

PROVISIONS RELATING TO AUDIT

Section 75 (2 A)

- ❖ Every society shall appoint an auditor or auditing firm from panel approved by State Government in its Annual General Body meeting.
- ❖ Society shall file in form of return to the Registrar the name of auditor & his written consent within 30 days from the date of Annual General Meeting.
- ❖ Same auditor shall not be appointed for more than 3 consecutive years.

Section 81

- ❖ Audit shall be completed within 4 months from close of financial year.
- ❖ If society has not appointed auditor and failed to file return under sub section (2 A) of 75 or sub section (1 B) of section 79, Registrar shall appoint auditor from panel.
- ❖ No auditor shall accept audit of more than 20 societies excluding societies having paid up capital of less than Rs.1 lakh.

- ❖ Registrar shall submit audit report of every Apex society to State Government for being laid before both houses of State Legislature.
- ❖ Audit report shall have
 - ✓ All particulars of defects or irregularities.
 - ✓ In case of financial irregularities & misappropriation or fraud, auditor shall investigate & report modus operandi, enstrustment & amount involved.

Eligibility of auditor for panel

- a) Chartered Accountant having fair knowledge of functioning of society and experience of at least one year in auditing of societies and working knowledge of Marathi.
- b) Auditing Firm – A firm of more than one Chartered Accountant having fair knowledge of functioning of society and knowledge of marathi.
- c) Certified Auditor –
 - i) Who holds degree
 - ii) Fair knowledge of functioning of society
 - iii) Three years experience in audit of society

Section 81 (2)

- ❖ Audit shall be carried out as per Auditing Standards notified by State Government.

Section 81 (5 B)

- ❖ Auditor shall submit audit report within one month from its completion & in any case before issuance of notice of Annual General Body meeting.
- ❖ If auditor comes to the conclusion that any person is guilty of an offence, he shall file specific report to Registrar within 15 days of date of submission of his report & after obtaining permission from Registrar file F.I.R.
- ❖ Auditor who fails to file F.I.R., his name shall be removed from panel.

- ❖ If auditor finds that there are financial irregularities resulting into loss of society, auditor shall prepare special report & submit along with audit report

Section 65 & Rule 49 (a)

- ❖ Amounts to be deducted before calculating Net Profit :-
 - ✓ Interest payable on loans and deposits
 - ✓ Establishment expenses
 - ✓ Rent, Rates & Taxes
 - ✓ Audit fee
 - ✓ Provision for depreciation
 - ✓ Provision for Bonus
 - ✓ Provision for Bad and Doubtful Debts.
 - ✓ Provision for Gratuity
 - ✓ Capital redemption fund
 - ✓ Provision for depreciation in Investment
 - ✓ Provision for O.I.R.
 - ✓ Provision for N.P.A.

Rule 65

- ❖ Society shall keep the following book of accounts :-
 - ✓ Member Register
 - ✓ Share Register
 - ✓ Minute book of Annual General Body Meeting.
 - ✓ Minute book of Annual Board of Directors Meeting.
 - ✓ Cash Book.
 - ✓ General Ledgers.
 - ✓ Individual Ledgers
 - ✓ Stock Register
 - ✓ Property Register

Rul 107 (a) :- Travelling expenses of Directors.

- ❖ Chairman or Vice Chairman of federal society, State level society, Sugar factory, Spinning mill can only travel by air but they have to attach air ticket to their travelling bill.
- ❖ Director of Federal society, State level society, Sugar factory, Spinning mill & society whose paid up share capital is 50 crore or more can travel by Railway first class. He can claim one and half of the actual railway fare but he has to attach railway ticket to his travelling bill.
- ❖ If he doesn't attach railway ticket he shall be entitled to second class fare.

Section 28 :- Restriction on holding shares

- ▣ A member can not hold shares more than Rs.20,000/-

Rule 23

- ❖ If a person has ceased to be a member of society then shares shall be returned to him or his nominee by making valuation of shares based on last audited balance sheet.

Value per share =	Networth
	No. of shares.

Net worth =	Paid up share capital + Free Reserves - Accumulated loss - shortfall in provisions
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cont.

- ❖ If nominal value of share is Rs.1000/- & valuation comes at Rs.400/-, society shall return share = Number of shares x 400/-
- ❖ If valuation comes at Rs.1200/-, society shall return Rs.1000/- per share.

