



REPORTING REQUIREMENTS AND STEP BY STEP APPROACH TO 1 CO-OPERATIVE SOCIETY AUDIT

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HISTORY OF COOP SOCIETIES IN INDIA

- The first report on cooperative societies in British India by Sir Fredric Nicholson stressed the need for 'establishment of audit as well as efficiency of such audit'.
- Various privileges and concessions by government stressed the need for a compulsory annual Government Audit.
- The objective was to prevent fraud on unintelligent ryots by examining all books, registers and accounts with particular attention to overdue debts and valuation of assets and liabilities.
- Thus, act passed in 1912 included the system of audit of coop societies through the agency of Government Officers responsible to Registrar with subsequent legislations following the same.
- With passage of time, burden on Registrar increased and in 1986, concept of societies getting their accounts audited by qualified auditors came into being.

AUDIT – MEANING AND SCOPE

- Concept of audit has undergone considerable change during the course of time.
- ICAI Definition –
 - ‘the independent examination of financial information of any entity, whether profit oriented or not and irrespective of its size or legal form, when such a examination is conducted with a view to expressing an opinion thereon.’
- However, in the minds of general public, prevention and detection of frauds and embezzlements constitutes an important function.
- This is also reflected in co-op societies act with law providing certain matters to be specifically reported by an auditor.

AUDIT – MEANING AND SCOPE

- The audit under sub-section (1) of section 81 of Maharashtra Co-operative Societies Act, 1960 shall include an examination of overdue debts, if any, the physical verification and valuation of assets and liabilities, verification of cash balance and securities, certification of the profits or losses, compliance with the transparency law and other laws applicable.....’.
- In addition to above, the law also casts responsibility of reporting –
 - whether he has obtained all the information necessary for his audit;
 - whether proper books of accounts have been kept by the society;
 - whether report on the accounts of branch audited by a person other than auditor have been forwarded to him and how he has dealt with the same in preparing the auditor’s report;
 - whether balance sheet and profit and loss account are in agreement with books of accounts.

SPECIAL FEATURES OF COOP SOC AUDIT

- The special features of audit of co-operative society:
 - Examination of overdue debts
 - Overdue interest
 - Certification of bad debts
 - Valuation of assets and liabilities
 - Adherence to cooperative principles
 - Observation of the provisions of acts and rules
 - Furtherance to public welfare & safeguarding of public funds
 - Assessment of damages
 - Adherence to accounting policies, accounting and auditing standards
 - Special report to Registrar
 - Audit Classification of society
 - Discussion of report with the Managing Committee
- Thus, we find that auditor is acting in dual capacity of independent as well as discussing the report with those governing the society.
- This feature of dual capacity and the expectations from auditor makes the coop soc audit peculiar and different from company audit.

RESPONSIBILITIES OF THE AUDITOR

- The auditor of a co-operative society has not merely to check and certify the correctness of the balance sheet and the profit and loss account, but has to examine many other things.
- Co-operative audit embraces all the circumstances, which determine the general position of the society and its achievements.
- For example:
 - in case of co-operative credit societies and banks, the auditor has to see that the loans are given for proper objects and periods and on adequate security as per latest concepts of co-operative finance.
 - in case of agricultural marketing societies, he has to see that the society has undertaken pooling, grading and joint sale of members' produce and does not act merely as a commission agents.
 - in case of farming societies, he has to see that the lands been pooled and cultivated jointly.
 - in case of other societies, he has to see that the business is conducted on proper lines in accordance with co-operative principles and that all canons of business and financial propriety are being duly observed.

RESPONSIBILITIES OF THE AUDITOR

- The auditor has to certify the true and fair position of the financial statements, as per Co-op Soc. Act, 1912 or MSC Act, 1960 as applicable.
- However, what constitutes “ true and fair” view has not been defined in Companies act as well as Co-operative Societies act.
- Considering this, the Institute of Chartered Accounts of India has constituted Accounting standards Board and the Auditing practices Committee has issued accounting standards and standard auditing practices.
- The intention behind this is, to describe the accounting principles and the methods of applying these principles in the preparation and presentation of financial statements so that they give a ‘true and fair’ view.
- It is also intended to bring in uniformity in conducting audit and reporting with adherence to fair value accounting principles as far as permissible under the circumstances.

REPORTING REQUIREMENTS UNDER MAHARASHTRA COOPERATIVE SOCIETIES ACT, 1960 AND RULES

- Applicable sections are S. 81 and 82 and Rule 69, 73 and 74 from act and rule for independent audit.
- Whereas Registrar also can order inspection and audit under section 83 and 84.
- The detailed contents of section are required to be inspected and commented by the auditor.
- Similarly Rule 69 (4) and (6) also mandate specific comments and disclosure by the auditor.
- These are discussed in subsequent slides.

**PROVISIONS OF SECTION 81
OF THE MCS ACT 1960
REGARDING THE
APPOINTMENT OF AUDITORS
AND SCOPE OF THE AUDIT.**



U/s 81(1)(a) – Audit –Time Prescribed.

The society shall cause to be audited its accounts at least once in each financial year and cause it to be completed within a period of four months from the close of financial year to which such accounts relate and in any case before issuance of notice of the holding of annual general body meeting, by auditor or auditing firm from a panel prepared by the Registrar and approved by the State Government or an authority authorized by it in this behalf possessing required qualifications and experience as may be prescribed to be eligible for auditing accounts of societies, appointed by a general body of a society, as provided in sub-section (2A) of section 75 and shall lay such audit report before the annual general body meeting.



U/s – 81(1)(a) – Soc Failed to Appoint Auditor

- Provided that, if the Registrar is satisfied that the society has failed
- To intimate and file the return as provided by sub-section (2A) of section 75 and sub-section (1B) of section 79,
- By order, for the reasons to be recorded in writing, he may cause its accounts to be audited, by an auditor from the panel of the auditors approved by the State Govt. or an authority authorized by it in this behalf:



U/s – 81(1)(a) – Restrictions on No of Audits

- Provided further that no auditor shall accept audit of more than twenty societies for audit in a financial year excluding societies having paid up share capital of less than Rs. one lakh.



SEC - 81(1) - Panel of Auditors

Provided also that, the Registrar shall maintain a panel of auditors and auditing firms as approved by the State Govt. or an authority authorized by it in this behalf.

- b. The manner of preparation, declaration and maintenance of the panel of auditors and auditing firms by the Registrar shall be such as may be prescribed.
- c. The board of every society shall ensure that the annual financial statements like the receipts and payments or income and expenditure, profit and loss and the balance sheet along with such schedules and other statements are audited within four months of the closure of the financial year.
- d. The Registrar shall submit the audit report of every apex cooperative society to the State Government annually for being laid before both houses of state legislature in the manner prescribed.



u/s – 81(1)(e) – Audit Report Contents

(e) The auditor's report shall have:

- (i) All particulars of the defects or the irregularities observed in audit and in case of financial irregularities and misappropriation or embezzlement of funds or fraud, the auditor or the auditing firm shall investigate and report the *modus operandi*, the entrustment, amount involved;



u/s – 81(1)(e) – Audit Report Contents

(e) The auditor's report shall have:

(ii) Accounting irregularities and their implications on the financial statements to be indicated in detail in the report with the corresponding effects on the profit and loss

(iii) The functioning of committee and sub-committees of the societies be checked and if any irregularities or violation are observed or reported, duly fixing the responsibilities for such irregularities or violations.

(f) The remuneration of the auditor or auditing firm of a society shall be borne by the society and shall be as may be prescribed.



u/s 81(1)(g) – Audit – Role of Registrar

(g) The Registrar shall maintain the list of societies district-wise, the list of working societies, the lists of societies whose accounts are audited, the list of societies whose accounts are not audited within the prescribed time and reasons therefor.

- The Registrar shall co-ordinate with the societies and the auditors or auditing firms and ensure the completion of audit of accounts of all the co-operative societies in time every year.



REQUIREMENTS OF SECTION 81(2)

- The audit under sub -section (1) shall include examination or verification of the following items, namely:-
 - (i) overdues of debts, if any;
 - (ii) cash balance and securities and a valuation of the assets and liabilities of the society;
 - (iii) whether loan and advances and debts made by the society on the basis of security have been properly secured and the terms on which such loans and advances are made or debts are incurred are not prejudicial to the interest of the society and its members;
 - (iv) whether transactions of the society which are represented merely by book entries are not prejudicial to the interest of the society;
 - (v) whether loans and advances made by the society have been shown as deposits;
 - (vi) whether personal expenses have been charged to revenue account;
 - (vii) whether the society has incurred any expenditure in furtherance of its objects;
 - (viii) whether the society has properly utilised the financial assistance granted by Government or Government undertakings or financial institutions, for the purpose for which such assistance was granted;
 - (ix) whether the society is properly carrying-out its objects and obligations towards members.

REQUIREMENTS OF RULE 69(4)

- The audit memorandum shall state;-
 - (i) whether the auditor has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit;
 - (ii) whether in his opinion proper books of accounts, as required by the Act, these rules and the by-laws of the society have been kept by the society so far as it appears from the examination of these books; and
 - (iii) whether the balance sheet and profit and loss account examined by him are in agreement with the books of accounts and returns of the society.

