

# OPPORTUNITIES FOR CAS IN CO-OP. SECTOR



- 1) Overview of Credit Coop. Societies
- 2) Types and their functioning
- 3) Formation of Credit Coop. Societies
- 4) Imp. Provisions Related to Urban Credit Coop. Societies under MCS Act , 1960 and
- 5) Imp. Provisions Related to Multi State Coop. Societies Act, 2002

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17/12/2016

COOP COMMITTEE (MAH) OF WIRC OF ICAI.



# Overview of Cooperative Societies And Cooperative Credit Societies.

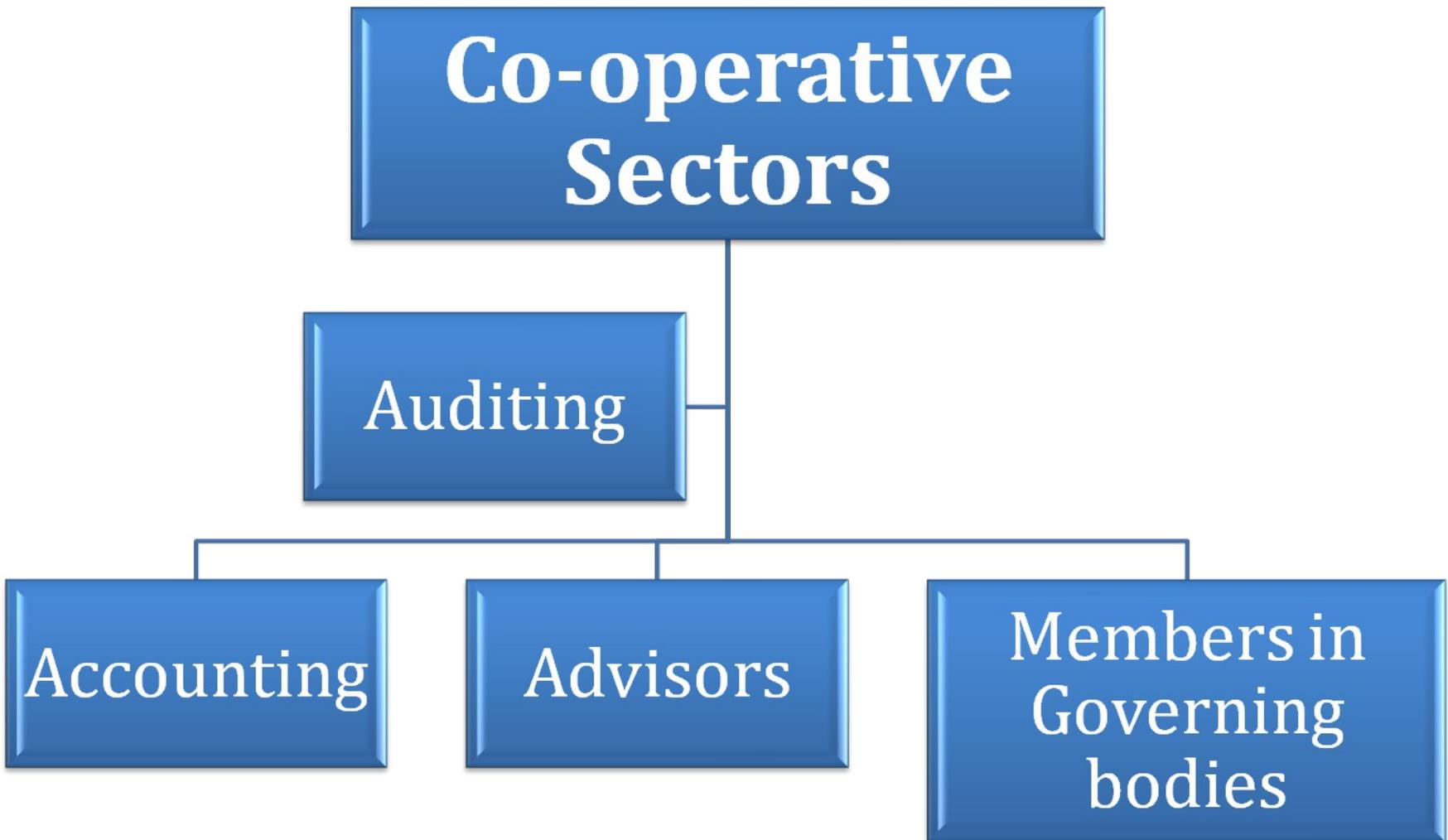
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# PROFESSIONAL OPPORTUNITIES IN CO-OPERATIVE SECTORS