Section 44 A

- ❖ Urban Co-operative banks cannot recover as interest more than principal in respect of loan granted for agricultural purpose.
- ❖ In case of non-agricultural loan upto Rs.10,000/-, Urban Co-operative Bank cannot recover as interest more than principal.

Section 43 Restriction on borrowing

- ❖ Society shall receive deposits & loans only to such extent as may be prescribed.
- ❖ Borrowing limit as per Rule = Paid up share capital + Reserve fund + Building fund – Accumulated loss x 10.
- ❖ Not applicable if not received any financial assistance from Government.
- ❖ Not applicable to C.C.S.E.

Section 81 (1) (f)

- ❖ Remuneration of auditor or auditing firm shall be borne by society & shall be at such rates as may be prescribed.

Section 70 :- Investment of funds

- ❖ In DCC / SCB having A class in last 3 consecutive years.
- ❖ Securities specified in Section 20 of Indian Trust Act 1882.
- ❖ In shares / bonds of societies having similar classification.
- ❖ CCSE shall invest its funds subject to guidelines issued by R.B.I.
- ❖ Any other mode permitted by Rules or general or special order by Government.

Urban Co-operative Banks

F.S.W.M. Ucbs

1. C.R.A.R. – not being less than 10%.
2. Gross NPA – less than 5%.
3. Net NPA – less than 3%.
4. No default in maintenance of CRR / SLR during preceding financial year.
5. Continuous Net Profit for last 3 years.
6. Sound internal control system with at least 2 Professional Directors on Board of Directors.
7. Complies with provisions of Banking Regulation Act 1949, Reserve Bank of India Act 1934 and instructions / directions of Reserve Bank of India.

C.D.Ratio

CD ratio = Credit divided by Deposit x 100.

This ratio should be between 65% to 70%. If ratio is greater than 70%, there will be overtrading & possibility of liquidity crunch. If it is less than 65%, funds will remain idle & there will be loss of profitability.

C.R.A.R. (Capital Risk Asset Ratio)

It shows adequacy of capital with bank. It is calculated as

$$\text{CRAR} = \frac{\text{Capital funds}}{\text{Risk Weighted Assets}} \times 100.$$

This ratio should be above 10%.

Capital fund consists of Tier I capital & Tier II capital.

Tier I Capital :-

- a) Paid up share capital from regular members.
- b) Admission fee from nominal members.
- c) Free reserves.
- d) Capital reserve on sale of fixed assets.
- e) Balance in Profit & Loss account.

Reserves created to meet outside liabilities should not be included.

Tier II capital :-

- a) 45% of Revaluation Reserve.
- b) General provision & loss reserve i.e. provision for standard assets upto 1.25% of total risk weighted assets.
- c) Excess NPA provision.
- d) Investment fluctuation reserve fund.

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Cost of Management to W.C. Ratio

Cost of Management divided by Working Capital x 100.

It should be less than 2.5%.

Cost of Management is calculated as.

	Total of Balance sheet
Less	Interest paid / payable on deposit / borrowing
Less	NPA provision
Less	OIR provision
Less	Net profit
=	Cost of Management

Non banking assets acquired in satisfaction of claims :-

These assets should be disposed off by bank within 7 years.

Maintenance of CRR & SLR by Ucbcs

CRR		
a	Schedule Ucbcs	Section 42 (1) of Reserve Bank of India Act 1934
b	Non schedule Ucbcs	Section 18 of Banking Regulation Act 1949
SLR		
a	All Ucbcs (Scheduled / Non scheduled)	Section 24 of Banking Regulation Act 1949
CRR to be maintained by		
	Scheduled / Non scheduled Ucbcs RBI circular 05/06/2014 w.e.f. 12/07/2014	4% of D.T.L.
SLR to be maintained by		
	Scheduled / Non scheduled Ucbcs RBI circular 05/06/2014 w.e.f. 12/07/2014	22.5% of D.T.L.

SLR to be maintained in three forms.

1. Cash
2. Gold
3. Approved securities.

Term deposit with CCBs / SCB / PS banks will not be eligible for being reckoned for SLR purpose w.e.f. 01/04/2015.

All Ucbs are required to maintain investments in Government securities only in SGL A/c with RBI or CSGL A/c with Scheduled Commercial bank, State Co-operative bank or Scheduled Ucbs.

