of tailors and others. Whether these are carried out with the approval of Registrar and with the sub rule approval shall be ascertained. The balance outstanding in respect of each deposit shall be checked with the statements, deposit ledger, Day Book and General Ledger.

## Chapter XIV

### **14.9. AUDIT OF KERALA STATE CO-OPERATIVE INSTITUTE OF INFORMATION TECHNOLOGY ELECTRONICS AND COMMUNICATIONS LTD (COSTECH)**

#### *14.9.1. Introduction*

The Kerala State Co-operative Institute of Information Technology, Electronics & Communications Ltd was registered with the objective of undertaking and managing Engineering colleges on information technology to conduct Degree courses on Information Technology. It aims to conduct Post Graduate degree courses in Computer Applications and degree courses in Computer Science, Electronics and Instrumentation and Electronics and Telecommunications, to garner endorsement from companies, industrial sponsorship for students in Cooperative Engineering colleges, to market imported/local software applications to the organisations/ institutions and individuals in the state, to market imported/local computer and computers hardware in the state etc. The society shall also endeavour to set up of technology park from a marketing network throughout the state for the distribution of hardware/software and accessories etc. It shall invite companies in India or abroad to setup their branches in the technology parks. The society shall associate with the universities, institutes and companies in India or abroad for the accomplishment of the objectives pronounced. The COSTECH shall develop and market software required for its clients in India and abroad. It shall also develop E-commerce application for the Government or local/overseas clients. The Institute shall undertake training programmes on advanced software, training programmes for Government and private organisations etc. It shall conduct hardware and networking training

programmes and web based interactive training. The society shall also take up consultancy services on IT related areas. It shall conduct research and development for Government and Private enterprises. The society shall also import and export electronic equipment and components required for various organisations.

The following points shall be verified by the auditor.

1. Whether the election to the society was held on time.
2. Whether the financial assistances received from the Government was accounted properly in the society. Whether it is utilised and utilization certificate submitted.
3. Whether the instalments due to the Government, if any, is being remitted.
4. Whether the dividend on share capital contribution of the Government is being paid.
5. Whether the Annual General Body was conducted in accordance with the Kerala Cooperative Societies Act and Rules.
6. Whether the Budget, Annual Report and Financial Statements, Audit Report, Byelaw Amendments, Net profit appropriation and election date if due was approved by the General Body.
7. Whether the Books of Accounts are maintained in accordance with Rule 29 of the KCS Rules.
8. Whether the returns and statements are filed in accordance with section 66C of KCS Act.
9. Whether annual stock verification was held properly in accordance with the directions of Registrar.
10. Whether fixed assets of the society are verified and valued by the auditor and whether it is in agreement with the stock verification statement and Stock Register.

## Chapter XIV

### **14.10. AUDIT OF KERALA STATE ENGINEERING AND TRANSPORT DEVELOPMENT CO-OPERATIVE SOCIETY LTD (KETCO)**

#### *14.10.1. Introduction*

The Kerala state Engineering and Transport Development Cooperative Society was setup to cater to the needs of unemployed youths who are qualified in Engineering and technological fields. The society's major objective is to provide employment opportunities to the unemployed Degree or Diploma holders in Engineering, Computer Science etc. The society shall provide modern technical and other services required by the transport and automobile industry at reasonable cost and to provide them all articles, materials, fuels, oils, stores, machinery, spare parts and accessories of good quality at a reasonable price. It shall also provide better transport service to the people at a reasonable cost. It shall undertake the establishment and running of modern engineering workshops, spare parts manufacturing units, service stations, body building units, transport services and service stations, manufacturing, recharging and repairing of batteries, running of spare parts show rooms and repairs, overhauling and reconditioning of automobiles etc. In addition to the general points to be verified in accordance with the provisions in the Part I of the Kerala Co-operative Audit Manual, the following points shall be specifically verified by the auditor while carrying out the audit of the Kerala State Engineering and Transport Development Co-operative Society Ltd. (KETCO).

1. Whether the Annual General Body has been convened as per provisions of the Kerala Cooperative Societies Act and Rules and Bylaws.

2. Whether the accounts related to 'Co-operative retreads' were properly maintained and incorporated in the main accounts of the society and verified by the auditor.
3. Whether the receipts and payments at the service station and workshops were properly accounted and brought into the books of accounts of the society.
4. Whether the accounts of the Neethi Auto Stores are kept properly and incorporated in the books of accounts of the society.
5. Whether the accounts with the customers such as VSSC, IIST, Oil palm India & KSRTC are reconciled regularly by the society.
6. Whether the income from the four wheeler workshop & service station were included in the main accounts of the society.
7. Whether the society has maintained all the books of accounts required as per rules 29 of KCS Rules and whether the auditor has verified the Deposit ledgers to satisfy that the ledger balances match with the General Ledger and Day Book.
8. Whether the society has complied with the rules and procedures of the MDS/DDS as referred in Chapter V of Part II of the Kerala Cooperative Audit Manual.

## Chapter XIV

### **14.11. AUDIT OF ARTISANS DEVELOPMENT CO-OPERATIVE LTD (ARTCO)**

#### *14.11.1. Introduction*

The Artisans Development Cooperative Ltd was registered for promoting the economic interest of members, who are artisans, who have acquired their skills traditionally, and are involved in the work of carpentry, masonry blacksmithy, goldsmithy, other metal jewellery work, copper and bronze work, handicrafts, pottery, cobblery, tailoring, bamboo and eeta works, traditional pappad making etc. The society is envisaged as a multipurpose cooperative society having many areas and avenues of activities. Its work is concentrated on credit activities, marketing of products manufactured by the artisans and also in the construction sector. The society was approved by the Government as an accredited agency of the Government of Kerala, so as to be able to undertake the projects of Government departments. ARTCO has exemption in store purchase rules from the Government. Hence, it shall be able to supply furniture and other office equipment without any tendering process. While auditing the accounts of the Artisans Development Co-operative Ltd, the following points shall be specially examined:

#### *14.11.2. Points to be checked*

- i. Whether the society has got approved sub rules for deposit collection from the Registrar.
2. Whether the society has kept all books of accounts as prescribed in Rule 29 of the KCS Rules.

3. Whether the society has got permission for conducting MDS and such deposit schemes and has approved the sub rules. Refer to Chapter V of the part II of the Kerala Cooperative Audit Manual for the guidelines for auditing MDS.

