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GUIDELINES FOR THE STATUTORY AUDIT OF COOPERATIVES REGISTERED UNDER KARNATAKA SOUHARDA SAHAKARI ACT, 1997

These guidelines are issued for the Statutory Audit of the Cooperatives Registered under Karnataka Souharda Sahakari Act, 1997. The Chartered Accountants empanelled by the Karnataka State Souharda Federal Cooperative Ltd., U/s 53(7)(t) of the Karnataka Souharda Sahakari Act, 1997 shall follow these guidelines while conducting Statutory Audit of the Souharda Cooperatives for year ending 31st March 2008. These guidelines are issued under Section 53 (7) (a) of the Karnataka Souharda Cooperative Act, 1997.

PART 1 **General Instructions**

1. Auditors should complete the audit before 31st August **of the Financial year** and send a copy of the audit report directly to the Federal Cooperative by Registered Post Acknowledgement Due (RPAD)**or courier Or any other means** within 10 days from the date of completion of the Audit or before 10th September 2009, whichever is earlier.
2. The Auditors are requested to quote their empanelment number in all communications with federal Cooperative.
3. The federal Cooperative may seek additional information from the auditors if the report is not according to these guidelines.
4. The audit report must be in the prescribed format and with Long Form Audit Report (LFAR). Auditor shall submit all the annexures prescribed. Auditor shall not leave any information blank. He shall specifically mention NOT APPLICABLE if any of the information is not applicable to any cooperative.
5. The audit should be conducted as far as possible according to guidelines applicable for commercial establishments evolved by the Institute of Chartered Accountants of India and the report should confirm that these guidelines have been followed and the accounts represent true and fair financial position subject to such qualifications as may be clearly stated.
6. Also all **underlying facts** mentioned in Section 33(2) of the Karnataka Souharda Sahakari Act, 1997 should be followed and it should be confirmed that the accounts are in accordance with the said Act.
7. For Banks, the audit should be conducted according to the guidelines issued by the Reserve bank of India. The Balance sheet and Profit and loss Accounts must be as per the format prescribed by the RBI.
8. **Every Audit report shall be accompanied by certificate of auditing by the auditor.**

PART 2 **Basic Information required**

The auditors shall make comments on the following:



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1. If deposits are accepted, proper maintenance of records and prompt **re-payment or reimbursement** of such claims. Specific observations should be made about delays, non-payment of interests and complaints if any.
2. If the co-operative is having borrowings from other agencies, proper servicing of such borrowings and maintaining security offered as charge in good clearly identifiable condition.
3. Instances of undue delay in settlement of sundry creditors and stated reasons therefore.
4. Timely remittance of appropriated profits of the previous year to the **competent authorities** and shareholders in the form of dividend and satisfactory arrangements made for the same.
5. Arrangements for custody of cash and bank accounts and periodical verification of them. Also about the reconciliation of these accounts.
6. Valuation of stocks and measures to ensure reliability of their value and if obsolete stocks and non-salable of stocks such as stationery have been included the amount of such stocks.
7. Total amount of loans and advances. Out of them amount of secured and unsecured loans should be given separately.
8. Method, rates and adequacy of depreciation of assets.
9. Adequacy of provisions for expenses and other contingencies.
10. Method followed for accounting of income and expenditure, that is whether mercantile or cash basis or a combination thereof.
11. Compliance with requirements of different tax laws, such as commercial taxes, Income tax etc., in all aspects and any omission should be mentioned.
12. Any action taken or notice sent by federal Cooperative or any **such** other authority such as bureau of weights and measures etc., and the status of the same.

PART 3 SPECIFIC INFORMATIONS

1. Any unusual features noticed by the auditors having a bearing on the future of the co-operative and which need immediate attention of the Federal Cooperative, the auditor should be sent such information to federal cooperative without making any delay and without waiting for the completion of the audit. All such observations are part of the audited accounts.
2. Any other special observations which are the part of the Audit report but needs special attention shall be on special color paper.
3. The auditor should make comment separately on the following things:
 - i. Whether procedure laid down in the bye laws for admission of members is followed and deviations if any are placed for ratification by the General Body.
 - ii. Whether Board meeting are held regularly and cover all areas of importance and the minutes are maintained properly.



