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DIRECTORATE OF COOPERATIVE AUDIT: ORISSA, BHUBANESWAR.

Circular No. 7012 /VI(4)42/03-Audit-2-Dated: 28.11.2003

Sub: Concurrent Audit of Apex & State-Level
Coop. institutions.

As per provisions u/s 62(1) of the O.C.S. Act, 1962, the Auditor General of Coop. Societies is to cause audit of all Coop. institutions in the State including Apex & State Level Cooperatives within 6 months of close of the year. Similarly, under section 62(1)(ii) of the said Act, the Auditor General may, of his own motion, arrange for concurrent audit of any society or a class of societies on day-to-day or such other basis.

But despite all efforts of this Directorate, even by engaging Chartered Accountant Firms to supplement the Departmental Audit manpower, it is observed that due to non-maintenance of accounts in time, non-production of relevant records and documents for audit in time and in complete form by the concerned institutions and absolute indifference on the part of the institutions for compiling the annual financial statements in time by the institution itself rather than keep on waiting for the final auditor to come, who is then asked to help in compiling the same (which is unethical), the audit of most of the Apex and State Level institutions has been in arrears for a number of years except the Orissa State Cooperative Bank where Concurrent Audit is being conducted on day to day basis. The arrear is maximum in institutions such as TDCC, OCCF, BOYANIKA, OSC & SIDFC, OPOLFED, FISHTED, OIL ORISSA etc. as of now.

In most of the Apex and bigger Coop. institutions, the Accounts Section is kept weak and no amount of persuasion to maintain accounts in time and in proper manner brings the desired result. In some cases, though the accounts section is there, they seem to be more interested in passing Current Year's bills rather than simultaneously concentrating on completing accounts of arrears years and keeping proper accounts of the Current Year simultaneously.

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Even though Section 28(b) (ii) of O.C.S. Act, inter alia, inter alia, enjoins the Committee of Management of a Coop. institution to:-

- f) maintain the accounts of the Society regularly in proper books and registers, and
- d) prepare the statements of accounts required for audit and place the same before the auditors expeditiously.

and Section 28 (3-b) (2) (e) of the said Act, makes the Chief Executives responsible for making arrangement for proper maintenance of various books and records of the Society, for the correct preparation and timely submission of periodical statements and returns in accordance with provisions of Act, Rules and Bye-laws made thereunder; it has been often observed that neither the Committee of management nor the Chief Executives are serious in discharging their statutory duties and responsibilities more as a rule rather than an exception, particularly in case of such Apex and Bigger-size State Level Coop. Societies. Maintenance of accounts in time and in proper manner and preparation of periodical/annual statement of accounts are not intended to facilitate timely audit, but primarily to guide the management in policy making and review at periodical intervals and at the close of the year. For policy making on different developmental action points/areas of the institution like business plan, investment plan, profitability recovery of outstanding dues etc. completed financial statements are required in time i.e. before end of April of subsequent year so that business action plan for subsequent year can be decided by management in time. But experience so far reveals that these Coop. institutions are most often than not, under the mis-conception that final accounts are required for audit purpose only and that it is the responsibility of Auditor to prepare the accounts. What is even a greater travesty is that budgets of current years are made without accounts of past years having even been provisionally finalised. All these financial mismanagement and total lack of financial system and control has landed the Cooperatives in dire straits as is well known to all. If transactions are recorded in time and audit is done concurrently on day to day

basis, preparation of financial statements can be ensured immediately after close of the year. Such pro-active intervention of this Directorate will also facilitate timely completion of statutory audit of the institution and audit findings retaining their topicality and contemporariness.

Due to concerted effort by this Directorate during last 3 years, the arrear audit of a number of Apex and State level Coop. Societies has been pulled up to a great extent. However, a lot remains to be done, while at the same time not letting the Current Year's audit again fall into arrears due to past arrear audits being taken-up for updation. This atleast would ensure topicality of audit findings and serious irregularities and misappropriations not remaining suppressed for years together. Unless this is done, audit loses its meaning and significance. Surcharge actions for recovery of ill-spent/mis-spent amount also get delayed. There is no justification for the same when there is no freeze on the expenditure of the current years, though the past years accounts and audit remain incomplete or non-finalised, thereby giving scope for further acts of omission and commission with impunity. Therefore, concurrent audit of current year's transactions has to go on simultaneously with audit of arrear years of accounts.