4. Whether the loans disbursed to the members are recovered without defaults.

5. Whether any Government guarantee has been sanctioned to the society, if sanctioned, whether the society has remitted the guarantee commission.

6. Whether the society has maintained proper accounts in respect of Artisans Family Welfare Scheme.

7. Whether the loan overdue and interest overdue have been verified in the audit and whether the society has taken adequate legal steps against the defaulters.

8. Whether the society has maintained fluid resources as per rule 63 of KCS Rules.



## **Chapter XIV**

### **14.12 AUDIT OF KERALA STATE ENGINEERING AND INFRASTRUCTURE SERVICE CO-OPERATIVE LIMITD (KEISCO)**

#### *14.12.1. Introduction*

The Kerala State Engineering and Infrastructure Services Co-operative Limited, ( KEISCO), was formed by amalgamating the Kerala State Engineering Consultancy and Construction Co-operative Society Ltd. and Kerala Infrastructure, Leasing and Financial Services Limited. The major objective of the society is to generate more employment opportunities among the members. The society shall undertake the building construction of local bodies and co-operative institutions, and shall act as a consultant as well as supervisor for such activities. The ‘KEISCO’ shall prepare engineering project proposals as well as the architectural and structural designs and drawing of building and structures. The society shall prepare plans and estimates and tender documents of buildings and shall review the plans and estimates already prepared. The maintenance and repairs, electrification, internal partition, fire fighting etc., shall also be done by the society. The valuation of the building and undertaking of all engineering projects shall be the activities of the society. KEISCO shall implement such schemes for providing part time employment to the students of engineering colleges under the Government, Co-operative institutions and other Self financing institutions.

#### *14.12.2. Points to be verified while auditing:*

1. Whether the engineering supervisory work has been carried out by qualified engineers.
2. Whether the consultancy work is generating employment opportunities to the members.
3. Whether the society has got valid approval from the authorities for taking up consultancy and building construction works.

## **Chapter XIV**

### **14.13. AUDIT OF KERALA STATE HOMEOPATHIC CO-OPERATIVE PHARMACY LTD (HOMCOS)**

#### *14.13.1. Introduction*

Kerala State Homeopathic Co-operative Pharmacy Ltd is a state wide co-operative working under the control and supervision of “AYUSH Department”. The Co-operative pharmacy prepares and processes homeopathic medicines of superior quality through standardisation under the expert supervision of medical professionals. It supplies homeopathic medicines to Government departments and other public sector enterprises. It shall also institute clinics and other centres for the benefit of members. The society shall start medicinal farms and shall provide advices to its members. Collection and distribution of raw materials shall also be undertaken by the society. It shall provide free medical aid using the Common Good Fund available from the net profit. Publication of Homeopathic journals and other literatures and research in homeopathy shall be taken up by the society. It shall also promote the Homeopathic system of treatment and shall participate in exhibitions for the propagation of Homeopathic medicines

#### *14.13.2. Purchase, Processing and Sales of Homeopathic Medicines*

The society shall purchase raw materials and prepare homeopathic medicines as per the guidelines issued by the Drugs Controller. Whether the society has got a valid licence from the drugs controller shall be ascertained. The quality of the medicines prepared and processed shall be ensured through standardisation or quality control measures. The society shall make arrangements for the sale of medicines prepared through its own depots or branches. The auditor shall examine the details of raw materials purchased and consumed for the

preparation of medicines. It shall also be necessary to see that the stock Register of raw materials is properly maintained. The auditor shall see that the open market sales, interstate sales and credit sales to Government departments are properly accounted in the society.

#### *14.13.3. Verification of Farm Expenses*

The medicinal farm run by the society shall be examined to see that the expenses incurred for the farm is properly accounted and supported with proper vouchers.

#### *14.13.4. Internal Inspection and Audit*

The society shall implement a system of internal inspection and audit in the society, so that it shall be enabled to manage the affairs of the society more efficiently and effectively.

## Chapter XV

### AUDIT OF CIRCLE CO-OPERATIVE UNION

#### *15.1. Introduction*

As per section 88 of Kerala Co-operative Societies Act, the Government shall by notification in the Gazette constitute a Circle Cooperative Union for each circle in the manner as prescribed. The details of the election to the circle cooperative union shall be ascertained. The auditor shall examine the duties and responsibilities of the Circle Cooperative Union with respect to the prosperity and expansion of cooperative movement in the circle. The propaganda and awareness programmes organised shall be examined.

#### *15.2. Register of Societies*

The circle cooperative union shall maintain a Register of societies with the following particulars:

- i. Register number, name and date of registration of the society
- ii. Paid up share capital
- iii. Date on which affiliated to Circle Cooperative Union
- iv. Details of collection of affiliation fee/renewal fee

The auditor shall examine the register and ensure that the above particulars are recorded properly.

#### *15.3. Collection and Remittance of Affiliation fees to the State Union*

Whether the affiliation fees and renewal fees are duly collected from the societies and remitted to the State Cooperative Union at the prescribed ratio (at present 25% of fees collected) should be ascertained. The auditor shall check the Registers of affiliation fees and renewal fees and the list of societies.

#### *15.4. Co-operative Propaganda and Education*

The programmes organised in respect of Co-operative propaganda and education shall be ascertained and examined to see how far the Circle Union has succeeded in its mission. The training programmes, classes, seminars and workshops conducted by the Circle Cooperative Union shall be verified.

#### *15.5. Managing Committee Meetings.*

The Circle Co-operative Union shall be obliged to convey its opinion about the issues of bylaw amendment, supersession of committee and winding up of societies etc. For enabling such opinions, the meetings of the Managing Committee of the Circle Cooperative Union shall be held regularly at least once in a month. The auditor shall verify the minutes of the Circle Cooperative Union to satisfy that it has performed its obligations properly.

#### *15.6. Annual General Body meeting and approval of budget*

The auditor shall scrutinise the minutes of the Circle Cooperative Union to satisfy that the budget for the next financial year has been approved and copy submitted to the Registrar and the State Cooperative Union as per rules.

#### *15.7. Utilisation of Grants received*

The grants and subsidies or any kind of financial assistances received from Government shall be utilized for the purpose for which it was sanctioned. The auditor shall see that it is properly accounted, utilized and certificate of utilization submitted to the authorities concerned.

