

2607/10 VI(4) 39/01 (part) dated 5.5.2004
Audit-2

All Asst. Auditor General of
Coop. Societies of Circles.

Investment by C.C. Banks beyond
CRR & SLR limit in deposits
with O.S.C.B. & other Banks.

During the recent visit to Banda C.C.B. Ltd., the
Hon'ble Minister, Cooperation observed with much displeasure that
the Bank has invested much excess amount as deposit with O.S.C.B.
& other Banks beyond the limit of CRR & SLR resulting in less
spread on margin and may even be less than cost of deposits raised
by the Bank. Hon'ble Minister wondered why such excess funds
could not have been invested in credit-worthy loan portfolios
thereby earning much more by way of income due to larger spread in
margins. Hon'ble Minister has further observed that for such bad
financial management and consequential losses, the Chief Executive
of the C.C.B. should be held responsible. Similar is also the
case with other Central Coop. Banks. As tapping of deposit by
C.C. Banks and consequent investment in deposit with O.S.C.B. and
other Banks virtually not generating any extra income to the
C.C. Banks (since there is no tangible margin or spread in such
business), the Banks are sustaining loss in this deposit business
through use of manpower in maintenance of accounts, use of
stationeries etc. In previous years in audit reports of C.C. Banks
this aspect was commented upon and the Banks were advised to
invest their surplus funds beyond CRR & SLR limit in other income
generating portfolios. But as it appears the management of C.C. Banks
have not so far exploited other income generating avenues for
investment of their borrowed Capital (Deposits + borrowing) except
loan and deposits with O.S.C.B. & other Banks. Since loans in
non-agricultural sector is fraught with risk for recovery
resulting in rise of NPA & consequent accumulated loss, through
provisioning and since the rate of interest on loans by C.C. Banks
is not competitive with other Commercial Banks, the C.C. Banks are
not coming to the safe way of investment of their borrowed Capital
(deposit) in deposit with O.S.C.B. & other Banks even though it is
(P.T.O.)

You are requested to issue suitable instructions to the auditors of Central Coop. Banks for 2003-04 and onwards to examine this aspect thoroughly and report in the audit report whether the Banks are keeping excess cash and current account balance beyond CRR Limit. In such case, the auditor is to assess average excess retention from the CRR Statement and on this average calculate the interest thereon at the highest rate of interest on deposit. This will reflect the probable loss on excess maintenance of CRR.

The total loss so calculated on both Cash balance beyond CRR limit and the deposits beyond SLR limit be commented upon as loss due to imprudent financial management. The concerned management and the Chief Executive/ or any other authority fixing target of deposit mobilisation are to be held responsible in audit report for such loss for taking surcharge action against them.

Yours faithfully,

MEMO No. 2608 / Dec. 5, 2004

Joint Author General of C.S. 100

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