

SUGGESTIONS TO IMPROVE THE AUDIT SYSTEM IN URBAN CO-OPERATIVE CREDIT SOCIETIES IN MAHARASHTRA

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Abstract:

Section 81 to M. Co-op. Soc. Act 1960 provides that within 45 days from the conclusion of accounting year, the society must make ready, the Annual financial statement of the society and should submit to the Auditor, within next 15 days for audit work. But rarely societies observe these provisions. As societies are not getting their accounts prepared and audited within the stipulated period, both managements and department find it difficult to maintain effective control over the activities of society. Due to this the chances of fraud, manipulation in the books of accounts and commission of errors in the books and records are possible to happen. Many employees of the society do not know that the financial statements of the society such as Balance Sheet, Profit and Loss A/c, are to be prepared in the prescribed form.

INTRODUCTION

The circular number URB/D-4/Protection/ Accounts / Misfunds / Actions / 2010, issued by the office of Commissioner for co-operation and registrar, co-op. soc. Maharashtra State, Pune, Dated 14-07-2010, noted that-

There are instances in recent years that miss utilization and misappropriation of funds of co-operative society, are found in re-audit, special audit, Test audit and report of the flying squad, which was taken subsequently by the Registrar. However statutory audit report did not reflect miss utilization and misappropriation of the same year. Recently instances were reported where the Auditors had been indulging in acts of misreporting of the broad categories, the first one was non-reporting of serious instances which were detected / Could have been detected during the audit and the timely reporting of which could save further complications which adversely affect the wellbeing of members, depositors and society at large. The second one was misreporting of instances. Which presented an altogether different picture of the status and affairs of the society which also, due to this kind of misreporting, resulted to jeopardize the wellbeing of members, depositors and society at large. The first one is called suppression of facts and the other one 'Representation of falsehood'. There may be a possibility that these two may overlap and there may be a string of instances where in both are present. These instances are to be differentiated from mere negligence though amounting to professional lapses or short comings, does not amount to fraudulent reporting consisting of suppression of truth or suggestion of falsehood. Which either singly or jointly constitute fraud, which is an offence in itself.

SUGGESTIONS TO IMPROVE AUDIT SYSTEM IN URBAN CO-OPEARTIVE CREDIT SOCIETIES:

A. Suggestions for Preparing the Panel of Chartered Accountants as Auditors of UCCS:

I. For preparing the Chartered Accountants panel of Auditors for large co-operative credit societies, the co-operative department should collect the list of Chartered Accountants, having minimum 5 years experience

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in the field of audit.

- ii. Co-operative department should inform to the co-operative credit society that the chartered Accountant appointed as statutory Auditor would not work as internal Auditor of the same society.
- iii. Commissioner of co-operative, Pune, should decide the audit fee norms of co-operative credit society.
- iv. Chartered Accountant should be asked to Submit the list of co-operative institutions audited by him along with application for empanelment.
- v. Panel of Auditors should stay for minimum period of 5 years.
- vi. Audit fee should not be paid to Auditors until the Audit Report is received by Registrar and Audit rectification report along with remarks, is submitted to Registrar by Auditors of society.
- vii. Working knowledge of Marathi should be made compulsory to Chartered Accountants.

B. Suggestions for Preparing the Panel of Certified Auditors to Co-operative Credit Societies:

- i. Minimum 5 years audit experience, instead of present 3 years, should be made compulsory for empanelment of Certified Auditor.
- ii. Candidate should be degree holder and should pass Diploma in Co-operative Accounting
- iii. Selection to the panel of Auditors for UCCS, should be made by conducting personal interview.
- iv. Panel of Certified Auditors should be revised after every 5 years.
- v. Panel Auditors should be treated as public servant with respect to audit works.
- vi. Panel Auditors should have working knowledge of system audit.
- vii. Panel Auditors should be issued I-cards by Co-operative department.
- viii. Working knowledge of Marathi should be made compulsory.