#### *15.8. Maintenance of Books of Accounts*

The Circle Union shall maintain the books and registers up to date related to the data of affiliated cooperative societies such as:

- a. Register of Directors of affiliated societies

- b. Register of employees of affiliated societies
- c. Affiliation fee register and renewal register
- d. Service Registers of employees
- e. Minutes book
- f. Cash Book/Day Book etc
- g. Stock file of circulars of Registrar, SCU and the Government
- h. Stock Register of Furniture and Equipment
- i. Register of dormant/defunct societies

#### *15.9. Bylaws of affiliated societies*

The Circle Cooperative Union shall keep the registered bylaws of affiliated societies in the circle with up to date amendments in its file.

## Chapter XVI

### AUDIT OF STATE CO-OPERATIVE UNION

#### *16.1. Introduction*

State Co-operative Union (SCU) is constituted in accordance with section 89 of the Kerala Co-operative Societies Act 1969 and the functions of State Cooperative Union specified in section 91 of the KCS Act, are organisation, development and providing assistance to the cooperative societies, carrying out the cooperative propaganda and dissemination of education on Cooperative Principles and practices and organisation of training programmes for the employees of societies and participation in the developmental activities of local authorities. The audit of accounts of State Cooperative Union shall be conducted by the Director of Cooperative Audit free of cost as specified in Rule 170 of the Kerala Co-operative Rules 1969, at least once in a year.

#### *16.2. Membership*

Every Co-operative society shall get affiliated with the State Co-operative Union, within a period of six months of the date of its registration, as per section 90 of the Kerala Cooperative Societies Act 1969. The auditor shall ascertain whether the newly registered societies are affiliated with the State Cooperative Union as prescribed. He shall also ensure that affiliation and renewal fees are collected promptly and accounted properly. In respect of contribution of affiliation and renewal fees to the Circle Cooperative Unions, proper receipts shall be obtained and filed, and verified by the auditor.

#### *16.3. Member Education Programme*

Mostly the member education programmes shall be financed by the Government. The auditor shall verify the programmes and related Government

orders sanctioning financial assistance for the same and ensure that they are properly disbursed to the beneficiaries and utilisation certificates submitted to the competent authorities. It should also be ascertained whether the unutilised portion, if any, has been refunded to the Government in time.

#### *16.4. Utilization of Cooperative Education Fund*

The Cooperative Education Fund shall be constituted in accordance with sub rule 2(a) of Rule 53 of KCS Rules. As per subrule 2(c) of Rule 53, the Cooperative Education Fund shall be utilized for the furtherance of Cooperative education and propaganda. It shall be utilised in accordance with the regulations of the Union and the general directions issued by the Registrar and the Government from time to time. The auditor shall examine the utilization of Cooperative Education Fund to see that it was in accordance with the regulations and directions as prescribed. The account maintained by the Union shall be scrutinised by the Auditor to see that the Fund management and administration is carried out by the committee constituted by the Government for that purpose.

#### *16.5. Training Colleges and Centres*

The training colleges and centres run by the State Cooperative Union, shall maintain their own accounts and should be ensured that they are incorporated within the accounts of State Cooperative Union. The auditor shall ascertain whether the accounts of training colleges and training Centres are reconciled periodically. The disbursement of stipend should be verified to see that the payment was made to the actual beneficiaries.

#### *16.6. Publicity and Propaganda*

In order to propagate the cooperative principles and ideals, and for the publicity of cooperative activities and for the furtherance of the cause of



cooperation etc, the State Co-operative Union shall undertake the publication of journals and periodicals. The auditor shall examine the accounts of the publications to ensure that accounts and records are being maintained properly and the expenses incurred are reasonable and competitive.

#### *16.7. Seminars and Conferences*

For seminars and conferences organised at the state level and to discuss and formulate policies for the development of the movement, the Union may be giving advances to the sponsors of the programme. In such cases the auditor shall scrutinise the individual accounts of the seminar/conference to ensure that the advances are promptly adjusted with proper vouchers.

#### *16.8. Inspection of Training and Training Centres.*

The State Cooperative Union shall arrange for the periodical inspection of training colleges and training centres. The auditor shall ensure that the defects communicated on the inspections were rectified by the training colleges and training centres.

#### *16.9. KICMA*

The management college under the control of State Cooperative Union, Kerala Institute of Cooperative Management (KICMA) conducts Master of Business Administration (MBA) Course with the approval of Kerala University and AICTE. It shall be examined to see that all accounts related to the Institute are incorporated with the main accounts of the State Cooperative Union. The income and expenditure of the Arts & Science College under KICMA shall also be verified and included with the accounts of the State Cooperative Union.

#### *16.10. Kerala Co-operative Journal*

The subscription rates, the subscription amount received, the number of copies printed, the number of copies dispatched, the quantity of paper purchased,

the quantity of paper consumed for printing of the journal and the printing charges and postal charges paid with respect to the Kerala Cooperative Journal shall be ascertained by the auditor. It should be ensured that the registration with the Newspaper Society of India is live and seen that all registers including Stock Register of paper, and printed magazine are kept up to date properly. The wages and remunerations paid to the editor as well as others shall be booked as expenses of the journal.

#### *16.11. Grants and Subsidies from Government*

The financial assistances received from the Government by way of grants or subsidies shall be properly accounted in the accounts of the State Cooperative Union.

#### *16.12. Verification of the Assets of the State Cooperative Union*

The auditor shall verify and value the assets of the Union. He should ensure that all items of assets are duly included in the assets portfolio. The annual stock verification shall be carried out properly and the auditor shall examine it to arrive at a correct value of closing stock.

## Chapter XVII

### **17. AUDIT OF KERALA STATE CO-OPERATIVE EMPLOYEES WELFARE BOARD**

#### *17.1. Introduction*

Government of Kerala has constituted the Kerala State Cooperative Employees Welfare Board for implementing the welfare schemes for the regular employees, commission agents and the persons working in the capacity of any other name on commission basis in a co-operative society registered or deemed to be registered under the Kerala Cooperative Societies Act. The scheme shall be applicable to employees of cooperative societies coming under the administrative control of the Registrar of Cooperative Societies as well as other departments such as Fisheries development, Dairy development, Industries, Coir Development and Khadi & Village Industries Board etc to alleviate the distress of the said employees and their dependents in indigent circumstances. The Welfare Fund shall be raised from the contributions at fixed rates from the employees as well as employer (Cooperative Societies). The Board shall administer the fund and shall provide assistance to the employees whenever needed. The auditor shall examine the constitution of the Board, constitution and administration of the fund, especially the financial assistances to the employee and his family and the refund of contributed amount on retirement or relief. The purposes for which the Board shall provide financial assistances shall be financial assistance to the family on the event of deceased employees, medical assistances to the employees who have undergone treatment of diseases as specified, refund of contributions made by the employees on their retirement or relief, awarding cash prizes to the children of employees etc.