REQUIREMENTS OF RULE 69(6)

- The audit memorandum shall also contain schedules with full particulars of;—
 - (i) all transactions which appear to be contrary to the provisions of the Act, the rules or the by-laws of the society;
 - (ii) all sums which ought to have been but have not been brought into account by the society;
 - (iii) any material impropriety or irregularity in the expenditure or in the realisation of moneys due to the society;
 - (iv) any money or property belonging to the society which appear to the auditor to be bad or doubtful debt; and
 - (v) any other matters specified by the Registrar in this behalf.

OTHER REQUIREMENTS

- The deadline for finalisation of accounts by society is 45 days from the end of financial year i.e. 15th May.
- The society needs to hand over the books of accounts within 15 days from the finalisation to auditor i.e. 1st June.
- The audit shall be completed within 4 months from the end of financial year i.s. by 31st July. [S.81 and Rule 69]
- Format of Audit Report
 - Form N-1 = For Co-operative Banks
 - Form N-2 = For all other societies
- Other than audit report, an auditor is also required to submit Audit Memo1 which is general form for all societies and Audit Memo 28 which is applicable to Housing Societies.
- Audit Report is required to be submitted to the Society and to the Registrar as also to be uploaded along with financial statements and audit certificate.

BALANCE SHEET AS ON 31/03/....

Previous Year	Liabilites	Current Year	Previous Year	Assets	Current Year
	I. Share Capital:			I. Cash and Bank balances	
***	<u>Authorised Share Capital</u>	***	***	(a) Cash on hand	***
	<u>Issued Subscribed & Paid up Capital</u>		***	(b) Cash in banks	***
***	Purchased by the Govt.	***	***	(i) Current Account	***
***	Purchased by Co-op Societies	***	***	(ii) Savings Banks Account	***
***	Purchased by Individuals	***	***	(iii) Call Deposits on Banks	***
***	Shares in Advance	***		II. Investments	
(***)	Less: Calls in arrears	(***)	***	(a) Government Securities	***
***	Add: Calls in advances	***	***	(b) Other Trustee Securities	***
	I-A. Subscription towards shares:	***	***	(c) Non-Trustee Securities	***
			***	(d) Shares of other co-operative Societies	***
			***	(e) Shares, Debentures or Bonds of companies registered under the Companies Act	***
	II. Reserve Fund and Other Funds:		***	(f) Fixed Deposits	***
***	(a) Statutory Reserve Funds	***			
***	(b) Building Fund	***			
***	(c) Special Development Fund	***	***	III. (1) Investment of Staff Provident Fund	***
***	(d) Bad and Doubtful Debts Reserve	***	***	(2) Advances against Staff Provident Fund	***
***	(e) Investment Depreciation Fund	***			
***	(f) Dividend Equalisation Fund	***		IV. Loans and Advances:	
***	(g) Bonus Equalisation Fund	***	***	1. (a) Loans	***
***	(h) Reserve for overdue interest	***	***	(b) Overdrafts	***
***	(i) Other Funds	***	***	(c) Cash credits	
	III. Staff Provident Fund:	***	***	(i) against pledge of goods	***
			***	(ii) against hypothecation of goods	***
			***	(iii) clean	***
	IV. Secured Loans:	***	***	2. Loans due by Managing Committee Members	***
***	(a) Debentures	***	***	Loans due by Secretary and other employees	***
***	(b) Loans, overdrafts and cash credits from banks	***			
***	(c) Loans from Government	***		V. Sundry Debtors	
***	(d) Other secured loans	***	***	(1) Credit Sales	***
	V. Unsecured Loans:		***	(2) Advances	***
***	(a) Loans, cash credits and overdrafts from Central Banks	***	***	(3) Others	***
***	(b) From Government	***		VI. Current Assets:	
***	(c) From others	***	***	(1) Stores and spare parts	***
***	(d) Bills payable	***	***	(2) Loose tools	***
			***	(3) Stock-in-trade	***
			***	(4) Works in progress	***

	VI. Deposits:								
***	(a) Fixed Deposits	***							
***	(b) Recurring Deposits	***			***	VII. Fixed Assets:	***		
***	(c) Thrift or Saving Deposits	***			***	(a) Land and building	***		
***	(d) Current deposits	***			***	(b) Leaseholds	***		
***	(e) Deposits at call	***			***	(c) Railway siding	***		
***	(f) Other deposits	***	***		***	(d) Plant and Machinery	***		
***	(g) Credit balance in cash credit and overdraft accounts	***			***	(e) Loose tools, tackles and other equipments	***		
					***	(f) Dead stock	***		
	VII. Current Liabilities and Provisions:				***	(g) Furniture and fittings	***		
***	(a) Sundry creditors	***			***	(h) Livestock	***		
***	(b) Outstanding creditors				***	(i) Vehicles	***	***	
***	(i) for purchases	***							
***	(ii) for expenses including salaries of staff, rent, taxes, etc.	***	***			VIII. Miscellaneous expenses and losses:			
***	(c) Advance, recoveries for the portion for which value has still to be given, viz. unexpired subscriptions, premiums, commission, etc	***			***	(1) Goodwill	***		
					***	(2) Preliminary expenses	***		
			***		***	(3) Expenses connected with the issue of shares and debentures, including underwriting charges, brokerage, etc.	***		
***	VIII. Unpaid Dividends:				***	(4) Deferred revenue expenditure	***	***	

***	IX. Interest accrued due but not paid:				***	IX. Other items			
			***		***	(a) Prepaid expenses	***		
***	X. Other Liabilities (to be specified):				***	(b) Interest accrued but not due	***		
					***	(c) Other items (to be specified)	***	***	
***	XI. Profit and Loss Account:					X. Profit and Loss Account:			
	Profit for last year				***	Accumulated losses not written off from the reserve or any other fund		***	
	less: Appropriation				***	XI. Current losses		***	
	Add: Current Profits				***			***	
***			***		***			***	
	As per our report of even date					For ABC Co-operative Society Ltd.			
	For XYZ Associates								
	(Chartered Accountants)								
	MNP				(Chairman)	(Secretary)	(Treasurer)		
	(Proprietor)	Place:			Date:				

ABC CO-OPERATIVE SOCIETY LTD.

Address Line

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31/03/....

Previous Year	Expenditure	Current Year	Previous Year	Income	Current Year
	To Interest			By Members Contribution	
***	(a) Paid	***	***	Electricity Charges	***
***	(b) Payable	***	***	Maintenance Charges	***
***	To Bank Charges	***	***	Municipal Taxes	***
***	To Salaries and Allowances of Staff	***	***	Parking Charges	***
***	To Contribution to Staff Provident Fund	***	***	Sub-letting Charges	***
***	To Salary and Allowances of Managing Director	***	***	Water Charges	***
***	To Attendance fees and travelling expenses of Directors and Committee Members	***	***	Building Repair Fund	***
***	To Travelling expenses of staff	***	***	Municipal Tax Arrears	***
***	To Rent, rates and taxes	***	***	Sinking Fund	***
***	To Postage, Telegram and Telephone charges	***			
***	To Printing and Stationery	***		By Interest Received	
***	To Audit fees	***	***	(a) On loans and advances	***
***	To General expenses	***	***	(b) On investments	***
***	To	***	***	By Dividend received on shares	***
	Bad Debts written off or provision made for bad debts				
***	To Depreciation on fixed assets	***	***	By Commission	***
***	To Land Income and Expenditure account	***		By Miscellaneous Income	
***	To Other Items	***	***	(a) Share Transfer fees	***
***	To Net Profit carried to Balance Sheet	***	***	(b) Rent	***
			***	(c) Rebate in interest	***
			***	(d) Sale of forms	***
			***	(e) Other items	***
			***	By Land Income and Expenditure accounts	***
***		***	***		***

As per our report of even date
For XYZ Associates
(Chartered Accountants)

For ABC Co-operative Society Ltd.

MNP
(Proprietor)

Date:

(Chairman)

(Secretary)

(Treasurer)

Place:

**PROVISION OF ACT /
RULES WITH WHICH AUDITOR IS
MORE CONCERNED**



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 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



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.



SECTION 79 (1 A)

- ❖ Every society shall file returns within 6 months of close of financial year to Registrar
 - ✓ Annual report of activities.
 - ✓ Its audited statement of accounts.
 - ✓ Plan for disposal of surplus.
 - ✓ List of amendment to the bylaws
 - ✓ Declaration of date of holding Annual General Body Meeting & conduct of election when due.



SECTION 79 (1 B)

- ❖ Every society shall file return regarding name of auditor & his written consent within one month from Annual General Meeting.



SECTION 81 (1) (F)

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



Rule 69 (3) :- Auditor shall submit audit memorandum in case of banks in form N1 and in case of other societies in form N2.

Rule 69 (3) :- Auditor shall state whether accounting policies adopted by societies are consistent with Accounting Standards laid down by State Government or ICAI.