# Financial Management- An Overview

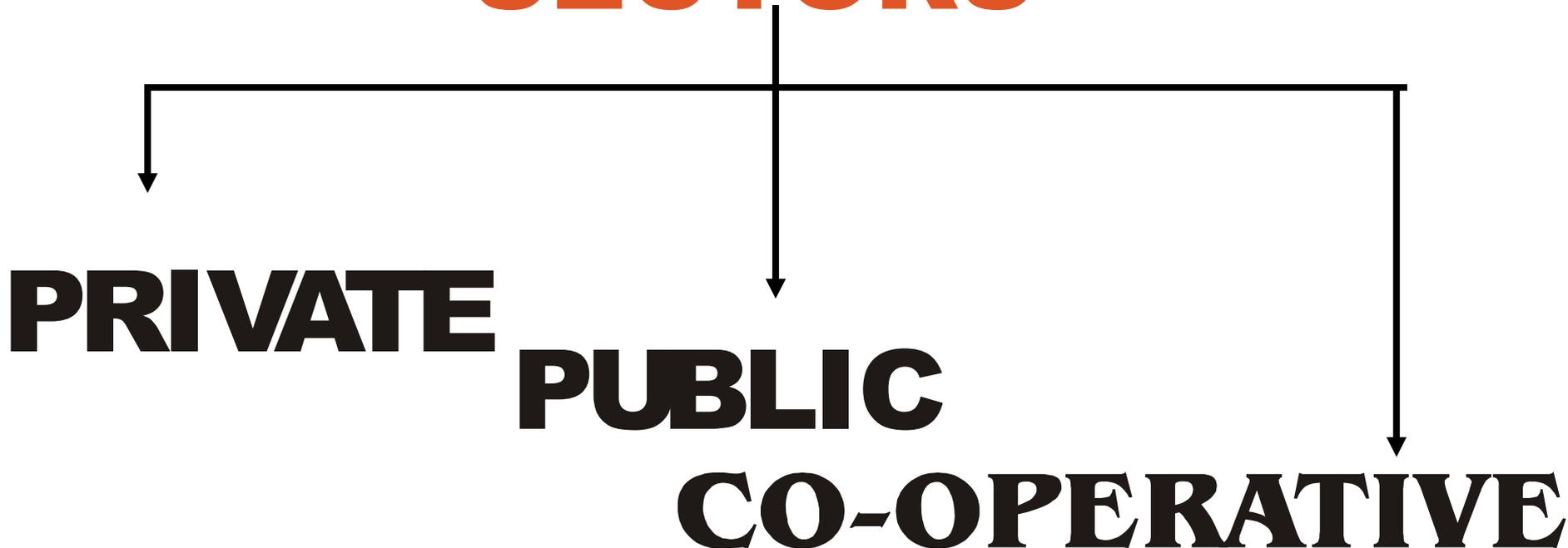


# 1. UNDERSTAND CO-OPERATIVE AS BUSINESS ENTERPRISE

## ECONOMIC ACTIVITIES

## THREE

## SECTORS



# CO-OPERATIVE ENTERPRISE- BUSINESS OPPORTUNITIES

Agriculture

**Food**

Retail

Wholesale

**Housing**

Child Care

Community Development

Financial Services

Community Economic Development

Media & Communications

**Arts & Culture**

Transportation

**Energy**

Environment

Travel

Education & Research

**Recreation**

Health

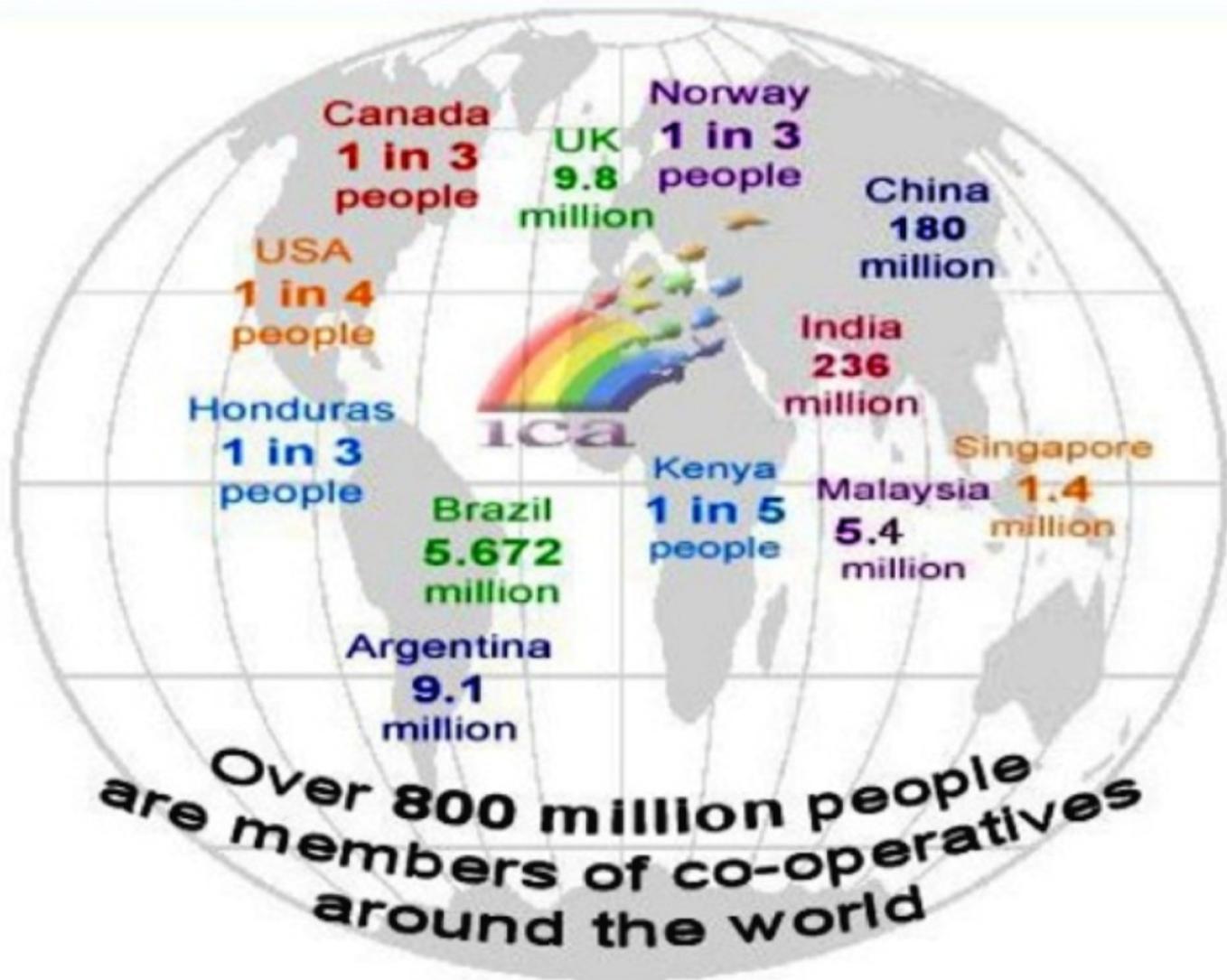
Federations & Associations

**Services**

An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

“ International Co-operative Alliance (ICA)”





# First schedule of the Multi state Cooperative Societies Act, 2002 (sec 3(g))

## Co-operative Principles and Practices

Principles	Practices
Voluntary and open membership	Member recruitment policy, rules of admission, equal opportunities,
Democratic member control	Constitution, voting rights, role of the board, members and management
Member economic participation	Economic performance, rewards to members, capitalization and how surplus is used
Autonomy and independence	Relations with government, other organisations and institutions and market position,
Education, training and information	Member, board and management training and public relations
Co-operation among members	Federation, networks, joint enterprises, movement building
Concern for community	Policy on community development, environment and networking

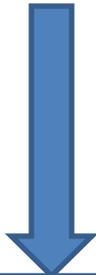
## **2. STUDY THE APPLICABLE LEGISLATION**

# **ACT AND RULES APPLICABLE**

- 1. CO-OP. SOCIETIES ACT UNDER WHICH REGD.**
- 2. RULES FRAMED UNDER THE ACT,**
- 3. BYE-LAWS APPROVED BY THE REGISTRAR**
- 4. NOTIFICATIONS AND ORDERS  
ISSUED UNDER THE POWER OF ACT, RULES**