*17.2. The auditor shall check the following points.*

1. Whether the contributions have been received from all employees who have opted the scheme.
2. Whether the fund management was proper and as per regulations issued by the Government from time to time.
3. Whether the Managing Committee has administered the affairs of the Board in compliance with the rules and regulations and directions from Government.
4. Whether the Managing Committee has framed subrules for the conduct of the Board's business.
5. Whether all assistance to the employees and their family were sanctioned by the Managing Committee.
6. Whether the assistance sanctioned by the chairman in urgent cases were ratified by the managing committee subsequently.
7. Whether the refund claims sanctioned by the Secretary/Treasurer was ratified by the Managing Committee in its subsequent meeting.
8. Whether the meetings of the Managing Committee were held as specified in the Rules (at least four times a year).
9. Whether all records and assets were kept in the safe custody of the Secretary.
10. Whether the minutes of the Managing Committee are kept promptly and properly by the Secretary of the Board.
11. Whether the books of accounts of the Board are maintained properly by the Secretary of the Board.

12. Whether all income such as monthly contribution from employees and employers and income arising out of investments were accounted promptly by the Board.
13. Whether the nominations of employees were duly filed in the prescribed form countersigned by the President of the Society.
14. Whether the contributions of employees and employers to the welfare fund are remitted regularly without any delay.
15. Whether the accounts maintained in the branches of KSCB are reconciled regularly and properly.
16. Whether the financial assistances to the family of the deceased are disbursed promptly.
17. Whether the contributed amount to the welfare fund by the employee is refunded along with the incentive promptly on retirement or relief of the employee.
18. Whether the treatment assistance to the employee who is undergoing treatment for cancer, heart surgery, kidney transplantation etc as prescribed in the rules has been sanctioned to the employees promptly.
19. Whether the annual report prepared by the Secretary/Treasurer and approved by the Managing Committee, has been furnished to the Government of Kerala promptly.
20. Whether the accounts with regional offices are being reconciled regularly and properly.

## Chapter XVIII

### **18. AUDIT OF KERALA STATE CO-OPERATIVE EMPLOYEES PENSION BOARD**

#### *18.1. Introduction*

The Kerala State Cooperative Employees Pension Scheme was formulated by the Government of Kerala for the payment of pension to the retired employees of Cooperative Societies of the State in the year 1993 by inserting section 80A in the Kerala Cooperative Societies Act. The Pension Scheme was initiated by the Government of Kerala and a Board for the administration of the Pension Fund was constituted in 1995. The Kerala State Cooperative Self-financing Pension scheme 1994 is applicable to all primary, regional, central and apex cooperative societies of the State under the administrative control of the Registrar of Cooperative societies. All primary cooperative societies under the functional Registrars such as Director of Dairy Development, Director of Fisheries etc are also brought under the purview of Kerala State Cooperative Self-financing Pension Scheme. All employees working on fulltime regular basis including part time contingent employees, commission agents, security staff and such categories are eligible to be enrolled in the scheme. The Kerala State Co-operative Pension Board was entrusted with the administration of pension funds of two pension schemes namely Kerala State Co-operative Employees Self-financing Pension Scheme 1994 and the Kerala State Co-operative Bank and District Co-operative Bank Employees Self-financing Pension Scheme 2005.

The pension scheme was extended to the employees of various Boards constituted under the provisions of Kerala Cooperative Societies Act (vide Go (P) No. 47/2017 Cooperative Dated 26.08.2017).

#### *18.2. Special points to be verified by the auditor while auditing the Pension Board:*

1. Members of the Pension Schemes : Whether all the societies which are supposed to be enrolled in the pension scheme have joined the scheme and are remitting the pension contribution to the Pension Board in time.

2. Whether administration charge as prescribed in the scheme has been charged from Kerala State Cooperative Bank and District Cooperative Banks.

3. Whether the Board has disbursed consolation pension as mentioned in the scheme.

4. Whether the Board has collected life certificate or facilitated mustering of pensioners as referred to in the pension scheme.

5. Whether the Pension Board has prepared the pension statement for each month and send to the branches of the Bank (KSCB) for pension distribution and received back the pension paid statement from the bank branches.

6. Whether the Pension Board has maintained books of accounts necessary for its activities, as stipulated in the scheme.

7. Whether the Pension Board has reconciled the accounts with banks, financial institutions to which it has transactions and its own regional offices/branches.

8. Whether the Pension Board has kept the investment register properly and obtained confirmation statement from the banks and reconciled.

9. Whether the calculation of pension was certified by the authorities concerned.

10. Whether the Pension Board has sanctioned the pension to all eligible applicants and the formalities followed properly.

11. Whether the Pension Board has invested their funds in the banks specified in the scheme itself.

12. Whether the Pension Fund was utilised as stipulated in the pension scheme.

13. Whether the Pension Board has submitted its annual working report to the Government as stipulated.

14. Whether the pension contribution has been remitted to the Pension Board on time by the societies, if delayed, whether action has been initiated for the recovery of penal interest from the Chief Executive, responsible for the default.

[Ref. Circular No. 44/2012 dated 19<sup>th</sup> November 2012 of Registrar of Co-operative Societies]

## Chapter XIX

### **19. AUDIT OF KERALA CO-OPERATIVE DEVELOPMENT AND WELFARE FUND BOARD**

#### *19.1 Introduction*

A scheme called “The Kerala Co-operative Welfare and Development Scheme” was framed by the Government of Kerala and a fund was constituted for the implementation of the scheme which was established as per section ‘57A’ of Kerala Co-operative societies Act w.e.f 02.01.2001. The government has formulated a scheme called “Co-operative Risk Fund Scheme” for the establishment of a fund for meeting the loan liability of members who have availed loans from co-operative societies. All loans except, gold loans and loans on the security of deposits (fixed/term deposit), are included in the scheme.