C. Suggestions for Modification of Audit Related Provisions in M.C.S. Act, 1960 and M.C.S. Rules, 1961:-

Following provisions should be added in M.C.S. Act, 1960 and M.C.S. Rules 1961, to improve the audit work of UCCS –

- i. The present provision should be amended and power to appoint statutory Auditor of UCCS, should be given to AGM of society. This will increase the responsibility of society to audit work.
- ii. Section 75(4) of M.C.S. Act, 1960 needs to be amended and there should be obligation on committee to present Audit report to AGM along with Rectification report.
- iii. Rules 69(1) of M.C.S. Rules, 1961 should be amended and it should include Auditors participation for submitting Audit memo to registrar after confirmation of rectification of audit remarks. Auditors persuasion for audit remarks rectifications, should be made obligatory.
- iv. Section 75(2) of M.C.S. Act, 1960 should be amended to provide for appointment of Auditors by UCCS from the panel of Auditors prepared by co-operative department. It should specify that such appointment should be communicated to registrar along with name and the consent letter of Auditor, within specified days. Provision should specify that the same Auditor cannot be appointed for more than 3 consecutive years.
- v. Registrar should have power to appoint the Auditor of UCCS, if the society fails to appoint the Auditor in AGM. Present system of giving power to committee by AGM to appoint Auditor will be stopped.
- vi. Before making appointment of any Auditor, UCCS should ask to the Auditor to produce certificate stating that all requirements as specified by co-operative department, have been fulfilled by him.
- vii. There should be restriction on maximum number of big audit, that the Auditor can undertake, in one financial year.
- viii. Appointment of Auditors of UCCS in the present system is made on the basis of working capital amount of a society. This base should be widened to cover other points like staff in societies, branches of societies etc.
- ix. In the present system, three types of Auditors are considered for empanelment i.e. Chartered Accountants, G.D.C.&A. and government Auditors. Co-operative department has declared the list of societies for each category of Auditors for audit purpose. Registrar should see that these norms are followed by Auditors and societies.
- x. Auditors responsibility should not end with submission of audit memo. Respective Auditors should register FIR against those defaulters who have been found guilty during the course of audit, after collecting necessary evidence.
- xi. Registrar should have powers to prosecute the Auditors, found negligent in performing their duties.
- xii. Registrar, if feels necessary, should have power to conduct re-audit of society.
- xiii. If Auditors fails to lodge FIR against any defaulter in society, the Registrar should have power to lodge FIR, through approved authority and should have power to prosecute the concerned Auditor.

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xv.Enquiries U/S 83 and U/S 88 of M.C.S. Act, 1960, are prolonged for more than 10 to 15 years. There should be restrictions of the period on such enquiries.

D. Suggestions to Improve Audit Work in UCCS:-

Following suggestions should be considered to make audit work effective in UCCS in Maharashtra –

- i. Separate arrangement should be made to check whether audit grade given to a society is accurate.
- ii. Audit memo layout has not been improved even after fast developments in the field of financial and accounting areas of UCCS. Co-operative department should look in to this aspect.
- iii. Auditors Questionnaire should cover the related provisions of other laws like income tax, VAT, Professional Tax, Shop Act, Labor Law, Dividend Tax etc. to collect required information of UCCS.
- iv. Some UCCS are reluctant in providing records of UCCS to Auditor for audit work. They should be enlightened about the responsibilities in audit of UCCS. At same time, it should be seen that such delaying factices are not followed to discourage the Auditor of society.
- v. It has been observed that the co-operative department has not initiated any action against those Auditors who have submitted the inappropriate audit report of society by giving falls picture of a society. Stringent actions are needed against those Auditors who are involved in deceiving the share holders and depositors of society.
- vi. It has been observed that many 'A' class UCCS in Maharashtra have failed in meeting the demand of depositors in time. Provisions in M.C.S. Act, 1960 should be made stricter to stop irregularities in UCCS to safeguard the interest of depositors and other stakeholders.
- vii. Establishments of audit committee in UCCS in Maharashtra is of immense important, in the present situation. The audit committee should be more efficient and more vigilant to exist in the present stream of competitive age. Some additional powers to audit committee should be thought to suit the present happenings in the audit work.
- viii. Audit committee should supervise the audit rectification work and should see that correct rectification report is given by society.
- ix. UCCS should create efficient internal audit system having sound base. Society should appoint competent and senior officer as internal auditor who will help to detect irregularities and frauds in financial matters of society. This will improve the reliability of audit system in the institutions. Society should conduct internal audit at least once in a year.
- x. Large UCCS should make arrangement for conducting 'Revenue Audit' of a society. Necessary precautions should be taken in those areas where leakages are more.
- xi. Credit portfolio audit plays an important role in UCCS. Continuous monitoring over big loan proposals is needed to minimize the loopholes in the area of advancing activities. When the loopholes are detected, these should be rectified immediately.
- xii. The society should make arrangement for concurrent audit of those branches, where more transactions are found. This system helps to detect irregularities at appropriate time and take remedial measures immediately.
- xiii. Those branches of UCCS, which have continuous bad audit grading, in respect of these branches, concurrent audit play an important role.
- xiv. Present 'Audit Fee' is determined on the basis of working capital of a society. While fixing audit fee, other matters like profit or loss to the society, volume of work of the society, should also be considered. Because of present system, even loss making UCCS, has to pay the same amount of audit fee.
- xv. Registrar should see that the society change its Auditor after every 3 years.
- xvi. Registrar should collect the list of audits done from every Auditor, each year and should confirm that the Auditor does not conduct the audit of any society for more than 3 years.
- xvii. Registrar should confirm that each UCCS in his jurisdiction, has appointed its Auditor in the AGM of society. If it is not done so, he should take initiation to appoint the Auditor of that society, from the panel of Auditors.