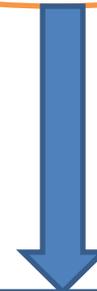
# Types of Co-operative Societies

**Multi state  
cooperative**

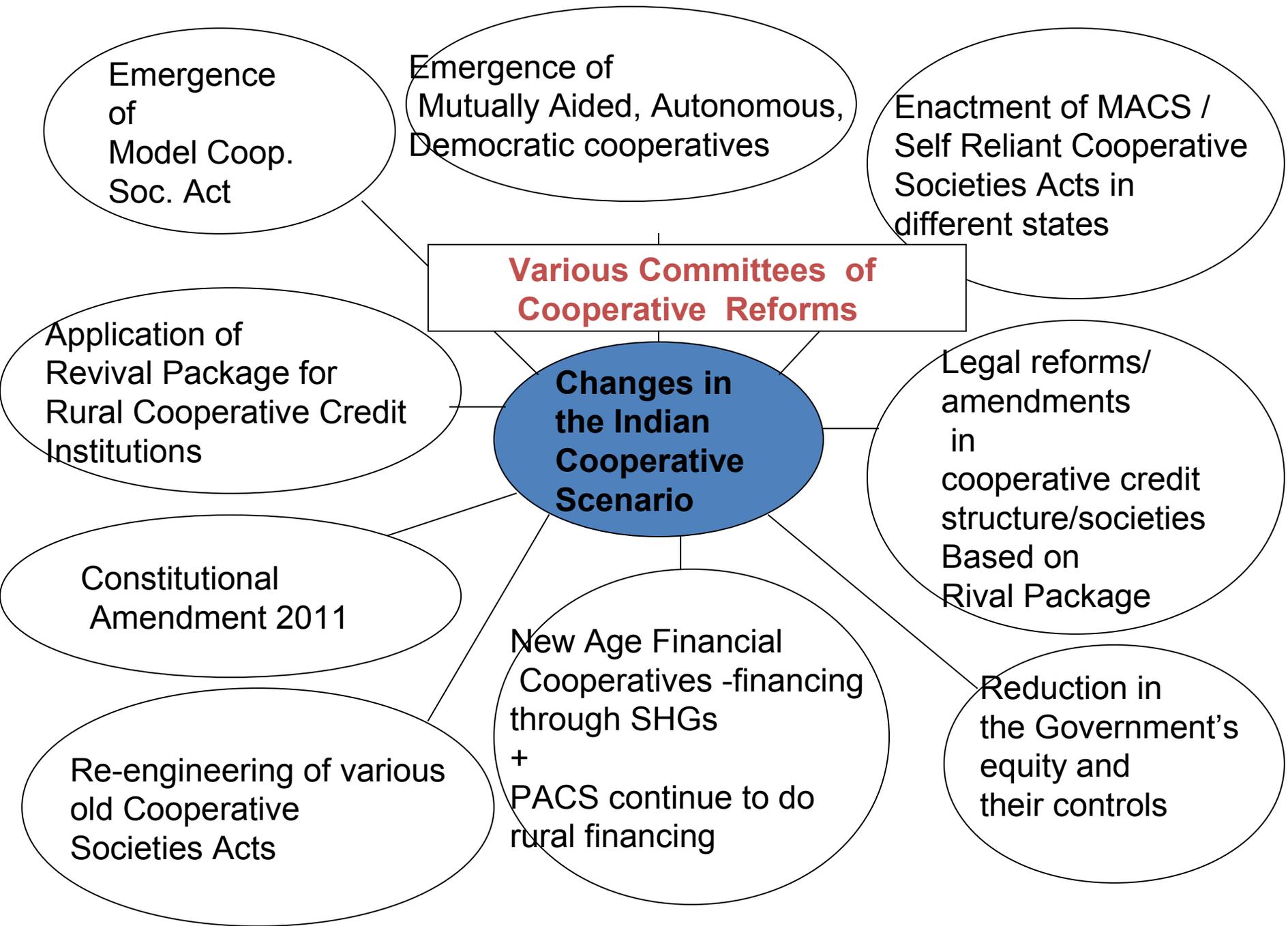


**Regulated by Multi  
state cooperative  
Societies Act, 2002**

**State  
cooperative**



**Regulated by  
respective state  
cooperative Act**



# Development of Laws

- **Co-op. Credit Societies Act, 1904-** for credit
- **Co-op. Societies Act, 1912** – for non-credit
  
- **Co-op. Societies became a state subject in 1919**
- **Various State Laws** e.g. Maharashtra Co-op Soc. Act 1960, Kerala Co-op Societies Act, 1969
  
- **Multi-State Cooperative Societies Act (MSCS) 2002** – for multi-state cooperatives ( replaced the earlier Act of 1984)
- Now **97<sup>th</sup> Constitutional Amendment for co-ops.**

# 97<sup>th</sup> Constitutional Amendment to Ensure Good Governance

- 1. Principles of democratic member control- through active members.**
- 2. Autonomous functioning**
- 3. Professional management**
- 4. Avoid Political Interference & corruption.**
- 5. Improve administration & Improve reporting system to govt and members.**
- 6. Good ACCOUNTING & AUDITING practices**
- 7. Accountability on Mgt & members**

# 97<sup>th</sup> Constitutional Amendment for Co-op Reforms (Jan 2012) –



- Amendment of Article 19 makes Right to form Cooperative Societies a **Fundamental Right**.
- Insertion of Article 43B makes it a **Directive Principles of State** to ensure voluntary formation, autonomous functioning, democratic control and professional management of Cooperative Societies.
- **Election Commission-like authority mandated:** “The superintendence, direction and control of the preparation of electoral rolls for, and conduct of, all elections to a co-operative society shall vest in such an authority or body, as may be provided by the Legislature of a State...”

# 97<sup>th</sup> Constitutional Amendment – Highlights (Cont'd)

- Fixed term of **five years** to elected board.
- **Active members-** Economic Participation & attending meetings
- **Professional Mgt** by Expert & Functional Directors
- Equality by providing reservations for **women & SC/ST**
- Provides for **independent professional audit**
- Gives **Right to Information** to Members of Co-op Societies
- Empowers Govt to obtain periodic reports & A/cs.
- Provides for **offences** relating to Coop Societies & **penalties** for such offences



# Overview of Cooperative Credit Societies.

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Cooperative credit society are used as mobilizing rural saving and stimulating agricultural investment

44% of the institutional credit is accredited to Cooperative Credit society in India

They are established as Cooperative and under the Ministry of Cooperation

# OVERVIEW OF CO-OP. CREDIT SOCIETIES

- Co-op. Cr. Societies provide vital role in Agri. credit and non-agri. credit.
- For providing Agri. credit to farmers Co-op. Credit Societies are of III Tier i.e. Three tier structure of Agri. Co.op. credit.
- At Top Level - MSC Bank  
At Middle Level - DCC Bank  
At Bottom Level - PACS  
This is popularly known as three tier Co-op. Credit structure.
- In Sec. 2 of MCS Act definition of CCSE is given as "CCSE Means scb, ccbs & PACs".