Rule 69 (3) :- While certifying Profit and Loss account, auditor shall quantify effect of shortfall in various provisions like NPA, OIR, Depreciation etc. over profit or loss and state clearly that after considering effect of all provisions, whether there is profit or loss.



AUDIT REPORT, AUDIT RECTIFICATION REPORT, AUDIT CLASSIFICATION

- **Audit Report & Audit Memorandum.**
- **Audit Classification – Points to be considered.**
- **Audit Rectification Report.**



AUDIT REPORT & AUDIT MEMORANDUM.

Meaning Of Audit Report.

Audit report should include remarks regarding:

- i. Formation of capital.
- ii. Progress of business & result of business in relation to.
- iii. Scrutiny & analysis of financial position as indicated.
- iv. Other remarks regarding administration and social impact.



SUMMARY OF AUDIT MEMORANDUM

Summary may be prepared giving in short the observations regarding:

- i. Financial position of the society.
- ii. Observation of co-operative principles by the society.
- iii. Management & account books.
- iv. Position of over dues, doubtful & bad debts & irregular expenses & other recoveries.
- v. Serious objections taken in the audit memo regarding infringement of provisions of Act, rules & bye-laws.



DRAFTING OF THE AUDIT REPORT

Whatever is contained in Special Report and Specific Report should also form part of Part A of the Audit Report.

All the queries and sub-queries in the printed audit memo should be gone through carefully and appropriate reply given against each query. The replies should be brief and to the point. All sub-queries should be reply separately. There should be no vagueness about the information furnished or the marks made against any query.



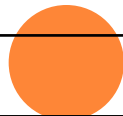
DRAFTING OF THE AUDIT REPORT

If the reply to any query cannot be accommodated in the space provided for it, the point may be clarified in the “General Remarks” and the reply to the query may only invite attention to the relevant paragraph in the “general remarks” along with page number of audit report or the separate report accompanying the audit memo. All information furnished should be correct and should always agree with the information contained in the final accounts, lists of overdues, schedules and other statements accompanying the audit memo.

The questionnaires which shall be used for different types of societies are listed below.



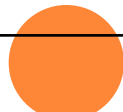
Sr. No.	Old query Form No.	Type of society to which it is applicable.
1	1	All types of Societies.
2	2	Test audit report for all type of societies audited by the auditor
3	3	Agriculture Produce Market Committee.
4	4	District Central Cooperative Banks
5	5	Land Development Banks (Now Agriculture and Rural Development Bank)
6	6	Agricultural and credit societies, multi-purpose societies, seva sahakari sanstha.
7	7	Urban Cooperative Banks
8	8	Salary Earners Societies
9	9	Agricultural Sale Purchase Society
10	10	Farming Societies



Sr. No.	Old query Form No.	Type of society to which it is applicable.
11	11	Lift Irrigation Societies
12	12	Crop Protection Societies
13	13	Ginning and Pressing Societies
14	14	Oil Mills
15	15	Rice mills
16	16	Agricultural and Industrial Processing Societies
17	17	Sugar Factories
18	18	Industrial Sangh and Weavers Societies
19	19	Spinning Mill
20	20	Forest Labour's Societies
21	21	Labour Contract Societies
22	22	Dairy Societies
23	23	Dairy Union



Sr. No.	Old query Form No.	Type of society to which it is applicable.
24	24	Fisheries Societies
25	25	Poultry Societies
26	26	Piggary Societies
27	27	Consumers Stores and Societies
28	28	Housing Societies
29	29	Cooperative Producers Societies
30	30	Printing Press
31	31	Transport Societies
32	32	Industrial Estate
33	33	Education Societies
34	34	Supervising Unions regarding PACS at Taluka and District level.
35	35	District Cooperative Boards
36		All other remaining societies



AN ILLUSTRATIVE FORMAT OF REPORT OF THE AUDITOR OF CO-OPERATIVE SOCIETY

○ FORM No. N-2

[See Section 81 and rule 69 (3)]

INDEPENDENT AUDITOR'S REPORT

To

The Chairman/Secretary/Chief Executive Officer

The _____ Co-operative Society Ltd,


Address, City Name

Ref. :- Appointment Letter Reference No. _____ Dated _____



Report on the Financial Statements as a Statutory Auditor:


1. We have audited the accompanying financial statements of The _____ Co-operative Society Ltd., which comprise the Balance Sheet as at 31st March 20XX and the Statement of Profit and Loss / Income & Expenditure for the year ended, and a summary of significant accounting policies and other explanatory information incorporated in these financial statements of the Society alongwith its Branches audited by us for the period 1st April 20YY to 31st March 20XX. *



Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation of these financial statements in accordance with Maharashtra Co-operative Societies Act, 1960 & Rules there under.

This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.



Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the applicable Standards by The Institute of Chartered Accountants of India and under the MCS Act.

Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion



Opinion

6. In our opinion and to the best of our information and according to the explanations given to us, the said accounts together with the notes thereon give the information required as per the Maharashtra Co-operative Societies Act 1960 and the Maharashtra Co-operative Societies Rules 1961, and any other applicable Acts, and or circulars issued by the Registrar, in the manner so required for the society gives a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in the case of the Balance Sheet, of the state of affairs of the society as at 31st March 2__;

(ii) in the case of the Statement of profit and loss / Income & Expenditure of the profit/loss for the year ended on that date; and

Report on Other Legal and Regulatory Matters

7. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of the Maharashtra State Co-operative Act.



8. We report that :

(a) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory.

(b) The transactions of the Society, which have come to our notice, have been within the powers of the Society.

9. In our opinion, the Balance Sheet and Profit and Loss / Income & Expenditure Account comply with applicable Accounting Standards.



10. We further report that :

- (i) The Balance Sheet and Profit and Loss / Income & Expenditure Account dealt with by this report, are in agreement with the books of account and the returns.*
- (ii) In our opinion, proper books of account as required by law have been kept by the Society so far as appears from our examination of these books.*
- (iii) The reports on the accounts of the branches audited by branch auditors have been dealt with in preparing our report in the manner considered necessary by us.*
- (iv) for the year under audit, the society has been awarded “_” classification*

Signature

(Name of the Member Signing the Audit Report / Name of Auditor)

(Designation)

Membership Number

Firm Registration Number

Audit Panel Number

Place of Signature:

Date of Report:

Note :- in case the auditor have not audited all branches or taken assistance of other auditor or branches are audited by another auditor appointed by bank, following lines should be inserted in above report.

***These unaudited branches account for _____ per cent of advances, _____ per cent of deposits, _____ per cent of interest income and _____ per cent of interest expense.**


AUDIT REPORT PART - A

(a) Part A:- This part should consist of the serious irregularities, on which the registrar has to take action immediately. Also contains the serious irregularities in administration of the society, serious breaches of Act, rules and byelaws. Or the points which are required for making the special Report, for taking Actions against the Society, by the Registrar. **Part A of audit report shall generally include the following items;**

- 1) Fraud
- 2) Misutilisation of funds and properties



AUDIT REPORT PART - A


- 3) Misapplication of funds
 - 4) Manipulation of accounts
 - 5) Falsification of accounts
 - 6) Auditor shall quantify shortfall in various provisions over profit or loss and state clearly that after considering the effects of all provisions whether there is profit or loss to the society.
 - 7) Serious infringement of provisions of Act, Rules, Byelaws and notification.
 - 8) Misutilisation of capital / loan / grant received from Government.
- 

AUDIT REPORT PART - A

- 9) Personal expenses which are debited to Profit and loss account.
- 10) Contravention of cash limits as per Rule 107 (c).
- 11) Payment in cash in excess of the limits laid down in the Income Tax Act as per Rule 107 (d).
- 12) In case of banks, property sold under Securitization Act 2002 below Reserve Price.
- 13) Contravention of unit exposure norms and sectoral exposure norms in case of UCB, MSCB and DCCB.



AUDIT REPORT PART - A

- 14) Sanctioning of unsecured loans in excess of limits as specified by RBI in case of banks and in excess of limits as specified in Byelaws in case of other societies.
 - 15) Exceeding the borrowing power as specified by Section 43 and Rule 35 of MCS Act.
 - 16) Repaying the share capital by the contravening the Rule 23 of MCS Rules 1961.
 - 17) No Action against overdue in excess of one year.
 - 18) Transactions with relatives of Board of Directors, companies, firms in which directors are interested are not at the reasonable rates.
- 

AUDIT REPORT PART - B

(b) Part B:- This part deals with such matter as;


- 1) financial stability,
- 2) loan policy,
- 3) progress of recoveries and position regarding overdues,
- 4) mode of conducting business,
- 5) deficiencies in the arrangements for internal check,
- 6) infringement of the provisions of the Act, Rules, byelaws and circular, instructions of the Registrar,



AUDIT REPORT PART - B

- 7) the general progress of the society,
- 8) its achievements and the degree of interest taken by the office-bearers and ordinary members of the society in its affairs.