E. Suggestions to Auditors of UCCS:-

Auditors of UCCS, should keep in mind following points while auditing the accounts of society –

- i. Auditor should gather complete information about the society of which accounts are to be audited. He should have knowledge of its business, organization, branches etc. before he starts the work.
- ii. He should have knowledge of internal control existing in society regarding which accounts are to be audited. Besides this, the extent of internal audit system applied in the society; has to be studied.

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- iii. Auditor has to decide the type of audit to be applied to the society, considering the nature and volume of business and the time of audit.
- iv. The Auditor should have knowledge of making perfect forecasting of any situation. He should have a capacity to analyze and report on managements predictions for defined period.
- v. He should carry the audit of society impartially and with due diligence. He should not come under pressure of any influence or incentive.
- vi. He should not make the breach of any professional ethics and should keep away outsiders from indulging in his work.
- vii. Auditors vision should have sound base of previous experience. This helps to tackle difficult problems and guide the staff of the society to solve those types of problems arising in future period.
- viii. After audit work the Auditor should discuss on the important observations with branch officer and observations which can be rectified immediately should be corrected and should be omitted from audit report.
- ix. It is found that some observations are repeated again and again, it should be avoided to retain the volume of audit memo concise to read.
- x. Head office receives report and statements from branches from time to time. Auditor is expected scrutinize these statements and make impartial comments on these returns.
- xi. Auditor of UCCS has to undertake deep examination of advances, balancing of accounts, clearings within inter branch transactions, suspense accounts, legal documents of properties held, purchase/sale deeds, stationary purchase etc. to identify irregularities within organization.
- xii. Auditor is required to confirm the accuracy of various transactions through audit work. He needs to undertake various calculations like multiplication, addition, subtraction, ascertaining percentage etc. during the course of audit. Even though these activities seem cumbersome, these are inevitable. The Auditor should carry these activities patiently with cool mind, to arrive at proper conclusion.
- xiii. Auditor should submit the summary report to the committee of society to be read at AGM.
- xiv. Auditor should pursue the rectification work by society and see that correct rectification report is submitted to Registrar. If he is dissatisfied with rectification work, he should give his remarks on the related points.

CONCLUSION:

Responsibility of Auditor does not end with audit work, but has to prepare and submit the audit report, on the findings during the audit. This report is submitted to Registrar of co-operative society and concerned UCCS. Besides this, if Registrar requires this report to be sent to any other department, the Auditor has to do this. Findings of audit report are considered as reliable, so while writing the audit report, the Auditor should take utmost precautions to avoid inadvertent comments on any points. As audit report is public document, the language of report must be polite and patient. It should be understood by the common shareholders of society.

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