All members of the Co-operative Societies, who avail loans are supposed to subscribe to the cooperative risk fund scheme by remitting an amount at the rate as prescribed in the scheme. The welfare and charity measures are defined in the scheme which will enable the borrowers for several reliefs such as loan waiver up to a certain amount (Rs. 2 lakh as of now) on the event of death of a loanee, based on terms and conditions. The borrower who has been affected with severe diseases such as cancer, kidney diseases, cardiac ailments stroke, aids patients, TB, liver cirrhosis etc shall be given an assistance of Rs.1lakh subject to the terms and conditions.

The societies are required to remit annual contribution to the Board as prescribed in the scheme. The auditor shall examine the following points while auditing the Board:



1. Whether all the societies, as defined in the scheme has been enrolled in the Board
2. Whether the initial contribution and annual renewal fee have been remitted by the societies promptly.
3. Whether societies as defined in the scheme collect the risk fund as prescribed in the scheme (@ of 0.5% subject to a maximum of Rs.1000/- and minimum of Rs.100/- )
4. Whether the amount collected by way of risk fund contribution has been remitted to the Board's bank account, timely and return filed.
5. Whether the application for loan waiver on death or on other deceases is supported with documents prescribed in the scheme such as the Board resolution, medical certificate etc.
6. Whether fund utilization is as prescribed in the scheme.
7. Whether the fund is invested in the mode in which maximum return is ensured and whether the interest earned is added to the corpus fund.
8. Whether the application for assistance by the borrower is dealt with by the Board promptly as per the terms and conditions laid down in the scheme.
9. Whether the terms and conditions prescribed in the schemes are complied with while sanctioning the assistances.
10. Whether the loan assistance to weak cooperative societies is based on the availability/adequacy of fund with the Board and properly monitored
11. Whether all the documents as prescribed in the scheme (clause 11 of the risk fund scheme) are attached along with the application for assistance.
12. Whether the application for assistance is duly sanctioned by the authority ie the managing committee of the Board.

13. Whether the principal and interest on loans were realised regularly from the societies.
14. Whether the fixed deposits with Kerala State Cooperative Bank branches were renewed regularly on time avoiding the loss of interest.
15. Whether the accounts with banks were reconciled regularly and confirmation statements obtained and verified before finalising the audit of accounts of the Board.
16. Whether the financial assistances received from Government of Kerala are properly accounted by the Board and utilisation certificate submitted to the authorities concerned
17. Whether the welfare board has maintained the books of accounts up to date, incorporating all entries, and whether the suspense accounts due to the board have been kept and monitored properly.

## Chapter XX

### **20. AUDIT OF KERALA CO-OPERATIVE DEPOSIT GUARANTEE BOARD**

#### *20.1. Introduction*

In order to safeguard the interests of Depositors of Co-operative Societies, Government of Kerala has formulated a scheme named “the Deposit Guarantee Scheme” and incorporated it in the Kerala Co-operative Societies Act as section “57B”. The purpose of the scheme is to provide guarantee for the deposits made in credit cooperative societies and for creating confidence among the depositors and for attracting more deposits. The following societies shall be notified and enrolled in the Deposit Guarantee Scheme by the Registrar, if they are not dormant or not under liquidation.

- j. Primary Agricultural Credit Society
- ii. Primary Cooperative Agriculture and Rural Development Bank
- iii. Farmer’s Service Cooperative Bank
- iv. Rural Cooperative Bank
- v. Agriculture Improvement Society
- vi. Welfare and development cooperative society
- vii Urban cooperative society
- viii. Employees credit Cooperative Society
- ix. Vanitha Cooperative Society
- x. Non Agricultural credit society or any other society which accepts deposits from its members and such deposits constitutes part of its working capital.

The societies shall be notified to the Board by the Registrar of Cooperative Societies. The Board constituted for the administration of Deposit Guarantee Fund shall constitute the Deposit Guarantee Fund. The corpus fund shall be built up by contributions from the notified co-operative societies that are enrolled in the scheme, at the rate of ten paise for every deposit of Rupees One hundred or part thereof outstanding at the end of each financial year. The initial contribution to the funds is to be made on the outstanding amount of deposits of credit societies at the beginning of the financial year in which the scheme comes into force. Subsequent contributions shall be made on the incremental amount of deposits outstanding at the end of each financial year at the rate of ten paise per every deposit of hundred rupees or parts thereof. Societies having area of operation within a Revenue District shall be notified by the Joint Registrar General and with area of operation of more than one district or state wide jurisdiction shall be notified by the Registrar of Co-operative Societies.

Reference: 1. Circular No. 9/19 dated 27.02.2019 of Registrar of Cooperative Societies.

2. Circular No. 45/19 dated 01.11.2019 of Registrar of Cooperative Societies.

3. GO (P) 116/2018/Coop. Dated 22.09.2018

4. GO (P) 169/2018/Coop. dated 10.12.2018

*20.2. Special points to be verified while auditing the Deposit Guarantee Board.*

1. Whether all credit societies notified by the Registrar/Joint Registrar have been enrolled in the scheme.
2. Whether the initial contribution and the subsequent contributions from the enrolled societies were collected at the rate as prescribed by the Government.

3. Whether the societies have remitted the contributions in accordance with the rules within 3 months of the close of the financial year.
4. Whether the unclaimed amount with the unoperated accounts for a period of more than ten years has been transferred to the deposit guarantee fund.
5. Whether in the case of defaulted/delayed remittances interest was charged at the rate prescribed and remitted to the fund.
6. Whether any grant/subsidy/contribution was received during the year from the Government, if received whether it was properly accounted in the books of accounts of the Board.
7. Whether the contributions received to the fund were invested/deposited in the manner as prescribed by the Government.
8. Whether the auditor has examined the minutes of the Board meeting.
9. Whether the branch accounts are incorporated with the head office accounts properly.
10. Whether the Board maintains the books of accounts and records properly.
11. Whether the investment register has been examined by the auditor to satisfy that the funds of the Board have been invested in the banks/financial institutions, which ensure maximum return.
12. Whether the Board has obtained confirmation statements of the investments in the banks and it is in conformity with the investment ledger maintained in the Board.
13. Whether the income of the Board has been compared with its establishment and contingent expenditures.
14. Whether the auditor has examined the effectiveness of the networking and information technology system implemented in the Board with reference to its efficiency economy and security.