In this part, one of the paragraphs would be devoted to recapitulation and stressing of important points to which attention had been drawn in the previous audit memo, but which have remained unattended to by the society. In that case, a remark that the matter has been touched in the report may be made against the relevant query in the audit memo.



AUDIT REPORT PART - B

The Audit Rectification Report submitted by the society should have been carefully gone through by the auditor, prior to the commencement of his audit and the points reported to have been attended to or rectified should be carefully scrutinized during the course of audit. Mention should be made only of such points, which have not been attended to, or irregularities not rectified.

Part B of audit report shall generally include following items:



AUDIT REPORT PART - B


- a) remarks on scrutiny of Balance sheet and Profit and loss account.
- b) deficiencies in working of societies.
- c) Activities undertaken beyond the object of society
- d) observation on meetings of AGM, BOD and committee meetings.
- e) remarks on growth or decline in deposit / capital / loan / profits etc. and important ratio analysis.
- f) contravention of provisions of other allied Act like Stamp Act, Labour laws, Contract Act, etc.



AUDIT REPORT PART - C

(c) Part C:- This part deals with the account irregularities and suggestions of the auditors, and the classification awarded by the auditor to the society.

Part C of audit report shall include the following items;

- a) Deficiencies in vouching, receipts, expenditure voucher.
 - b) Unauthorized / not sanctioned expenditure.
 - c) Expenditure which appears to be excessive to the auditor considering the size and volume of society.
- 

AUDIT REPORT PART - C

- d) General deficiencies observed in loan documents.
- e) Travelling expenditure of Board of Directors and Staff members beyond their powers and which appears to be excessive.
- f) Receipt entries (credit entries) not supported by receipts.
- g) Cash book, bank book, day book should be completed every day and signed by responsible officers. If not, necessary remarks should be given in Part C.



AUDIT REPORT PART - C

- h) List of missing vouchers and loan bonds,
- i) List of vouchers on which payee's acknowledgement is wanting.
- j) List of defective vouchers and loan bonds.
- k) List of payments which are not supported by documents such as bills or invoices, etc., or for which sub-vouchers are wanting.
- l) List payments, which are not properly authorized.
- m) List of items where delegated authority has been exceeded.



AUDIT REPORT PART - C

- n) List of remittances for which official receipts are not issued.
- o) Mistakes in interest calculations.
- p) Comments on bank reconciliation
- q) Comments on registers which are mandatory but not maintained as per rule 65.
- r) Other irregularities to be specified



AWARD OF AUDIT CLASSIFICATION

Classification of societies may be made on the following principles:

- 1) Observation of co-operative principles in the working of the society.
- 2) Financial position – Funds & their legal investment beneficial to society.
- 3) Business & turnover in quantity as well as beneficial to members.



AWARD OF AUDIT CLASSIFICATION

- 4) Management & Control – staff of the society – observation of rules & disciplines – qualifications of staff & maintenance of records.
- 5) Observance of provisions of Act, Rules & bye-laws.
- 6) Recovery of overdue-debts.
- 7) Rectification of audit objections.



AUDIT RECTIFICATION REPORT

- Section 82 of the M.C.S. Act, requires every society to explain to the Registrar within 3 months of the receipt of the audit report.
- It is the responsibility of the Auditors to call for the audit rectification report.
- To review the action taken by the society to the Administrative officer.
- It is the responsibility of the supervising unions & other federal bodies to which these societies are affiliated.



AUDIT RECTIFICATION REPORT

- The auditor has to forward the rectification reports to the District Dy. Registrar or Divisional Joint Registrars.
- The final action will be taken by the Dist. Dy. Registrar.



RECTIFICATION REPORT IN FORM 'O'

- In Maharashtra, within 3 months from the date of receipt of the report from the Auditor, society needs to submit 'Rectification Report' in Form 'O' to Registrar as well as to Auditor.
- Auditor shall offer his comments to the replies by Society.
- In addition to above, an auditor shall also upload the same on the website of the Government.
- Even where there are no remarks, it is advisable to upload Form 'O' with NIL Remark and NIL reply by Auditor.

Form 'O' - Rectification report under Section 82/87

(See Rule 73)

Rectification report under Section 82/87

Date of Audit : _____

Period covered : _____

No. and date of order under Section 83/84: _____

Name and designation of person carrying
out audit, inquiry or inspection :

Serial No. of the objection in the Audit Memo or report of the Officer carrying out inquiry or inspection	Observations made by the Auditor or officer carrying out inquiry or inspection	Explanation of the society and remarks regarding action taken by it to rectify the irregularities and implement the suggestion made by the Auditor or Officer carrying out inquiry or inspection	No. and date of the resolution of the committee approving the report	Remarks
1	2	3	4	5



**STEP BY STEP
AUDIT
OF
CO-OP HOUSING SOCIETY**

SOCIETY SEEKS AVAILABILITY OF AUDITOR

- Starting point of every audit is 'Appointment'.
- As we are aware, Registrar has maintained the Panel of Auditors for carrying out the audit of all the co-operative societies registered with the co-op. dept.
- In the case of co-operative society, it is necessary that before a Society appoints the auditor, it should write to proposed Auditor and seek his availability, eligibility and Panel No.
- This letter from Society is necessary in case of new appointment as well as re-appointment, since it is possible that a change might have occurred in the position of any auditor so empaneled.

AUDITOR CONVEYS AVAILABILITY

- After receipt of such a letter, the auditor should reply indicating his availability or otherwise.
- In case, he is not willing or is not eligible, he may indicate appropriately.
- However, where he is eligible and willing to carry out audit, he should clearly state the fact and convey his willingness along with his empanelment no.

APPOINTMENT IN ANNUAL GENERAL MEETING

- Society appoints the auditor in Annual General Meeting held thereafter.
- Section 75 prescribes requirements to hold Annual General Meeting.
- The resolution so passed shall state ideally the name of auditor, his empanelment no and authority to secretary or some Managing Committee member to communicate with Auditor.
- For this purpose, a letter along with copy of resolution stated above and the name and address of previous auditor is sent to Auditor.

AUDITOR TO RESPOND

- Every such letter when received can be responded only after the Auditor communicates with previous auditor stated in the letter.
- After communication process is over, he shall communicate his acceptance.
- Interestingly, an Auditor is required to communicate with Previous Auditor and not insist on NOC or wait indefinitely for such NOC. Where fees of previous auditor are pending, the subsequent auditor shall insist on payment before issuing his report.
- Such acceptance can be by way of separate letter OR in the form of engagement letter as stated in SA 210 or as near thereto as possible.

ACCEPTANCE AND AUDIT ORDER

- After receipt of acceptance letter from Auditor, society uploads copy of resolution through its log in and auditor uploads his acceptance through his log in.
- After completion of the above, an audit order is generated in the name of Auditor so appointed.
- It is advised by the Registrar to generate Audit Order by 31st October.
- Hard copy of the appointment letters and resolutions received can also be submitted to DSA office in case of technical difficulties.

MANAGEMENT REPRESENTATION LETTER

- Having generated Order appointing Auditor, the society now writes a Management Representation Letter giving details about society, its office bearers, General Meetings and Managing Committee meetings held, any capital assets acquired, investments and such other particulars as are applicable.
- The DRAFT of such letter can be referred to SA 580.
- However, contents of such letter shall differ per case basis and it is for auditee to include maximum particulars as it is for enabling smooth completion of audit.

AUDIT PLAN

- Auditor has to devise appropriate strategy for completion of audit.
- He should call for previous year's Financial Statements and note various points:
 - Whether those are audited?
 - Are there any material inconsistencies?
 - Are there any misstatements commented upon?
 - Whether the closing balances of previous year are matching with the opening balances of current year?
 - Assessment of scope and risk
- Taking into consideration the above, an auditor should plan his audit keeping in mind the resources available with him.



Accounting Standards applicable to Co-op Society Audit

BACKGROUND

- Audit of Co-operative Societies has been the domain of few professionals.
- Less attention given by Professionals
- Co-operative societies are regulated by State Laws.
- Regulators showed lesser dynamism till recent past
- Co-existence of ICAI and GDCA approved auditors
- Gap in understanding in both of them though the object of both is same.

BACKGROUND

- Preface to the Statement of Accounting Standards (3.3)-The exact wordings are:
- Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards apply in respect of any enterprise (whether organised in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to enterprises only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise is considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature.

BACKGROUND

- Co-operative societies are not an exception to the applicability of accounting standards, as the Financial Statements prepared by co-operative societies are General Purpose Financial Statements.
- The term 'General Purpose Financial Statements' includes balance sheet, statement of profit and loss, a cash flow statement (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public.

BACKGROUND

- The financial statements prepared by the co-operative society includes balance sheet, statements of profit and loss, statements and explanatory notes which form part of financial statements.
- Thus, it is amply clear that Accounting Standards pronounced by ICAI are squarely applicable to the co-operative societies.
- It is the responsibility of management of such societies to ensure that relevant accounting standards are followed while recording transactions in the books of accounts of the relevant society and the same is verified by the auditor while furnishing his report thereon.