- But Sec. 36 (cci) of BR Act 1949 defines "Co-op. Bank as StCB, DCCB and PCBs" BR Act Sec. 56 (ccb) - defines Co-op. Credit Society as under.
- Co-op. Credit Society means the Co-op. society the primary object of which is to provide financial accommodation to its members and includes LDB ( Land Development bank)
- Central bank is defined in MCS Act in Sec. 2 (6)  
'Central bank means Co-op.Bank objects of which include creation of funds to be loaned to other societies, but does not includes Ucb.''
- Co-op. Bank as per Sec.2 (10) of MCS/ Co-op. bank means "society which is doing business of banking as defined in Sec. 5 (1) (b) of BR Act and includes any society which is functioning as agri. rural multipurpose dev. Bank (LDB)."
- Sec. 3 of BR Act 1949. Nothing in this Act shall apply to
  - (a) PACS
  - (b) LDBS



# TYPES of Cooperative Credit Societies.

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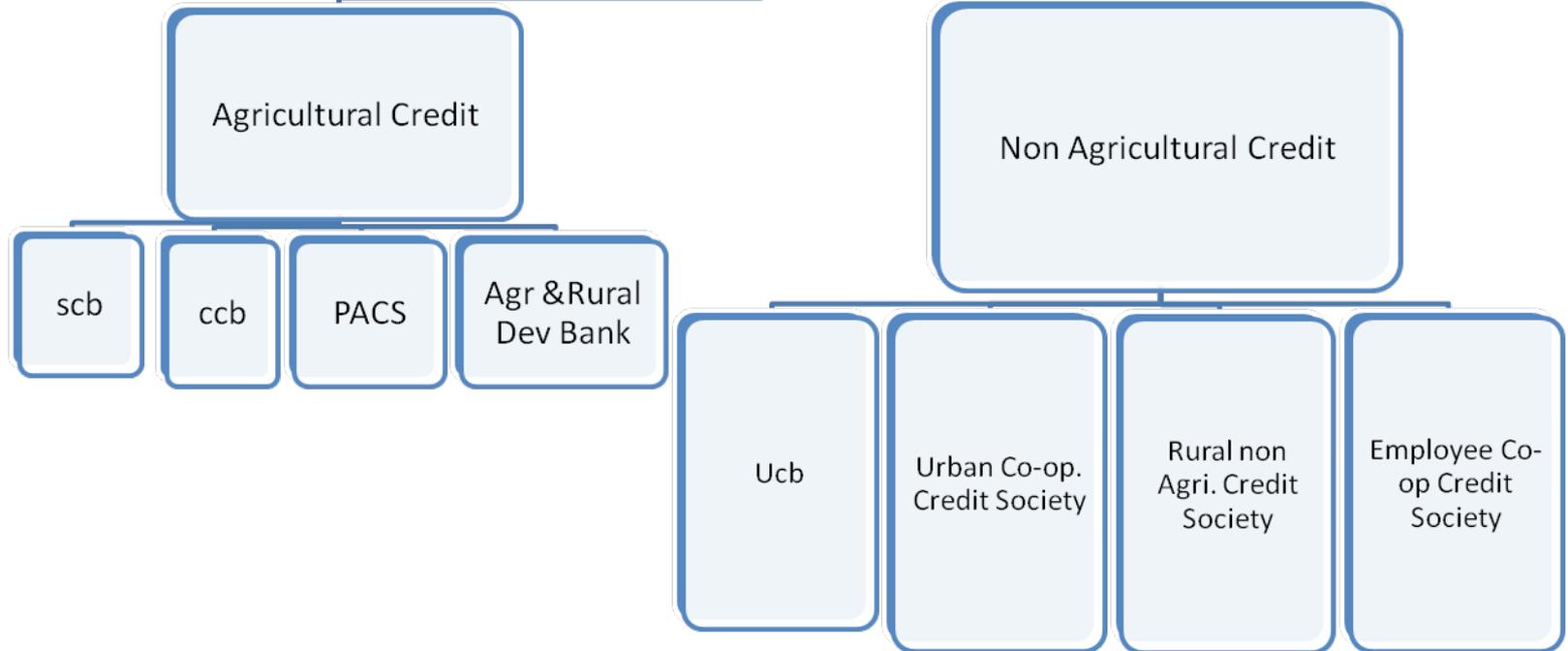
**17/12/2016,**

**COOP COMMITTEE(MAH) OF WIRC OF ICAI.**

Two types of credit societies emerged:

1. Primary Agricultural credit society
2. Cooperative credit banks
  - a. State Cooperative Agricultural and rural development bank
  - b. Primary Cooperative Agricultural and rural development bank

# Types of Co-op. Credit Societies



## **Primary Agricultural Credit Societies (PACS) :**

They have been to provide grass root level credit disbursement in rural areas. They depend on borrowings from higher organization.