15. Whether the Board issued the guarantee certificate to all the societies who have remitted its contributions.
16. Whether the details of contributions from societies were properly accounted in the Board and verified by the auditor.
17. Whether all bank accounts of the Deposit Guarantee Board have been reconciled and confirmation statements obtained and verified by the auditor.
18. Whether the Board has maintained all the books of accounts as prescribed, whether the ledger of funds collected from societies has been kept up to date.
19. Whether the Board had held its meetings as stipulated in the Government notification or rules.

Refer to 1. GO (P) No. 03/2012/Cooperation, dated 11<sup>th</sup> January 2012

2. GO (P) No. 116/2018/Cooperation dated 22.09.2018

## Chapter XXI

### **21. AUDIT OF KERALA STATE CO-OPERATIVE SERVICE EXAMINATION BOARD**

#### *21.1. Introduction*

Government of Kerala has constituted a Co-operative Service Examination Board for the conduct of written examination for all direct recruitment posts of Junior clerks and above in the Primary Agricultural Credit Societies, Primary Credit Societies, Urban Co-operative Banks and Primary Co-operative Agricultural and Rural Development Banks and Housing Co-operatives in the State. The Cooperative Service Examination Board shall conduct competitive or qualifying examination for promotion of employees in the societies as per section 80B and sub rule (7) of Rule 185 of Kerala Co-operative Societies Act and Rules. The conduct of examination and the preparation of list of candidates to be interviewed for appointment shall be as prescribed. The Co-operative Service examination Board shall conduct the examination for the vacant posts in the co-operatives mentioned above, after notifying them in two leading dailies and the list shall be send to the societies concerned.

#### *21.2. Points to be verified with respect to the Cooperative Service Examination Board*

1. Whether the Examination Board is constituted as specified in the Kerala Co-operative Societies Act and Rules.
2. Whether the Board meetings were held to facilitate the conduct of examinations without any delay.
3. Whether the examinations were conducted after following the procedures as prescribed.
4. Whether the written examinations were conducted properly maintaining the principle of secrecy and transparency.

5. Whether the expenditure in respect of the examinations was reasonable.
6. Whether all the expenditure in connection with the examinations was sanctioned by the Board.
7. Whether the Chairman and the members were paid remuneration, TA, DA and other allowances as sanctioned by the Government of Kerala.
8. Whether the qualifying examination as laid down in Rule 185 of KCS Rules was conducted by the Co-operative Service Examination Board.
9. Whether the Board maintains the registers of examinations conducted by it, including the qualifying examination.
10. Whether the Board maintains the books of accounts up to date as stipulated in the KCS Rules.
11. Whether the bank accounts of the examination Board are reconciled properly.
12. Whether the examination fees collected from the candidates are properly accounted.
13. Whether the minutes of the meetings of the Co-operative Service Examination Board are properly recorded and authenticated by the Chairman and the members.



## Chapter XXII

### 22. AUDIT CLASSIFICATION OF NON CREDIT SOCIETIES

Even though different types of Non Credit Co-operative Societies are working with different characteristics, separate standards for different types of societies are being suggested. The audit classification norms of Consumer Co-operative and Industrial Co-operatives are mentioned here:

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

Consumer societies must be subject to the above tests and those societies which possess very high standards and come out successfully in all the tests can be classified under 'A', if no serious defects are noticed in their working. Class 'B' can be awarded to the societies which are when applied with the above tests keeping less standards than that of 'A' in making steady profits whose owned capital not less than 50% of the working capital, and where more than 40% of the

members purchase their requirements from the society and where the over dues on credit sales to the members do not exceed 20%. Societies which are incurring loss either due to bad management or lack of sufficient volume of business and where not less than 25% of the members are purchasing their requirements from the society and where the over dues on credit sales do not exceed 40% can be classified as 'C'. All other societies which do not fall under above classes will be classified under 'D'. The auditor may remember that these are only indications and broad directions to arrive at the proper classifications.

21.2.2. Industrial Societies: Apart from the general principles laid down, the following points shall also be considered in awarding audit classification to Industrial Co-operative Societies. Industrial Co-operative Societies are generally producer's societies. So there must be adequate arrangements to purchase the raw materials required by the producer's society economically. The society should be in a position to purchase and sell the finished products of its members, on agency basis. There must be a good system to check the quality of finished goods. The society must have opted sufficient safeguards to effect compulsory savings for its producer members. Industrial societies are given substantial financial assistance from the Government, and therefore proper utilisation of such assistances has to be verified by the auditor. The books of accounts of the society should be maintained correctly and promptly.

The members of staff must be qualified and properly trained. Loans, if advanced to the members should have been utilized properly. The over dues should not exceed 10% of the outstanding. A society fulfilling the above conditions and in which no serious defects are seen can be classified under 'A'. A society can be classified under class 'B' where 50% of the members take part in the production activities of the society and where the over dues do not exceed 20% of the

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

All other societies shall be classified as class 'D'. The auditor has to award suitable marks in the audit, in accordance with the above norms, and to submit the same to the Joint Director/Assistant Director along with the audit certificate and audit memorandum. The audit classification should be clearly indicated in the 'audit' certificate.

### *22.3.3. Audit Classification of Non Credit Societies*

No.	Particulars	Maximum Marks	Marks awarded	Reasons
1	Capital Structure	10		
2	Enrolment of members	5		
3	Extent of business done	25		
4	Subsidiary activities	10		
5	Provision for bad and doubtful assets	10		
6	Maintenance of accounts	10		
7	Rectification of audit and inspection defects	10		
8	Holding of meetings of General Body and Board of Directors	5		
9	General working including working results, service to members, trained office bearers and employees, Board of Directors, and educational activities	15		
<b>Total</b>		<b>100</b>		

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

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

## Chapter XXIII

### OFFENCES

#### *23.1. OFFENCES UNDER KCS ACT*

Section 94 of the Kerala Co-operative Societies Act 1969, deal with offences.

(i) No person other than a society shall carry on any business or trade under any name or title of which the word “Co-operative” is part, without the Government sanction.

(ii) Section 35 of the Act confers on the Co-operative Societies certain privileges. One of the privileges is the conferring of first charge on certain special assets of the members. Therefore if any member disposes of any property in respect of which the society has got a first charge it is an offence under the Act.

(iii) Willfully making false returns, furnishing of false information, failure to produce cash balance on demand, failure in making available the records for audit, inquiry, inspection etc., willfully or without any reasonable excuse disobeying any summons, requisition or lawful written order, issued under the KCS Act, etc. are offences under the Act.