ROLE OF AUDITOR

- At the time of expressing of opinion on the Financial Statements of the society, an auditor has to ensure such compliance or report non-compliance thereof in his report.
- Format of Audit Report under SA 700 reads as under:
- ‘An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management as well as evaluating the overall presentation of financial statements’.
- It is possible that previous year’s audit is not carried out by member of ICAI, in which case it is all the more necessary for the auditor to see whether earlier years’ financial statements comply with the accounting standards before giving the audit report or comment appropriately in his report for any deviation so noticed.

APPLICABILITY OF ACCOUNTING STANDARDS

- For the purpose of applicability of Accounting Standards, enterprises are classified into three categories, viz., Level I, Level II and Level III.
- Level II and Level III enterprises are considered as SMEs.
- The criteria for different levels are given below.

LEVEL I ENTERPRISES

- **Enterprises which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level I enterprises:**
 - Enterprises whose equity or debt securities are listed whether in India or outside India.
 - Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.
 - Banks including co-operative banks.
 - Financial institutions.
 - Enterprises carrying on insurance business.
 - All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.
 - All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs.10 crore at any time during the accounting period.
 - Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

LEVEL II ENTERPRISE

- Enterprises which are not Level I enterprises but fall in any one or more of the following categories are classified as Level II enterprises:
 - All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 40 lakhs but does not exceed Rs. 50 crore. Turnover does not include 'other income'.
 - All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 1 crore but not in excess of Rs. 10 crore at any time during the accounting period.
 - Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

LEVEL III

- Enterprises which are not covered under Level I and Level II are considered as Level III enterprises.

APPLICABILITY OF ACCOUNTING STANDARDS

- The following may also be noted in respect of applicability of Accounting Standards to Small and Medium Sized Enterprises (SMEs):
 - An enterprise, which does not disclose certain information pursuant to the exemptions/relaxations available to an SME, should disclose the fact.
 - Where an enterprise has previously qualified for any exemption/relaxation (being under Level II or Level III), but no longer qualifies for the relevant exemption/relaxation in the current accounting period, the relevant standards/requirements become applicable from the current period. However, the corresponding previous period figures need not be disclosed.
 - Where an enterprise has been covered in Level I and subsequently, ceases to be so covered, the enterprise will not qualify for exemption/relaxation available to Level II enterprises, until the enterprise ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an enterprise, which has been covered in Level I or Level II and subsequently, gets covered under Level III.

APPLICABILITY OF ACCOUNTING STANDARDS

- Accounting Standards are applicable to the Co-operative Societies.
- Their recognition, measurement and disclosure criteria will depend on, the level to which the society belongs.
- Following are some of the accounting standards along with some of the essential points that must be considered while conducting audit of a co-operative society.

AS 1: DISCLOSURE OF SIGNIFICANT ACCOUNTING POLICIES

- Accounting Assumptions
 - Going Concern
 - Consistency
 - Accrual
- Cash v Accrual System of Accounting
- Disclosure of Accounting Policies
 - These policies should relate to accounting of interest on investments, levy of interest on outstanding dues, any other charges being levied by the society, etc.
- Compliance with respective statutes
- Principal of Materiality

AS 2: VALUATION OF INVENTORY

- Societies are
 - Dairy/Milk Societies
 - Sugar Factories
 - Spinning Mills
 - Consumers' Societies
 - Agricultural Process Societies, etc.
- Cost of Purchase, Cost of Conversion, Other Costs
 - 'Lower of the cost or Net Realisable Value'
 - Difficulty in arriving at such valuation for paucity of detailed accounting / cost records
- In the case of housing societies, inventory may not be present unless such society has undertaken major repair or renovation work and the material has been procured by the society with labour job being carried out by the contractor.

AS 3: CASH FLOW STATEMENT

- Applicable to Level I enterprise

AS 4: CONTINGENCIES AND EVENTS OCCURRING AFTER BALANCE SHEET DATE

- Events occurring after Balance Sheet Date are also important with a view to assess impact on the financial statements under reporting.
- These may include various events like legal notices, court proceedings, etc.
- For its verification, the general body minutes of such meetings after year end but before audit completion should be verified.

AS 5: NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS & CHANGES IN ACCOUNTING POLICIES

- Change in accounting policy v/s Change in Accounting estimates
- Prior period items – error / omission / commission
- Separate disclosure for prior period items
- Disclosure for change in accounting policies/estimates
- In this case, management of housing societies are not aware importance of such estimates.
- However, providing for expenses and liabilities is a matter of concern for auditor as recent developments from office of District Special Auditor have mandated auditor to look into this area as well.

AS 9: REVENUE RECOGNITION

- Recognition in the case of sale – Transfer of significant risk and reward of ownership
- No significant uncertainty exists regarding amount of consideration
- Interest is recognised on time proportion basis and no significant uncertainty as to measurability and collectability exists
- Other income in the case of housing societies like mobile tower rent, hoarding rent, sale of scrap etc. needs to be accounted appropriately.
- A question may arise in the case where the unit is not transferred to legal heir post death of the member where no nomination is available. Auditor needs to comment suitably in such situations by referring to relevant correspondence as well as copies of minutes.

AS 10: PROPERTY, PLANT AND EQUIPMENT

○ **Determination of Cost for Accounting**

○ **Non-monetary Consideration**

- When a fixed asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident.
- An alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.
- Examples: UPS/Computers & its peripherals, Generating Sets etc.

AS 10: PROPERTY, PLANT AND EQUIPMENT

○ Revaluation of Fixed Assets:

- An increase in net book value arising on revaluation of fixed assets is normally credited directly to owner's interests under the heading of revaluation reserves and is regarded as not available for distribution of dividend.
- A decrease in net book value arising on revaluation of fixed assets is charged to profit and loss statement except that, to the extent that such a decrease is considered to be related to a previous increase on revaluation that is included in revaluation reserve, it is sometimes charged against that earlier increase. It sometimes happens that an increase to be recorded is a reversal of a previous decrease arising on revaluation which has been charged to profit and loss statement in which case the increase is credited to profit and loss statement to the extent that it offsets the previously recorded decrease.

AS 10: PROPERTY, PLANT AND EQUIPMENT

- Disclosure:

- The following information should be disclosed in the financial statements:

- Gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements;
- expenditure incurred on account of fixed assets in the course of construction or acquisition; and
- revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

AS 12: GOVERNMENT GRANTS

- In this case, the standard prescribes that Grant received for acquisition for specific asset should be deducted from cost of the asset and if need be, the asset may be shown at a nominal value.
- Alternatively, the asset may be recorded at its cost of acquisition and continued to be depreciated in the normal way. The Grant so received should be recorded as Reserve with the amount equivalent to the depreciation charged on the asset to be reduced every year.
- Other grants for reimbursement of revenue expenditures should be treated as 'income'.
- These are not applicable in the case of housing societies.
- However, in a case of housing society, individual members contributed for benches made from siporex material to be erected in the compound of society premises and society permitted to mention names of such members or their relatives or near and dear ones on such benches. These benches were used for senior citizens in the society and its maintenance was undertaken by society.

AS 15: EMPLOYEE BENEFITS

- Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees.
 - Employment benefits includes :
 - Retirement benefits – e.g.. Gratuity and pension
 - Other benefits – e.g. medical care, leave encashment etc.
- Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods
- Defined benefit plans are post-employment benefit plans other than defined contribution plans.

AS 15: EMPLOYEE BENEFITS

- Applicability :
- Level I enterprises
 - Actuarial valuation with discounting factor – for short term benefits, long term benefits and post employment benefits.
- Disclosures as per AS 15.
- Level II and Level III enterprises are exempted from following
 - (average number of persons employed during the period is 50 or more)
- Recognition and measurement of short term accumulating compensated absences which are not vesting (para 11 to 16).
- Discounting of amounts that fall due for more than 12 months.
- Accounting for defined benefit plans – recognition, measurement and disclosure (para 50 to 123).
- However, small and medium size housing societies may not be liable to such disclosure unless for large housing project, it's a single housing society having appointed employees for undertaking various works.

AS 16: BORROWING COSTS

- Qualifying Assets
- Nature of Borrowing Cost
- Disclosure of Cost of borrowing
- Housing societies undertaking expansion or major renovation by themselves may be liable for disclosure.

AS 22: ACCOUNTING FOR TAXES ON INCOME

- Provision for Income Tax Liability
- Netting off of provision for tax and Advance Tax / TDS for disclosure.
- Calculation of Differed Tax / Liability and presentation in the financial statement.
- Identification of temporary / permanent differences.
- Disclosure of components of differed tax.

AS 28: IMPAIRMENT OF ASSETS

- The objective of this Statement is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount.
- An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset.
- If this is the case, the asset is described as impaired and the society is required to recognise an impairment loss.
- It is also essential to know when a society should reverse an impairment loss and make certain disclosures for impaired assets.

AS 28: IMPAIRMENT OF ASSETS

○ Recognition and Measurement

- If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. That reduction is an impairment loss.
- An impairment loss should be recognised as an expense in the statement of profit and loss immediately, unless the asset is carried at revalued amount in accordance with another Accounting Standard (see Accounting Standard (AS) 10, Accounting for Fixed Assets), in which case any impairment loss of a revalued asset should be treated as a revaluation decrease under that Accounting Standard.