**Urban Cooperative Credit (PCBs):** established to increase banking habit with lower and middle income group people. They operate through primary cooperative banks (PCB)

**State Cooperative Banks**: They are in the three tire system (top part) and meet short and medium term credit. There are 28 such organizations in India.

**Central Cooperative Banks (CCBs)**: They form the middle tire in the tree tire system. They provide short term credit.

## **Role of Credit Cooperative Societies:**

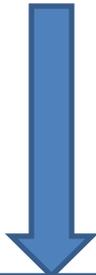
1. Provide grass root level rural and urban credit.
2. Develop thrift habit
3. Take part in short term and mid term credit expansion
4. Assist NBARD in Micro Finance
5. Act as a central point of disbursement for all rural and urban short and mid term refinance



# FORMATION Of Cooperative Credit Societies.

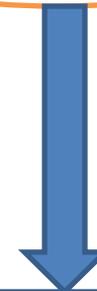
# Credit Co-operative Societies May be formed under

**Multi state  
cooperative**



**Regulated by Multi  
state cooperative  
Societies Act, 2002**

**State  
cooperative**



**Regulated by  
respective state  
cooperative Act**



**IMPORTANT PROVISIONS  
OF  
MAHARASHTRA COOPERATIVE  
SOCIETIES ACT, 1960.**

# CONCEPT OF ACTIVE MEMBER

- **Section 2(19) (a-1)**

**'Active member' means one who**

- (1) participates in the affairs of the co-operative society and
- (2) utilizes the minimum level of services or products of that society as may be prescribed in the bye-laws.

- **Section 26(1)**

**A member shall be entitled to exercise such rights as provided in the Act, Rules and Bye-laws:**

**Provided that no member shall exercise the rights until:**

He has made such payment to the society in respect of membership or acquired such interest in the society, as may be prescribed and Specified under the Bye-laws of the Society.

# CONCEPT OF ACTIVE MEMBER

- **Section 26(2)**

It shall be duty of every member of a society-

- (a) To attend 1 General Body(GB) meeting in 5 years.  
**( This clause not to apply ,if absence is condoned by GB)**
- (b) To utilise minimum level of services at least once in 5 years as per bye-laws of the Society.