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- iii. Whether there are any committees, if so their composition and scope of activity. In case of such committees, how their functioning is reported to and overseen by the Board.
 - iv. Delegation of powers to Officials and employees and manner of oversight over the exercise of the same.
 - v. Approach used by the Board for business planning, a corrective measures to adjust for variations from the plan.
 - vi. Circulation of or otherwise notification of important information for the benefit of members and customers.
 - vii. If accounts and records are partly or fully computerized or any other device is used, security measures adopted and disaster recovery plan.
 - ix. Appropriation of profits according to Section 10 (2) (xxi) the Karnataka Souharda Sahakari Act, 1997 and correct computation thereof.
 - x. Any other aspect having a bearing on proper management of the society and its prospects.
 - xi. Suits filed against the co-operative including disputes raised under the Act.
 - xii. Suits filed by the Co-operative including disputed other than for recovery of loans. In case of cases, involving recovery of loans, the number and amount involved is sufficient.
4. Auditors are to make sure that the co-operative has sent the annual fees as prescribed by the Federal Co-operative for all the previous years since its inception/conversion under KSS Act, 1997 up to the current year. He shall also have to certify whether the calculation is correct or not.
 - 5) The auditor shall also verify whether the Co-operative has sent 1% of its net profit towards the Co-operative Education fund of the federal Co-operative all the previous years since its inception/conversion up to the year 2007-08. He shall also have to certify whether the profit appropriation is done as per Section 10 (2) (xxi) of the KSS Act, 1997.
 - 6) If any Co-operative has not paid the annual fees or the Education fund to Federal Cooperative, the Auditor shall fix the responsibility to **CEO/Secretary of that cooperative.**

PART 4

Duties and Powers of Co-operative Auditor

1. The main duties and responsibilities are the following:

- (1) It is the duty of the auditor to verify the cash balance and securities, examine the overdue debts, if any, value assets and liabilities of the society, verify balances at the credit of the depositors and creditors and the amount due by the cooperatives' debtors
- (2) The Auditor should satisfy himself that the Co-operative has kept all account books and registers in connection with the business and the functioning of the Cooperative as prescribed under Sec.32 of the KSS Act.



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- (3) Verify whether the provisions of all the byelaws have been strictly observed and the byelaws are in accordance with the provisions of the Act and Rules framed there under.
- (4) Among other things he should verify for example:
 - (i) In respect of Credit Cooperatives and Banks, whether loans have been sanctioned for proper objects and periods and on adequate security as per conditions applicable to grant of such loans to proper persons. He has also to examine the repayments in order to ascertain book adjustments, improper renewals etc., and examine whether prompt action has been taken for recovery of dues and over dues.
 - (ii) In respect of other societies whether the business of the society has been conducted according to the Co-operative principles and sound business practices.
- (5) Verify genuineness and adequacy of securities, mortgage and other bonds, adequacy of provision made for depreciation of assets and other items of expenses including interest payable on borrowings and deposits.
- (6) (a) Conduct personal verification of members accounts.
 - (b) Verify whether investments of funds made are in accordance with provisions of Section 18 of K.S.S Act.
- (7) Analyze the reasons for losses incurred by the Cooperative and assess after careful examination, deficiency or loss, if any, arising out of negligence or misconduct on the part of any employee or member of the committee, or of the Cooperative and after giving due opportunity to the persons whose actions are likely to be adversely commented upon in the Audit Report to explain why responsibility should not be fixed on them for the said deficiency or loss.
- (8) Attending the Annual General Meeting of the cooperative, which he has audited.

2. The powers of the Auditor the following:

The Auditor shall have the following powers:

1. Auditor or the person authorized by him shall at all times have access to all the books, accounts, documents, papers, securities, cash and other properties belonging to, or in the custody of the cooperative and may summon any person in possession or responsible for the custody of any such books, accounts, documents, paper, securities, cash or other properties, to produce the same at any public office at the headquarters of the society or any branch thereof.
2. Every person who is or has at any time been an officer or employee of the society and every member and past member of the society shall furnish such information in regard to the transactions and working of the Cooperative Auditor or the person authorized by him may require. Failure of an officer/employee/member of a Co-operative in possession of any information, books or records to furnish such information or produce such books or records or to give assistance to the person authorized to audit the accounts of the cooperative is an offence and is punishable under Section 68 of the Act.



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3. If the Auditor of a cooperative has reason to believe that any books or other property of the cooperative have been tampered with or are likely to be tampered with, if left with the cooperative with a view to eliminate or efface or change or manipulate any evidence which may be deemed necessary by such officer or person in connection with the proof of any defect or irregularities noticed by him during the course of audit, he shall have the power to seize and impound such books or property during the period of Audit. In such case, the Auditor shall take prior permission of the Federal Cooperative in writing.

Annual Fee payable to Federal cooperative from each cooperative:

Annual membership payable by each cooperative to the Federal Cooperative is as follows:

So la no	Working Capital	Annual fees (in rupees)
1	Below 5 lakhs	250.00
2	Above 5 lakhs and below 10 lakhs	500.00
3	Above 10 lakhs and below 30 lakhs	1000.00
4	Above 30 lakhs and below 1 crore	2000.00
5	Above 1 crore and below 3 crores	4000.00
6	Above 3 crores and below 10 crores	8000.00
7	Above 10 crores and below 30 crores	16000.00
8	Above 30 crores and below 50 crores	32000.00
9	Above 50 crores	50000.00

Working Capital = Paid up Share Capital+All types of deposits+All types of Reserves+ All types of borrowings