(iv) Section 37 of the Act empowers the pay disbursing officers to recover from the salary of the employee the dues of the society, in which he is a member, subject to his executing an agreement authorising the employer to deduct the dues. After the execution of such an agreement by the member, if the employer fails to deduct any amount as required, or fails to pay the society the amount so recovered within seven days from the date on which such deduction was made, it will be treated as offence under the Act.

(v) Failure of any person to deposit the money collected for the formation of a society in the State Co-operative Bank or Post Office Savings Account, or in any other approved bank within fourteen days of its collection constitutes an offence. Misapplication of such share money is also an offence.

(vi) Misappropriation or unauthorized retention of money belonging to a society also constitutes an offence. The offences under the Kerala Co-operative Societies Act are in addition to the offences under the Indian Penal Code or any other Act.

The offences under Indian Penal code is distinct from the offences under the KCS Act.

### *23.2. Offences under Indian Penal Code :*

(i) *Theft* : In order to constitute an offence under IPC, existence of certain essential factors has to be established. Therefore, to establish an offence of theft, it has to be proved, that any movable property like cash, negotiable instruments or valuables contained in a safe or strong room of the bank or society has been removed or goods have been removed from its godown by any person intending to take it dishonestly.

(ii) *Criminal Misappropriation*: The offence commonly met within Co-operative Society/Bank in the misappropriation of its funds. A person can be held liable for criminal misappropriation, only if he dishonestly misappropriates or converts for his own use, money, goods or other movable properties which has come in to his possession. Dishonest intention to appropriate illegally is the basis for the institution of criminal proceedings. Therefore, to sustain a charge of misappropriation, the prosecution has to prove that the accused has dishonestly misappropriated or retained for his use the movable property. It is not required to prove the quantum of money misappropriated to prove the guilt. The dishonest intention to appropriate the property of another is common both in theft and misappropriation. The fact that the accused was given time to remit the money misappropriated will not vitiate a conviction for criminal misappropriation or show that the matter is one to be dealt within the civil court only.

(iii) *Criminal Breach of Trust*: To constitute the offence of criminal breach of trust, there must be dishonest misappropriation, by a person in whom confidence is placed as to the custody or management of funds or property, in respect of which the breach of trust is alleged. There must be an entrustment, there must be misappropriation to one's own use, or use in violation of any legal contract, and the misappropriation or conversion of money must be with dishonest intention. The principal ingredient, being entrustment of property, dishonest misappropriation or converting to own use, failure or breach of any obligation to account for the property entrusted, will justifiably lead to an inference of dishonest misappropriation.

(iv) *Fraudulent Deeds:* Section 206 to 210 and 421 to 424 of Indian Penal Code deal with fraudulently dealing with one's property to defeat creditors. It is seen that section 421 to 424 deal with the following.

1. Fraudulently concealing of property in one's possession (Section. 421 and Section. 424 of IPC).
2. Fraudulently preventing debt being available for creditors (Section. 422 of IPC).
3. Fraudulent execution of a deed of Transfer (Section. 423 of IPC).
4. Fraudulent release of debt (Section. 424 of IPC).

All the above frauds, are committed without reference to any proceedings in court by means of transactions, between individuals, acting in collusion with each other.

*23.3 Duty of Auditor to Help the Police:* Where if a case of misappropriation of funds of a co-operative society is reported to the police for investigation, it is the duty of the auditor to render possible assistance in making out a case. As the Co-operative accounts are of technical nature, the auditor will be able to help the police to a certain extent.

**Appendix I**  
**AUDIT SCHEDULES**  
**SCHEDULE NO.I**

Share capital held at the end of .....20

Sl. No	Member No.	Name of Member	<u>Opening balance</u>		<u>Received during the year</u> <u>...20...20</u>		<u>Total</u>	
			No.of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)



SCHEDULE NO.I - (Contd.)

Repaid/Transferred during the Year 20.....		Balance at the end of the Year		Arrears		Remarks
20.....						
No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount	
(10)	(11)	(12)	(13)	(14)	(15)	(16)

(\*) Shares contributed by Government and other institutions should be shown distinctively in the statement

Abstract		No. of Shares	Amount
(i)	Opening Balance	.....	.....
(ii)	Received during the year	.....	.....
(iii)	Total	.....	.....
(iv)	Repaid/transferred during the year	.....	.....
(v)	Balance at the end of the year	.....	.....
(vi)	Arrears of shares, if any	.....	.....
(vii)	Of (v) above	.....	.....
	(a) Shares held by Government	.....	.....
	(b) Individuals	.....	.....
	(c) Others	.....	.....
	(d) Total	.....	.....

SCHEDULE NO.II

**Deposit held at the end of the Year .....**

Sl. No	Name of Depositor	Held at the Beginning of the Year		Total	Received during the year		Total	Total	
		Members	Non- members		Members	Non- members		Members	Non- members
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

SCHEDULE NO.II – (Contd)

Paid off During the year		Held at the end of the Year		Total	Payment of interest			Remarks	
(11)	(12)	(13)	(14)		Due	Paid	Balance		
				(15)	(16)	(17)	1(8)	(19)	(20)

*\* Separate statement is to be prepared in respect of different types of deposits, viz., fixed savings, current etc.*

**Abstracts of Schedule No. II**

Sl. No	Type of Deposit	Held at the beginning of the year	Received during year	Total	Paid off during this year	Held at the end of the year	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7 )	(8)

Total

### SCHEDULE NO. III

#### Abstract of Borrowings

Sl. No	From whom borrowed	Opening balance	Received during year	Total	Paid during the year	Outstanding at the end of the year	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7 )	(8)
	(a) Financing Bank						
	(b) Government						
	(c) Others						
	Total						

## SCHEDULE NO. IV

### Loans outstanding against members as at the end of the year

Sl. No	M.M. No	Name of Loanee	Loan No.	Outstanding at beginning of the year	Issued during the year	Total	Repaid during the year	Outstanding at the end of the year	Of which over due	Of which Arrears	Interest		Balanced	Overdue
											Due	Collected		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)

Total

Note : Separate statements should be prepared for each type of loan.