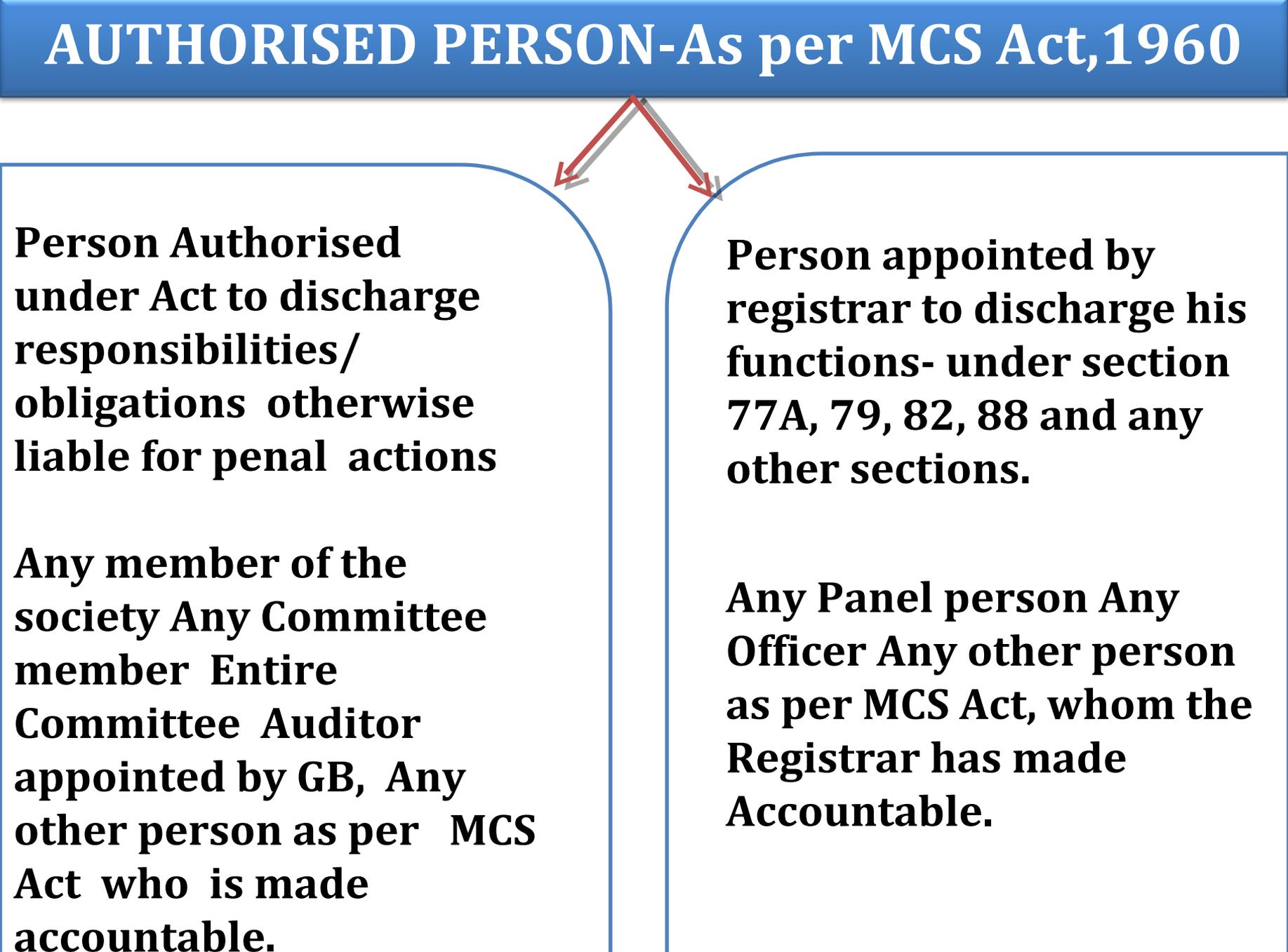
- **Provided:**

- Member who does not perform above duties shall be classified as “ NON Active Member”
- Society to inform classification within 30 days of the year.
- Non-Active Member for 10 years liable for Expulsion.
- Eligible to reclassify as active member on complying.
- Appeal lies before Registrar within 60 days of knowing.
- Election done immediately –all members have voting rights.

# AUTHORISED PERSON-As per MCS Act,1960

- **Sec.2(2-A) of MCS Act**, 1960 “ Authorized person” Means **any person duly authorized by the Registrar** to take action under the provisions of this Act.
- In **section 79(1A)** of MCS Act, 1960-  
Every society shall file returns within 6 months of the close of financial year to which accounts relate, to the registrar or to the person authorized by him.
- In **section 82 of MCS Act**, 1960 to submit Audit Rectification report:  
Provided that, the Registrar or the person authorised by him shall scrutinise the Audit rectification report accordingly and inform the society about such report within 6 months from the date of receipt thereof.
- Thus registrar can discharge his function by appointing an authorized person on his behalf.

# **AUTHORISED PERSON-As per MCS Act,1960**



**Person Authorised under Act to discharge responsibilities/ obligations otherwise liable for penal actions**

**Any member of the society Any Committee member Entire Committee Auditor appointed by GB, Any other person as per MCS Act who is made accountable.**

**Person appointed by registrar to discharge his functions- under section 77A, 79, 82, 88 and any other sections.**

**Any Panel person Any Officer Any other person as per MCS Act, whom the Registrar has made Accountable.**

# MCS Act, 1960-On Professional Mgt

- **Section 2 (11-A)** "expert director" means and includes a person having experience in the field of banking , management, **Co-operation** and includes a person having specialization in any other field relating to the objects and activities undertaken by the concerned society.
- **Section 2(14-A) "functional director"** means and includes a Managing Director or a Chief Executive Officer by whatever designation called , or any of the Head of the Department of the concerned society, nominated by the committee
- **Section 73-AAA(2)** of the Act provides discussed hereinabove provides for co-option of two expert directors and also one (upto 17 members) or two function directors(above 17 members) to bring professionalism in the working of co-operative Societies.

# Constitution of the Committee

**MCS Act. 1960:** Section 73-AAA. :

The Committee shall consist of numbers per the bye laws:

- Provided that the maximum shall not exceed 21.
- Provided Banking Regulation Act 1949 shall apply to all societies carrying the business of banking.
- The Committee may co-opt “ 2 expert directors”
- The committee may nominate 1 functional director(upto 17 members) and if more directors : 2 functional directors.
- Functional and Expert directors are in addition to elected 21 directors.

# Constitution of the Committee

**MCS Act. 1960:** Section 73-AAA. :

Expert directors shall not have the right to vote at any election of the society and shall not be eligible to be elected as office bearers of the committee.

