

# **AUDIT OF COOPERATIVE INSTITUTIONS**

**P.D.Mishra**

There are two laws governing cooperative societies in Madhya Pradesh at present i.e. Madhya Pradesh Cooperative Societies Act, 1960 and Madhya Pradesh Swayatta Sahakarita Adhiniyam, 1999. The first one takes care of all types of cooperative societies numbering about 31,000 whereas the second one aims at registering or converting societies into cooperatives which have not taken any share capital, loan or the guarantee from the government. The later one also aims at forming the new generation cooperatives, which are fully member owned and member driven without any government interference.

Cooperation as a policy and system has been recognized and adopted for long in our country. It has been a successful vehicle for the implementation of many governmental schemes and plans. Both the Central as well as the State Governments have made huge investments in the evolution of the growth of the cooperatives. However, the context is changing at a very rapid pace long before the liberalization and globalisation of our economic policies took the present turn. Government of India had circulated a Model Act drafted by Chaudhary Brahma Prakash Committee in 1990. The Madhya Pradesh Swayatta Sahakarita Adhiniyam 1999 is virtually an improved version of it. The Multi-State Cooperative Societies Act has been only amended now by the Parliament in 2002 on these lines.

## **Statutory Provisions**

Annual audit of each and every cooperative society or the cooperative, as the case may be, is a statutory requirement. Initially, the audit of every cooperative institution was the responsibility of the Registrar. Section 58 of M.P.Cooperative Societies Act has following provision for this purpose-

"Section 58. The Registrar shall audit or caused to be audited by a person authorized by him in writing by general or special order in this behalf, the accounts of every society once atleast every year and shall recover from such society such fees as may prescribed."

This concept has naturally undergone a change and it is now the responsibility of a cooperative to ensure its annual audit as provided in the new Act Madhya Pradesh Swayatta Sahakarita Adhiniyam, 1999. The relevant Section 51 of it has following in this context-

"A cooperative shall get its accounts audited by a Chartered Accountant as defined meaning of the Chartered Accountant's Act, 1949 (No.38 of 1949) or by any other auditor authorized by the Registrar."

The audit of a cooperative institution by the Chartered Accountant is a late origin. It was only in 1994 that the M.P.Cooperative Societies Act, 1960 was amended to provide the audit of central and apex institutions alternatively by a Chartered Accountant out of the panel maintained by the government. Unfortunately, no panel could be prepared or maintained by the government for 2-3 years. Therefore, the Act was again amended in 1997 providing the Registrar to maintain it and the urban cooperative banks were also brought into the ambit of the audit by Chartered Accountants. As is evident, the audit by Chartered Accountants is optional whether it is the case of a cooperative society or a cooperative. The panel at the Registrar's level has now been maintained and there is an Audit Board in the State to monitor the updating of this panel.

**Audit Board:** There has been a pressing demand from different corners to make the audit of cooperative institutions independent from the Registrar. A via-media in the State was worked out in 1984 when an Audit Board was formed after creating about 962 posts of auditors at various levels with the Registrar as its Chairman and the Additional Registrar(Audit) as its Chief Executive. These were all 'planned posts' and necessary budget allocation has been made under plan provision for them in past two decades. The scales of audit fee were raised alarmingly to meet the cost of creation of these posts. There was a ceiling of audit fees provided in 1988 for primary cooperatives but central and apex institution were required to pay huge amounts as audit fees which was opposed and criticized by many institutions. Ultimately, in 2001, the scales of audit fees have not rationalized and the provision for the payment of audit fees to the Chartered Accountants made. The Audit Board, as a matter of fact, is not as independent as it was proposed to be. There are a number of reasons behind this. Firstly, the interchangeability of officers from administrative to audit is very frequent and the separate cadre of two have not been maintained. Secondly, new recruitments in the auditors' cadre have not taken place for more than 15 years consequently, thinning out the strengthening of the

cadre considerably. The Audit Board has recently made broad-based by reconstituting it. There are the representatives from Chartered Accountants' Institute, from RBI, from NABARD and from Accountant General's office included in it while retaining the old constituents, which are representatives from the Finance and Cooperation Department of the State Ministry.

**Kinds of Audit:** The audit of cooperative institutions is normally of two types, the annual and the concurrent . The concurrent audit is generally undertaken in societies, which have their turnover running into crores or secondary and apex level kind. The annual audit is mandatory. The concurrent audit is necessary in cases where transactions are larger and the annual audit is difficult to be completed on annual basis. The branch or district offices of the organizations operating from the State or district level are managed to be audited by district officers after constituting a team of auditors as and when required. The powers of Section 58 of the Cooperative Societies Act and Section 51 of the Swayatta Sahakarita Act have been delegated to the officers of the department subject to their administrative jurisdiction.

**Audit Agencies:** Model Act, 1990 circulated by Govt. of India had suggested that the audit of the cooperatives may be entrusted to the federal cooperative institutions. This suggestion was more in tune with the concept that federal cooperatives may have a supervisory function for the regulation and growth of their affiliate primaries in place of the Registrar. Most of the cooperative laws have entrusted the responsibility of audit to the Registrar and not to the society. The auditor in this way is accountable to the Registrar and not to the society, he is auditing. This results into a cooperative being pushed into a passive role and the audit work keeps going in arrears. The fees of the government auditor is also high and it is levied and recovered at the prescribed rate unconnected with the fact that the society may be put to loss in this manner. The shifting of onus from Registrar to the society in the new Act is in consonance with the changing scenario which leaves a cooperative a with an option for getting audit done by the Chartered Accountant.

Task Force for revamping of cooperative credit structure constituted under the chairmanship of Jagdish Capoor Committee has made recommendation that the audit of the primary agriculture credit society should also be entrusted to Chartered Accountants. The Government of Madhya Pradesh has agreed in principle but the law will have to be amended to suit to this purpose. Even the present response to the provision existing for the audit of the cooperative by the Chartered Accountants is not quite

encouraging. This amendment may, therefore, take some time for its incorporation.

**Audit Progress:** The audit of the cooperative credit specially, the agriculture cooperative credit structure is quite up to the mark and the percentage of the societies getting audited in this sector is 95, but the audit of non-credit cooperative societies is not satisfactory. It is basically because the accounts of those societies which are away from main-stream are not maintained at the satisfactory level. Therefore, it seems to be necessary that the maintenance of accounts by a cooperative society may also be linked with the audit of these institutions or imposition of adequate penalties be provided when there is a deliberate failure on the part of persons responsible for it.

**Common Accounting System:** The need for a common accounting system is now intensely felt and the NABARD has already going ahead with the proposal of constituting an expert group for the purpose. The urgency of such a system primarily in agriculture credit structure is felt all the more because each society or bank has evolved independent items and forms for preparing accounts which do not provide a transparent view of the true picture of the institution on the standard principles of accountancy. In case of other types of cooperative societies standard international accounting principles must be evolved on the basis of suitable study. It is satisfying that Government of Madhya Pradesh have already taken some steps in this direction and soon the outcome of it may help in the preparation of the proper accounting of proper auditing.

**Manuals:** Cooperation Department has brought out Audit Manual and Credit Manuals published by M.P. State Cooperative Union, MP, Bhopal. The Audit Manual is in two parts. The first one covers the theoretical aspects whereas the second one is a compilation of circulars issued by the Department in 1961 onward.