Scheduled Ucbs with networth Rs.200 crore or more & having CRAR of 10% & above are eligible to open & maintain CSGL A/c.

Securities can be purchased from approved broker but can sale & purchase is 5% from one broker.

Gross NPA

Outstanding of all accounts which have become NPA.

Net NPA = Gross NPA – NPA provisions held – interest suspense if debited.

NPA = If interest or installment is in arrears for more than 90 days. Account will become NPA.

C / CA will become NPA –

- i. If there are no credits for continuously 90 days.
- ii. Credits are not enough to recover interest debited.
- iii. Outstanding balance is in excess of drawing power for more than 90 days.

Provisioning

		Tier II	Tier I
1	Standard		
	Direct advance to agriculture & SME sector	0.25%	0.25%
	Commercial real estate	1.00%	1.00%
	Real estate residential	0.75%	0.75%
	All other loans	0.40%	0.25%
2	Sub standard		10%
3	Doubtful		
	Upto 1 year		20%
	1 – 3 years		30%
	More than 3 years		100%
4	Loss		100%

Section 20

Restrictions on loans & advances to directors (with effect from 01/10/2003)

Exemption :-

- a) Employee related loan to staff director.
- b) Loan to directors against Fixed deposit and LIP.

Section 29 & 31 (AACCS)

Banks are required to prepare their Profit & Loss account and Balance Sheet for each year in form set out in third schedule signed by principle officer and atleast 3 directors. Also required to submit 3 copies along with statutory audit reports. These financial statements should be submitted to RBI within 6 months from the close of the year. (Section 31)

Such financial statements should be published in local news paper within a period of 9 months from the end of the period to which they relate. (i.e. before 31st Dec.) (Rule 10)

Section 22 License

Co operative Bank cannot carry on banking business unless it hold license issued by RBI.

Section 23

For central Co operative bank, for opening or changing location of branches within area of its operations prior permission of RBI not required.

Dividend

Declaration without prior permission is allowed only when following conditions are fulfill.

- a) Compliance with CRAR norms.
- b) Net NPA of less than 5%.
- c) There is no default in CRR, SLR.
- d) All required provisions have been made for NPAs.
- e) Dividend is paid out of Net profit.

Donations to Trust & Institutions where directors, their relatives hold position or are interested : -

Normal donations to be made should be restricted to 1% of published profits together with national funds or funds by Central or State Government restricted to 2% of published profit.

But donations to Trusts & Institutions where directors, their relatives hold position or are interested are not allowed.

Loans & Advances

Exposure norms calculated on the basis of 15% of Capital Funds to individual borrower & 40% for group borrowers. It can be calculated on 30th September also.

Ceiling on Unsecured Advances

Criteria	Deposit > 10 crore	Deposit > 10 crore < 50 crore	Deposit > 50 crore < 100 crore	Deposit > 100 crore
CRAR < 9%	1 lakh	2 lakh	3 lakh	5 lakh
CRAR > 9%	0.25 lakh	0.50 lakh	1 lakh	2 lakh

Aggregate ceiling is 10% of Total Assets.

- Ceiling on Advances to nominal members
 - Ucb's with deposits up to 50 crores :- Rs.50,000/-
 - Ucb's with deposits above 50 crores :- Rs. 1 lakh.
- Bank should desist from sanctioning advances against FDR's of other banks.
- Bank are prohibited from extending any facility to stock brokers against shares, debentures, FDs, LIP.
- Loans against shares / debentures should be limited to Rs.5 lakh (physical form) & Rs.10 lakh (demat form)

- Ucbs are required to report such loans on quarterly basis.
- Restriction on advances to defaulters of statutory dues.
- Exposure of Ucbs to Housing, Real estate & Commercial Real Estate loans would be limited to 10% of total assets and additional 5% for the purpose of Individual Housing loans up to Rs.25 lakh.

NPA OF DCCB, SCB

1. Crop Loan (Short term loan)

- a) Loan granted for short duration crop will be treated NPA, if installment or interest remains unpaid for two crop season beyond due date.
- b) Loan granted for long duration crop will be treated as NPA, if installment or interest remains unpaid for one crop season beyond due date.

Crops with crop season longer than one year is long duration crop.

Crops with crop season one year or less is short duration crop.