Any casual vacancy in the Committee may be filled in from amongst the members belonging to the same category

The authority conducting within seven days of the declaration of two-thirds or more number of members, forward their names to the Registrar, who shall, within fifteen days thereof, publish or cause to be published such names on the Notice Board or at any prominent place in his office; and upon such publication of the committee of the society shall be deemed to be duly constituted.;

# Constitution of the Committee

**MCS Act. 1960**: Section 73-AAA. :

Provided that, such publication shall not be deemed,-

- (1) To preclude the completion of elections of the remaining members and the publication of their names and the permanent addresses of the elected members likewise as and when they are available; or
- (2) To affect the term of the office of members of the Committee under the Act;

The names of the remaining members after they are elected (together with their permanent addresses), may also thereafter be likewise published by the Registrar.

# Constitution of the Committee

## MCS Act. 1960: Section 73-B.

Reservation of seats on committees of certain societies for Scheduled Caste, Scheduled Tribes or Other Backward Classes, De-notified, Tribes (Vimukta Jatis) Nomadic Tribes, Special Backward Classes and election thereto.

### **(1) Three seats shall be reserved.--**

- (a) One for the members belonging to the Scheduled Castes or Scheduled Tribes;
- (a-1) One for the members belonging to the Other Backward Classes;
- (a-2) One for the members belonging to the De-notified Tribes (Vimukta Jatis), Nomadic Tribes or Special Backward Classes

# **ELECTION TO BE CONDUCTED BY STATE CO-OP ELECTION AUTHORITY**

## **Changes made in MCS Act. 1960:**

**Section 73CB has been introduced in the MCS Act, 1960 which provides as under regarding the election:**

1.The superintendence, direction and control of the preparation of the electoral rolls

2.The State Co-operative Election Authority shall consist of a State Co-operative Election Commissioner (Provided that a person appointed as the State Co-operative Election Commissioner shall retire from the office on completion of the age of 65 years. )

## 73-CA. Disqualification of committee and its members

(A1) In the case of a society which **gives loans** to members - for purchasing machinery, implements, equipments, commodities or other goods or which deals in such goods,

**no** member who, or whose near relation is a dealer in such goods, or is a director of a company, or in a partner in a firm carrying on business in such goods, in the area of operation of the society,

shall be **eligible** for being elected or nominated as a member of the committee of such society.

## **Sec. 65 - Appropriation of profits :-**

Society may appropriate its net profits to Reserve Fund or to any other fund for payment of dividend to members.

Net profit shall be appropriated with approval of AGM and in conformity with Act, Rules and bylaws.

## Rule - 50 :-

A society may appropriate its net profit to

a) Charitable fund i.e. relief to poor, education medical relief and enlightenment of members.

b) Development Fund

c) DE Fund – ‘Dividend equalisation fund’ society shall credit this fund sum not exceeding 2% of paid up capital in a year until total amount in this fund amounts to 9% of paid up capital.

## Sec. 75 - AGM & Audit :-

Every society shall within period of 4 months from close of financial year get the books of accounts audited and within 6 months from the close of financial year call AGM.

## **Sec. 82 - Audit Rectification Report:-**

Society shall submit R.R. to Registrar within 3 months from date of audit report and also place it before next AGM.

Otherwise, it is offence u/s 146 and all members of commerce liable for penalty u/s 147.

## Sec. 66 (2) - Reserve Fund :-

Every society shall carry at least  $1/4^{\text{th}}$  of net profit every year to the reserve fund.

Registrar may fix this contribution to Reserve Fund at lower rate but not lower than  $1/10^{\text{th}}$  of Net Profit.

Such reserve fund, subject to rules, be used in business or be invested as per Sec. 70 as state Govt. may direct.

## **Sec. 67 - Restriction on dividend :-**

No society shall pay dividend to its member exceeding 15% except with prior sanction of Registrar.

## **Sec. 68 - Contribution to Education Fund of State Federal Society :-**

Every society except CCSE shall contribute to Edu. Fund of State Federal Society notified by State Govt. at rate as may be prescribed Under Rule 53.

# 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.

# 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 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.

<b>Value per share =</b>	<b>Networth</b>
	No. of shares.

<b>Net worth =</b>	<b>Paid up share capital + Free Reserves – Accumulated loss – shortfall in provisions</b>
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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 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 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.

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# Co-op Enterprises & Co-op Stakeholders



**Let us be Partner in Nation Building**

**CA.Ramesh S. Prabhu, FCA, CISA(USA)**

**What is all this empowering us to do? Innovate, Get involved & Solve social problems for financial inclusion and better India through Co-ops!**

**Thank you for Getting  
involved in the discussion!**

**CA RAMESH PRABHU ,**

**CHAIRMAN**

**MAHARASHTRA SOCIETIES WELFARE ASSOCIATION, MEMBER OF TASK FORCE FOR  
NPOS & CO-OPS OF MAHARASHTRA, CONVENER TO PREPARE GUIDANCE NOTE ON  
AUDIT OF DISTRICT AND STATE CO-OP BANKS –PUBLISHED BY PDC OF ICAI, CO-  
OPTED MEMBER OF CO-OP COMMITTEE (MAHARASHTRA) OF WIRC OF ICAI.**