○ Situations of Impairment losses in Co-operatives:

- Plant or Machinery/ Equipments of Dairy or Sugar Factory.
- Buildings and others assets .

- At each Balance Sheet date it should be assessed whether any indication that any asset may be impaired. If such indication exist then method through which the recoverable amount is arrived at



Standards on Auditing - Compliance



AUDIT OF COOPERATIVE SOCIETY

- An audit is common for all the organisation with general definition being given in
- It is different for cooperative societies depending upon the activities undertaken.
- Specific compliances are necessary apart from general audit compliances.



WHY AUDITING

- Economic consequences – Impact of using unreliable information
 - Enhancing credibility of financial information
 - Conflict of interest – Users vs. Preparers
 - Remoteness – Physical, Legal
- (A vital part of Economic Infrastructure)

COMPLIANCE WITH SAs

- Compliance with SAs
 - Mandatory
 - Departure only if alternate audit procedures achieve objective of SAs
 - Document reasons for departure
 - Document alternative procedures
 - Report to draw attention
- SA not applicable if situation outlined in SA is absent.
 - Document alternative procedures performed

Audit, Assurance & Review

While AUDIT is an independent examination of financial statements for expressing an opinion thereon, whereas assurance is provided by such an examination and report.

Review on the other hand provides a negative assurance report giving only a moderate level of assurance on the reliability of the financial statements.

Review and Related Services

While REVIEW provides at least negative assurance, the RELATED SERVICE provides practically no assurance.

It includes various activities carried out by a professional on the specific agreed procedures with the related party.

**NOTIFICATION REGARDING
APPLICABILITY
OF
STANDARDS ON AUDITING
FOR
THE COOPERATIVE AUDITS**



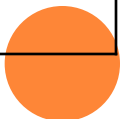
No. CSL. 2014/C.R.53/13 C, dated 12th August 2014

.- In Exercise of the powers conferred by sub-section (2) of section 81 of the Maharashtra Co-operative Societies Act, 1960 (Mah. XXIV of 1961), the Government of Maharashtra hereby notifies the Auditing Standards No. mentioned in column (2) of the Schedule appended hereto, being auditing standard specified by the Institute of Chartered Accounts of India, and explained in detail in column (3) of the said Schedule to be the standards for the audit of accounts of the Co-operative Societies under the said Act.



SCHEDULE

Sr. No. (1)	Auditing Standard No. (2)	Name of Auditing Standard (3)
1	200	Over objective of the Independent Auditor and the conduct of an audit in accordance with standards on auditing.
2	210	Agreeing the terms of Audit Engagements
3	220	Quality control for an audit of financial statements
4	230	Audit documentation.
5	240	The Auditor's responsibilities relating to Fraud in audit of financial statements.
6	250	Consideration of Laws and Regulations in an Audit of financial statement.
7	260	Communication with those charged with Governance

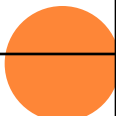


SCHEDULE

Sr. No. (1)	Auditing Standard No. (2)	Name of Auditing Standard (3)
8	265	Communication Deficiencies in Internal Control to those changed with Governance and Management.
9	299	Responsibility of Joint Auditors
10	300	Planning and Audit of Financial statements
11	315	Identifying and Assessing the risks of Material Misstatement through Understanding the Entry and its Environment
12	320	Materiality in Planning and Performing an Audit
13	330	The Auditors responses to Assessed Risks
14	402	Audit considerations relating to an entity using a service organization
15	450	Evaluation of Misstatements indentify during the Audit

SCHEDULE

Sr. No. (1)	Auditing Standard No. (2)	Name of Auditing Standard (3)
16	500	Audit Evidence
17	501	Audit Evidence-Specific considerations for selected items
18	505	External confirmations
19	510	Initial Audit engagements-Opening balances
20	520	Analytical procedure
21	530	Audit Sampling
22	540	Auditing accounting estimates including fair Value Accounting Estimates and Related Discloses.
23	550	Related Parties
24	560	Subsequent Events
25	570	Going concern
26	580	Written Representations



SCHEDULE

Sr. No. (1)	Auditing Standard No. (2)	Name of Auditing Standard (3)
27	600	Using the work of another Auditors
28	610	Using the work of Internal Auditors
29	620	Using the work of an Auditors Expert
30	700	Forming an opinion and Reporting on financial statements
31	705	Modifications to opinion in the Independent Auditors Report
32	706	Emphasis of matter paragraphs and other matter paragraphs in the Independent Auditor's report.
33	710	Comparative information-corresponding Figures and comparative financial statements.



SCHEDULE

Sr. No. (1)	Auditing Standard No. (2)	Name of Auditing Standard (3)
34	720	The Auditors responsibility in relation to other information in Documents containing audited financial statements.
35	800	Audits of Financial Statements prepared in accordance with special purpose frame work.
36	805	Special considerations-Audits of single financial statements and specific elements accounts or items of a financial statement
37	810	Engagements to report on Summary Financial Statements.



STANDARDS ON AUDITING

- The list given earlier is only indicative and the Auditor has to choose appropriate standard and its applicability based on each case.
- Appropriate documentation is necessary.
- It is possible to revise the applicability during the course of an audit based on findings during the course of audit.
- We shall examine few standards now.

ENGAGEMENT DOCUMENTATION

- Firm to establish time limits appropriate to nature of engagement to assemble files – **not more than 60 days in case of audit**
- Maintain confidentiality, safe custody, integrity, accessibility and irretrievability
- Policies/procedures for retention of engagement documentation is no shorter than ten years from the date of the auditor's report, or if later, the date of the group auditor's report
- Ownership of documentation - Property of the firm

SA 230 : AUDIT DOCUMENTATION

Record of:

- audit procedures performed
- relevant audit evidence obtained
- conclusions reached

Also known as “working papers”, “work papers”

SA 230 : AUDIT FILE

- one or more folders or other storage media
- in physical or electronic form
- containing records that comprise audit documentation for a specific engagement

SA 240 RESPONSIBILITY FOR FRAUD PREVENTION

- Those charged with governance
 - Oversight of management policies
 - Consider potential for management override of controls
 - Consider potential for management's inappropriate influence on financial reporting

- Management
 - Establish proper policies
 - Emphasis on ethics and honesty

SA 240

THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

Responsibility of Auditor

- Obtain reasonable assurance that financial statements are free of material misstatements.

Subject to:

- Inherent limitations of audit
- Fraud – deliberately concealed so difficult to detect

But exercise **PROFESSIONAL SKEPTICISM**.

SA 240: COMMUNICATIONS – MANAGEMENT & THOSE CHARGED WITH GOVERNANCE

- To management:
 - Fraud identified/ information indicating fraud
 - Timely basis
 - Appropriate level

- To those charged with governance:
 - Management fraud; **OR**
 - Frauds by employees having significant role in internal control; **OR**
 - Frauds by others where they result in material misstatement in financial statements



SA 240: COMMUNICATION – REGULATORS

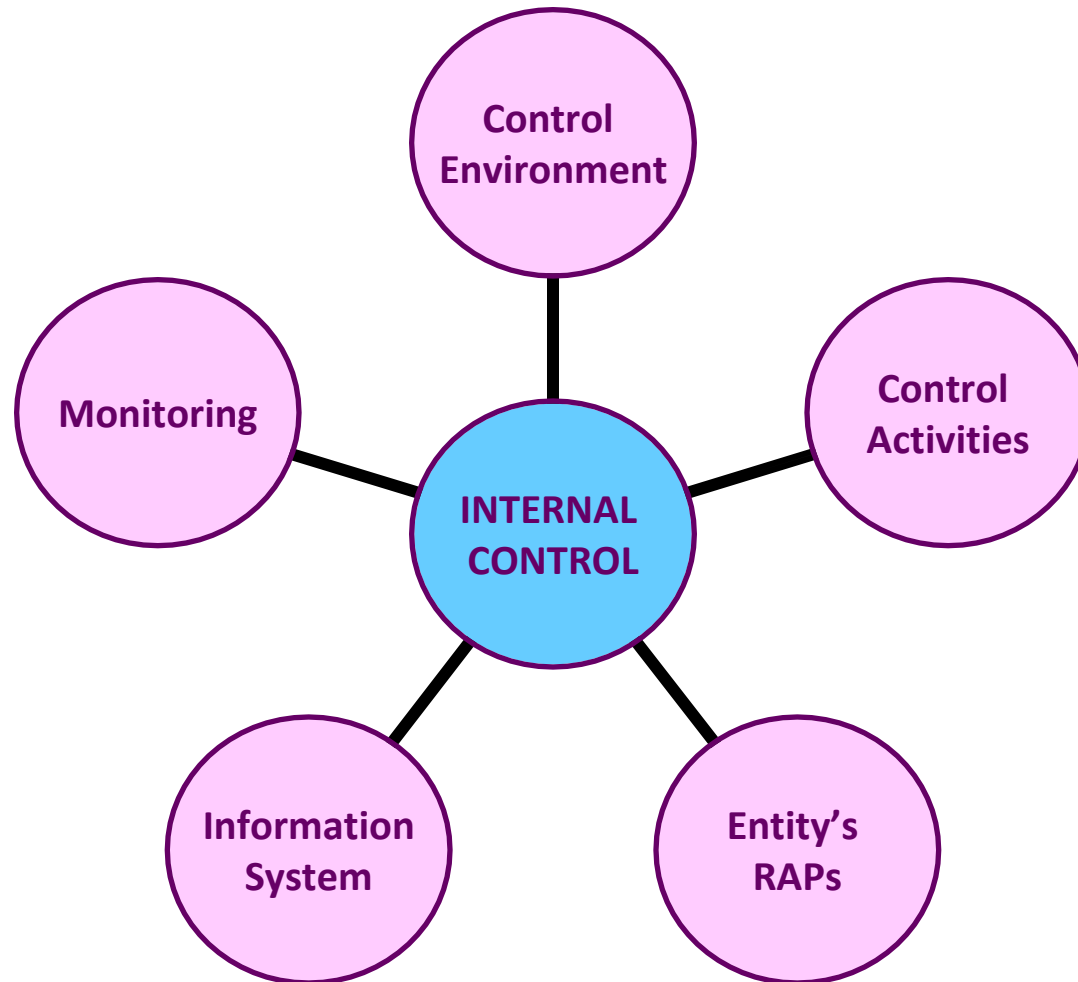
- Actual/ suspected fraud
- Determine duty to report to regulator
- Legal/ regulatory responsibilities normally override client confidentiality requirements
- Seek legal advice to determine appropriate course having regard to PUBLIC INTEREST