2. Term loan for Agri purpose

All becomes NPA if installment / interest is in arrears for more than one year.

Loan for allied Agri-Activities & non- agri loan
i.e. for purchase of cow, buffelow, sheeps.
Account will become NPA as like Ucbs.

Advances backed by central Govt. Guarantee
Account will not become NPA if backed by
central Govt Guarantee.

The above exemption is only for
classification of NPA & unrecovered interest on
such advance is not to be considered as income.

Advances backed by state Govt. Guarantee

To be treated as NPA in usual manner as per applicable norms.

Exempt Advances

Advances against NSC, IVP, KVP, LIP are exempt.

Gold loan for non agri purpose

To be treated as NPA in usual manner.

Gold loan for Agri purpose

Interest to be charged on yearly basis. Repayment to coincide with harvesting of crops.

Accordingly due date should be fixed & classified as NPA if overdue for more than 90 days.

Moratorium Period

Where moratorium for payment of interest is given, interest becomes due after moratorium is over so while appaling NPA norms, moratorium period is excluded.

Income Recognition

- ▣ Policy of income recognition has to be objective & based on record of recovery.
- ▣ Income from NPA is not to be recognized on accrual basis, but is to be booked as income only when it is actually received.
- ▣ Interest on advances against term deposit, NSC, KVP, LIP, IVP are taken to income account provided adequate margin is available.
- ▣ Interest accrued in respect of NPA should not be debited to borrower account but shown separately under “Interest receivable” on asset side of balance sheet & corresponding amount should be shown “overdue interest reserve” on liabilities side of balance sheet.

- ❑ In respect of PA accounts, interest to be considered on accrual basis. If it is not received before 31st March, it is to be reversed.
- ❑ Investments made by bank are subject to prudential norms of IR. Bank can't book.
- ❑ Income on accrual basis in respect of any security irrespective of category in which it is included, where interest, principal is in arrears for more than 90 days.
- ❑ Income from Govt securities, Bonds of PSUS, AIFIS; income may be booked on accrual basis provided interest is serviced regularly.
- ❑ Income on units of UTI & equity of AIFIS to be booked on receipt basis.

Classification – DCCBs, SCBs

Classification	Criteria	Provision
Standard	Which are not NPAS.	0.40% 0.25% for Agri.
Substandard	Overdue more than 90 days or one/two crop season but upto 3 years.	10%
Doubtful D ₁ D ₂ D ₃	Overdue more than 3 years upto 4 years Overdue more than 4 years upto 6 years Overdue more than 6 years	20% 30% 100%
Loss	Where loss has been identified by nabard, inspector/ internal or statutory auditor.	100%

UCBs – NPA norms

All UCBs should classify all as NPA as per 90 days norm.
(i.e. interest / installment is in arrears for more than 90 days.)

Classification of Assets

Std Asset	Does not disclose any problem. Not NPA
Sub standard	Remains in NPA upto 12 months.
Doubtful	Remained NPA for more than 12 months.
D₁	Up to 1 year in doubtful category.
D₂	One to three years.
D₃	More than 3 years on or after 1-4-10.
Loss	Where loss has been identified by RBI inspector/ internal or statutory auditor.

Loans to Sugar/Spinning mills/Processing units

1. DCC bank/SCBs cannot sanction preseasonal C/c to sugar factory having negative networth without state Govt. default guarantee.
2. Auditor of dccbs/SCBs should verify whether there is short margin in pledge C/c account.
3. Short margin is calculated as under.

1	2	3	4	5	6
Date	Value of sugar stock	15% margin	DP (2-3)	Outstanding balance	Short margin (4-5)

4. Bank has to make 100% prov for short margin.
5. Auditor should point out the cases where action for recovery is not taken.
6. In case where property of sugar/ spinning mill is attached, whether reserve price is fixed by making valuation by two independent valuers where valuation exceeds Rs. 5 Crores.
7. Auditor should point out in part A of Audit report cases where property is sold at price below reserve price.
8. Auditor should ascertain to whom sugar factory is sold. Examine the constitution of purchaser. Whether purchaser is related to BOD.
9. Auditor should see whether there is "NODC" in respect of loans granted to UCBs, salary earners.

Auditor of DCCB should see that recovery made by PACS from farmers is passed on to DCCB.

THANK YOU.