### Abstract

- (1) Outstanding at the beginning of the year
- (2) Issued during the year
- (3) Total
- (4) Repaid during the year
- (5) Balance at the end of the year

SCHEDULE NO. V

**Investment as at the end of .....**

Sl. No	Nature of Investment	Held at the beginning of the year	Invested during the year	Total	Withdrawn during the year	Balance at the end of the year	Accrued	Interest		Remarks
								Collected	Balanced	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)

Total

**Abstract**

- (1) Investments held at the beginning of the year
- (2) Investment made during the year
- (3) Total
- (4) Investment withdrawn during the year
- (5) Balance as at the end of the year

### SCHEDULE NO.VI

**Provident fund contribution as at the end of .....**

Sl. No	Name of Employee	Designation	Held at the Beginning of the Year		Contribution made during the year				Balance at the end of the year
			Employees Contribution	Society Contribution	Employees	Society	Employees	Society	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total									



SCHEDULE NO. VII

**Establishment strength as on .....**

Sl. No	Name of employees	Date of birth and age	Designation	Scale of pay	Date of Entry in Service	Qualifications	Total Emoluments p.m	Security prescribed			Interest			Remarks
								Cash	Property	Fidelity	Cash	Property	Fidelity	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)

SCHEDULE NO.VIII

**Closing stock as on .....**

**(a) Where item war stock register is maintained**

				<u>Value</u>	<u>Excess Stock</u>	<u>Deficit Stock</u>	
Sl. No	Item of Stock	Book Stock	Verified stock	Rate * Amount	Quantity value	Quantity value	Remarks
Total							

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\* cost price or market price whichever is less  
to be the basis of valuation

SCHEDULE NO. IX

**[Closing stock as on .....**

*(a) Where liability system of stock is maintained*

Sl. No	Item of Stock	Actually verified stock	Selling Rate	Value of verified stock at selling rate	Total value of stock as per liability register	Interest	Balanced Overdue
						Excess. or Deficit	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

Total

SCHEDULE NO. X

**Chitty collection and payment made during the year .....**

*(a) Chitty war details to be furnished*

Sl.No	Chitty No	Collections			Arrears if any	Payments				Details of Deposit under bid amount	Remarks
		Cash	Veetha palisa	Total		Cash	Commission	Deduction (ലേലക്കുറവ്)	Total		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)

# SCHEDULE NO. XI

## Schedule on divided payable as on.....

Sl. No	M. No.	Name of member	Dividend 20 20	Payable 20 20	For the Year 20 20 20 20	To	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

Total

SCHEDULE NO. XII(a)

**Working Sheet for estimating bad and doubtful debts**

Sl. No.	Name of Society	* Date of financial particulars	<u>Total Borrowings</u>		<u>Investment Payable to Bank</u>				
			Principal outstanding to the bank	Of which overdue for more than 3 years	Total	Of which overdue	Other outside liabilities	Cash and bank balance	Investments in Government and other trustee securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

SCHEDULE NO. XII(a) (*Contd.*)

<u>Value of shares held</u> <u>in</u>		<u>Total Loans</u>		<u>Interest receivable</u> <u>from members</u>			<u>Arbitration references</u> <u>filed but pending</u>		<u>Action against</u> <u>defaulters</u>	
central co- operative Bank	Other institutions	outstanding against members	or which overdue for more than 3 years	Total	Of which overdue	Other assets realisable	No.	Amount	<u>Award obtained</u>	
									No.	Amount
[11 (a)]	[11 (b)]	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)

SCHEDULE NO. XII(a) (Contd.)

Decrees sent for execution		Cash retained for long periods by present or ex-office bearers	Amount Involved in frauds/misappropriation, etc.	Society's Auditors estimate	Bank Supervisor's estimate	Year or latest audit report	Audit classification	Remarks
No.	Amount							
(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)

*\* The financial particulars may relate to the latest day of the year for which the latest audit report is available or as on the date of audit*



**SCHEDULE NO. XII(b)**

**Societies having overdues to the bank for 3 years and over as at the end of the Co-operative year 20....**

Name of Society:

Particulars of their individual members

Sl. No.	Name of the member	Loan account No.	Type of Loan	Date of advance	Amount Advanced (Rs.)	Due Date	Total amount outstanding (Rs.)	Of which overdue(Rs.)	Only pronote of the member (Rs)	Pronote of the member with one or more sureties (Rs.)	Classification of loans outstanding according to the nature of security			
											Charge on land which has been duly regd. plus one or more sureties (Rs.)	Mortgage of the land of the member having no prior encumbrance (Rs.)	Mortgage of land having prior encumbrance	Collateral security in the form of marketable securities (goods including gold and silver)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)

SCHEDULE NO XII (b) (cont.)

Particulars of assets of the borrower											
Land cultivated owned			Land Mortgaged to the society			Others	Value of other Unencumbered properties			Shares held in the society	Deposits and other funds with the society
Sl. No.	Acreage	Estimated value	Leased (acreage)	Acreage	Estimated value		Estimated value	Immovable	Movable		
(1)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)

SCHEDULE NO. XII (b) (contd.)

<u>Action taken against the borrower</u>					<u>Execution petition</u>				<u>Standing of sureties</u>			<u>Land owned</u>	
<u>Arbitration reference</u>									<u>surety No.</u>			<u>estimated value</u>	
Sl. No.	Date of filing	Amount	Date of decree	Amount decreed	Date of sending for execution	Amount since recovered	Loans outstanding to the society	Of which overdue	Total liability as surety	Acreage	Total	Of which mortgaged to the society or other	Value of unhypothecated tangible assets
1	27	28	29	30	31	32	33	34	35	36	37	38	39

(Contd.)

**SCHEDULE NO. XII (b) (contd.)**

<u>Surety No. 2</u>		<u>Standing of sureties</u>		<u>Land owned</u>		<u>Estimated value</u>		<u>Amount considered bad/doubtful of recovery</u>	
Loans outstanding to the society (Rs.)	Of which overdue (Rs.)	Total liability as Surety (Rs.)	Acreage (Rs.)	Total	Of which mortgaged to the society or others (Rs.)	Value of un hypothecated tangible assets	Society's estimate	Bank's estimate	
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(40)	(41)	(42)	(43)	(44)	(45)	(46)	(47)	(48)	

SCHEDULE NO. XII (c)

**Schedule of bad and doubtful debts in respect of credit  
Societies/Banks, as on .....**

Loans Account no.	Name of the member/loanee	Amount of loan advanced	Amount outstanding	Of which overdue	Period for which it is overdue	Nature of security (personal/land building etc.)	<u>Amount considered</u>		Reasons for doing so
							Doubtful	Bad	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

*(Refer to Circular letter ADL (2)26588/76 of 16/06/1976 )*

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