SA 315 - SMALL ENTITY CONSIDERATIONS

- Do not have formal processes to measure & review financial performance
- Inquire management for any informal process
- Since no performance/review measurement exists, it leads to increased risk of undetected & uncorrected misstatements.



SA 315 - INTERNAL CONTROL – COMPONENTS



SA 315 - SMALLER ENTITY CONSIDERATIONS (*PARA A72 – A74*)

- Those charged with governance may not be independent/ outside members.
- Governance role undertaken by owner.
- No documentary evidence on existence of control environment.
- Attitudes, awareness and actions of owner are of particular importance

SA 315 - SMALLER ENTITY CONSIDERATIONS (*PARA A89-A90*)

- Underlying concepts same as in larger entities, but less formal
- Some controls may not be relevant due to direct owner oversight
- Relate mainly to transaction cycles
- Understand CARA:
 - Necessary for assessing risk of material misstatement at assertion level and designing audit procedures responsive to risk
 - Response to IT risks

SA 330: THE AUDITOR'S RESPONSES TO ASSESSED RISK

○ Tests of Controls

- Audit Procedure for evaluating operating effectiveness of controls in preventing/ detecting & correcting material misstatement **at assertion level**

○ Substantive Procedures

- Analytical Procedures designed to detect material misstatements at assertion level:
 - **Tests of details** – *classes of transactions/ account balances/ disclosures*
 - **Substantive analytical procedures**

700 – 799: Audit Conclusions & Reporting

- SA 700 (Revised)
 - Forming an Opinion and Reporting on financial statements
- SA 705 (Revised)
 - Modifications to the opinion in the Independent Auditor's Report
- SA 706 (Revised)
 - Emphasis of Matter Paragraphs and Other Matter Paragraphs
- SA 710
 - Comparatives
- SA 720 (Revised)
 - The Auditor's Responsibility in relation to the other information in documents containing audited financial statements
- The revised statements are applicable for financial statements commencing after 01.04.2018.

SA 700, AUDITOR'S REPORT ON FINANCIAL STATEMENTS*

- A clear written expression of opinion on the whole
- Basic Elements – Title/Addressee/Opening/Scope para/Opinion para/Date of Report/Place/Auditor's Signature
- Opening para
 - Identify FSs (Entity's name/period/Management's responsibility)
 - Auditor's Responsibility
- Scope – Description of Audit Function (Test check/Accounting Principles/Estimates/GAAS/Audit provides reasonable assurance)
- Opinion – Identify FRF/a true & fair view/statutory requirement
- Date – Date not earlier than date on which FSs are approved by the Management.
- Place of Signature – Specific location where auditor's report is signed

* *Effective from April 1, 2003*

REVISED SA 700

- Unqualified Report – A True and Fair View:
 - Accordance with FRRF
 - GAAP consistently applied
 - Complies with relevant statutory requirements
 - Adequate disclosure of all material matters relevant to proper presentation subject to statutory requirements.

SA 705 : MODIFIED REPORT

- Matters That Do Not Affect the Auditor's Opinion
 - Emphasis of matter
- Matter That Do Affect the Auditor's Opinion
 - Qualified opinion
 - Disclaimer of opinion
 - Adverse opinion

MATTERS THAT DO NOT AFFECT THE AUDITOR'S OPINION

- Going Concern Question not resolved but adequate disclosure made in FSs
- Significant uncertainty resolution of which dependent upon future events and may affect the FSs
- Reference to non-observance of A/S in respect of those enterprises which are not subjected to any auditor under statute

MATTERS THAT DO AFFECT THE AUDITOR'S OPINION

○ (A) Qualified Opinion

- Effect of disagreement with the Management (selection of accounting policies; method of application; adequacy of disclosures) is not so material and pervasive as to require an adverse opinion.
- Limitation of scope (imposed by Management; timing of appointment) is not so material and pervasive as to require a disclaimer of opinion.
- “Subject to” or “Except for”

○ (B) Disclaimer of Opinion

- Limitation on scope – Material and pervasive auditor is unable to obtain sufficient and appropriate audit evidence
- Describe limitation and indicate possible adjustments.

○ (C) Adverse Opinion

- Disagreement is so material and pervasive – Qualification is not adequate to disclose the misleading or incomplete nature of FSs

CONTENTS OF AUDIT REPORT

- **Audit report shall generally include following items :**
 - Fraud
 - Misutilisation of funds and properties
 - Misapplication of funds
 - Manipulation of accounts
 - Falsification of accounts
 - Auditor shall quantify shortfall in various provisions over profit or loss and state clearly that after considering the effects of all provisions whether there is profit or loss to the society.
 - Serious infringement of provisions of Act, Rules, Byelaws and notification.
 - Misutilisation of capital / loan / grant received from Government.
 - In case of banks, property sold under Securitization Act 2002 below Reserve Price.
 - Contravention of unit exposure norms and sectoral exposure norms in case of UCB, MSCB and DCCB.
 - Transactions with relatives of Board of Directors, companies, firms in which directors are interested are not at the reasonable rates.

COMPLETION OF AUDIT

- After completion of audit, an auditor shall issue his report containing his opinion on the financial statements examined by him in accordance with above standards.
- In the case of co-operative society, the prescribed Format is given in Form N1–applicable to Co-operative societies carrying out the business of banking and Form N2 –applicable to Other Co-operative Societies.
- These forms have been adopted from SA 700.
- If there is any Special Report warranted under special circumstances, the same shall be issued separately.
- Auditor also raises his bill for professional fees and submits a copy of the entire set to auditee.
- The entire set should consist of :-
 - Cover Page (For better presentation)
 - Audit Report – In Form N-2 / SA 700 as near thereto
 - Balance Sheet
 - Income and Expenditure Account
 - Notes to Accounts
 - Form 1 and Form 28 as applicable
 - General Remarks: AND of course
 - Bill for Professional Fees

COMMON MISTAKES BY AUDITORS OF CO-OPERATIVE SOCIETIES



COMMON MISTAKES THAT CO-OP. SOCIETY STATUTORY AUDITORS MAKE

- Appointment By Management Committee and not by General Body and still audit is accepted.
- Audit is accepted even when not there in the Audit Panel maintained and approved by the State.
- Audit is accepted without communicating with previous auditor.
- Audit commenced without the consent letter and audit engagement letter given to the society.
- Audit accepted even knowing that the previous audits are not done and society is advised to get the previous audits done by the auditor appointed by the Registrar.
- Audit Rectification Report for previous year is not called for or not verified.

COMMON MISTAKES THAT CO-OP. SOCIETY STATUTORY AUDITORS MAKE

- Audit is conducted without reading the Bye laws applicable to Housing Society.
- System generated printouts are not called for w.r.t. books of accounts and Financial statements such as Balance sheet and Income & Expenditure Account.
- Cash and Cheque vouching and posting not checked and verified.
- Comparative analysis exercise of current year's Expenses and Incomes over previous year's Expenses and Incomes not done. Same way with provision and prepaid expenses and incomes.
- Inadequate provisioning not commented upon or brought to the notice of the society.
- Objections not raised for the slashed up Expenses or slashed down Incomes as well as for provisions and prepaid expenses or incomes.

COMMON MISTAKES THAT CO-OP. SOCIETY STATUTORY AUDITORS MAKE

- Vouchers , Expense Ledgers and members personal ledgers are not scrutinised.
- Bank Balance conformations and certificates not verified.
- Physical FDs not verified with Investment Register.
- Bank FD Interest Certificates for all the FDs not verified.
- Major contract allotted by the society is not enquired and file not verified.
- Suspense Ledgers are not enquired upon or enquiry on how the Suspense Ledger is nullified is not made.
- Bank Reconciliation statement is not verified.
- The Minutes books wherein the decisions taken or resolutions passed may have bearing or impact on the accounts of the society are not verified.
- The TDS ledger is not scrutinized and enquiries on its compliance is not made.

COMMON MISTAKES THAT CO-OP.SOCIETY STATUTORY AUDITORS MAKE

- Elections and its procedure if applicable followed properly or not is not ensured.
- Total for Balance Sheet and Income & Expenditure Account of inner as well as outer columns not checked physically in case of word/excel form of Balance sheet and Income and Expenditure Account.
- Not discussing the Draft report with the Mgt. committee and not taking their sign off.
- Not taking the management representation before signing the financial statements and submission of Audit report Or management representation obtained but dated after the date of signing the audit report.
- Not putting the Membership No, Audit Panel No , Firm Registration No. while signing the Audit Report.

BALANCE SHEET AS AT 31ST MARCH, 21

FUNDS & LIABILITIES		CURRENT YEAR	PREVIOUS YEAR	INVESTMENTS & ASSETS		CURRENT YEAR	PREVIOUS YEAR
BUILDING FUND		1,015,108.00	754,137.00	BUILDING:-		969,970.00	709,970.00
Balance B/fd.	754,137.00			Tenacy Right in Office Premises.	709,970.00		
Addition during year	250,000.00			F.D.R. in Bank	260,000.00		12,232.00
Add.: Interest for the year (A/c No Bank Interest)	971.00			FURNITURE:-		7,181.00	7,979.00
				Balance as per last A/Sheet	7,979.00		
				Less:- Dep. For the Year	798.00		
PRIZE & GIFT FUND		23,811.00	23,811.00	Prize & Gift Fund		30,000.00	30,000.00
				[FDR in Bank]			
WELFARE FUND		121,180.00 ✓	112,180.00	Welfare Fund		140,000.00 ✓	110,000.00
Bal. B/fd..	112,180.00			[GOI BOND in Bank]	110,000.00		
Addition during year	9,000.00				40,000.00		
OFFICE MAINTENANCE FUND		50,000.00	50,000.00	Office Maint. Fund		50,000.00 ✓	50,000.00
				[GOI BOND in Bank]			
PATRIKA PRAKASAN FUND		21,000.00	-	Patrika Prakasan Fund		21,000.00	
				[FDR in Bank]			
LIFE MEMBERSHIP FUND		137,442.00	122,420.00	Life Membership		140,000.00 ✓	126,003.00
Balance b/fd..	122,420.00			[FDR in Bank]			
Addition during year	15,022.00			F.D.R. in Bank (Others)			50,000.00
INCOME & EXPENDITUR A/C		79,342.00	88,480.50	Balance in Bank (A/c:	6,205.00		12,732.00
Balance b/fd.	68,480.50			Balance in Bank (A/c:	81,529.00		33,896.00
Add:- Excess of Income over				T.D.S	187.00 ✓		
Expend. during the year	10,861.50			Cash in Hand	1,811.00		948.50
		1,447,883.00 ✓	1,131,028.50 ✓			1,447,883.00 ✓	1,143,260.50 ✓

AS PER OUR AUDIT REPORT OF EVEN DATE

FOR

HA, MUMBAI

FOR
CHARTERED ACCOUNTANTS

PLACE : MUMBAI

[Signature]

[Signature]

[Signature]

RECTIFICATION OF ERRORS POINTED OUT IN AUDIT

- Co-operative audit is not merely critical, but curative. The duties of the auditor of a cooperative society do not end merely by pointing out errors and irregularities noticed by him, but he has also to suggest ways for avoidance of their repetition.
- It is, therefore, necessary that the society follow-up the suggestions made by the auditor and takes due steps to remedy the defects pointed out by him in his audit memo.

RECTIFICATION OF ERRORS POINTED OUT IN AUDIT

- Co-operative Societies Act, requires every society to explain to the Registrar, within three months of the receipt of the audit report, the defects or irregularities pointed out by the auditor and take steps to rectify the defects, remedy the irregularities and report to the Registrar the action taken by it thereon.
- The Registrar may also make an order directing the society or its officers to take such action as may be specified in the order to remedy the defects within the time specified therein.
- The Registrar or the person authorized by him shall scrutinize the audit rectification report and inform the society within six months from the date of receipt thereof.
- If a society fails to rectify the defects disclosed in the course of or as a result of audit or fails to rectify the defects as directed by the Registrar, the Registrar may himself take steps to have the defects rectified and may recover the cost from the officer or officers of the society, who, in his opinion, has or have failed to rectify the defects. Sub-Section (1) of section 79 also empowers the

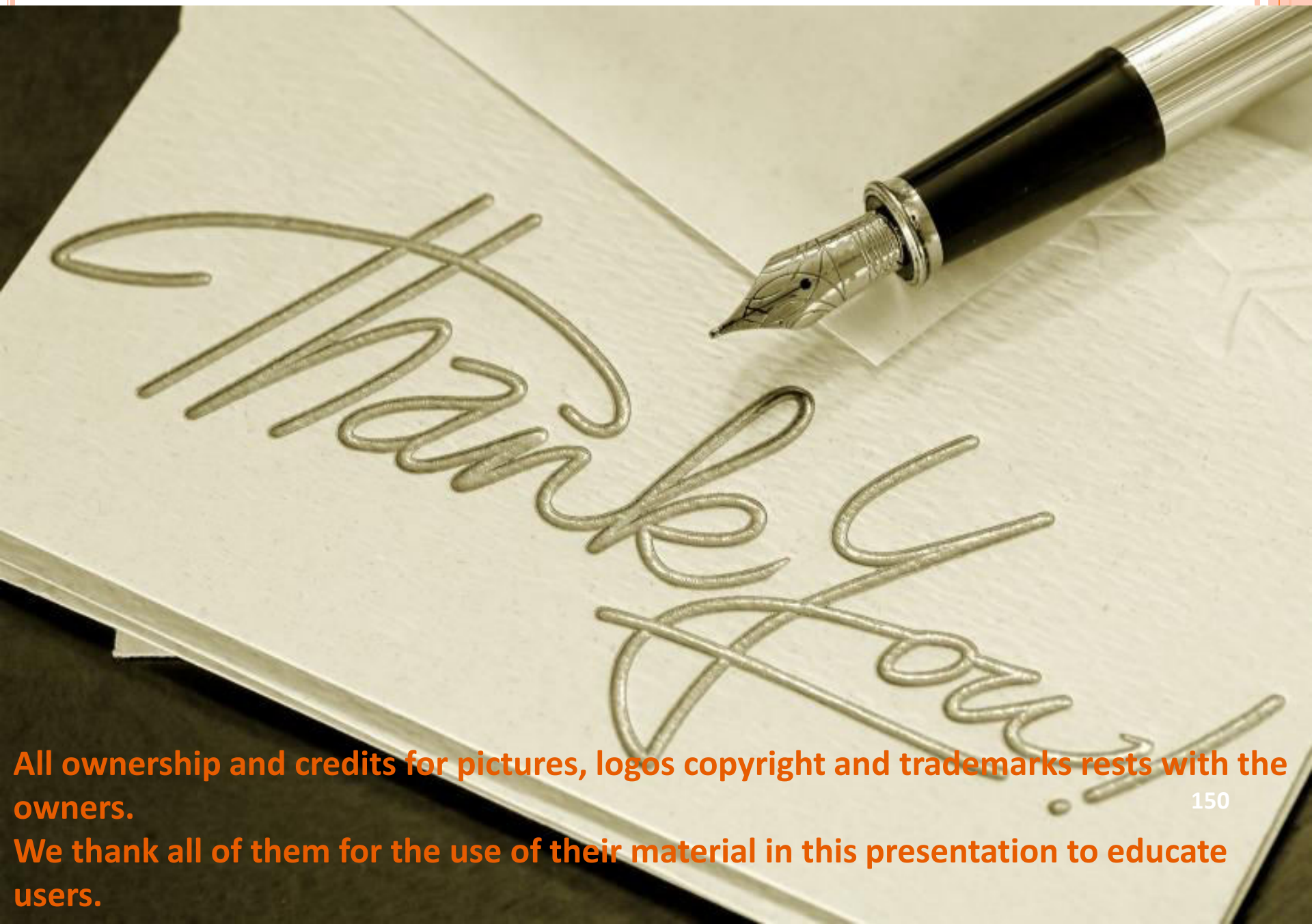
CONCLUDING OBSERVATIONS

- Apply Professional Judgement
- Technical knowledge, skill and experience
- Intuitive skills – To deal with any situation
- Nose for Truth
- Auditor Responds

It is better to be careful lest it costs you

FINAL THOUGHTS....





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