Section 62(1)(ii) of O.C.S. Act. states that the Auditor General may, on his own motion or on a requisition from the Registrar and shall on a directive from the State Govt., arrange for concurrent audit of the accounts of any society or class of societies on day to day or such other basis as may be directed.

Therefore, in order to ensure this timely maintenance of accounts and timely completion of audit of Apex and State level bigger Cooperative institutions and ensure topicality and contemporariness of audit findings and in view of provision u/s 62(1)(ii) of the O.C.S. Act. as referred herein above, it is now decided that from 1.4.2004 onwards the audit of Head Office and branches of all Apex and bigger State level Coops. shall be conducted on concurrent basis starting with the accounts year 2004-05 similar to the decision taken in respect of OSCE, CCBs and DCBs in the State during the current year. This Concurrent Audit

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shall be done on a daily basis or within 4-5 days of a transaction for transactions made from 1.4.2004 onwards by Apex and bigger type Cooperatives. All the branches and Units including Head Office of these institutions are now to ensure recording daily transactions in their books of accounts and other records on the same day itself in case of cooperatives doing banking business and for other business concerns where transactions are made till scheduled time in night, are to record transactions of a day by 1.00 P.M. of next day and present the same for concurrent audit. In smaller branches/Units where transactions do not justify the engagement of a Conc. Auditor on a full time basis, periodical concurrent audit on rotation basis at short intervals shall be done by allocating a few branches together to one Conc. Auditor. But in big branches, the Conc. Audit shall be done on day to day basis.

The Concurrent Auditors shall submit the gist of important findings of Conc. Audit allotted to them at the end of the each and every month in their monthly Conc. Audit Reports in the prescribed format (to be issued separately) along with the audited Receipts and Expenditure Statements for the month/for the period covered during the month, mentioning therein the period for which concurrent audit is completed in all respects. Completion of Concurrent audit for a month would entail completion of audit of that month in all aspects including vouching, confirmation of balances, Ledger checking, balancing etc. and not merely checking of vouchers. The Concurrent audit reports should be submitted to the Chief Executive of the concerned institution, to the concerned A.A.G.C.S. (for recovery through Surcharge Proceeding) and to this Directorate within 10 days of expiry of each month.

These monthly/periodical Concurrent audit reports along with their compliance, if any, by the institution shall form the basis for final audit of the year since the consolidation of financial statements of branches/Units, which have been concurrently audited, should not take much time when Concurrent audit for the year is over by April. Therefore, right after completion of branch concurrent audits, the Head Office of the institution is to consolidate the financial statements of the branches submitted by the branches concerned for the year

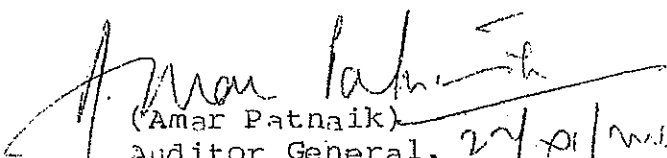
alongwith required statements and schedules etc. latest by 31st May so that final audit can commence in June. Compilation of such final end of the year financial statements shall not be dependent on receipt of branch audit reports but should be based on the branch financial statements. The branch audit report is for use of final auditor, and not for the institution to monitor.

The plea of non-receipt of branch audit reports leading to delay in non-finalisation of final end of the year financial statements (P/L Account and Balance Sheet) shall no more be accepted as a valid reason for non-preparation of financial statements of the institution on time. This is because audit and accounts are two separate and different streams of any financial system and are not to be clubbed together. In fact, audit can not be taken up unless accounts are written, not the vice-versa. This has been clarified in this Directorate's Circular No. 7729 dt. 19.6.2001 relating to statutory audit of Central Coop. Banks and Urban Coop. Banks and Circular No. dt. concerning concurrent audit of these Coop. Banks which has now been started from this year's accounts, 2003-04. The institution's so-prepared/compiled financial statements can then be compared against the audited financial statements prepared by the Concurrent Auditors and checked against accuracy and genuineness of figures therein and if necessitated, the Coop. institution shall be asked to re-cast the said accounts as per the audit advice or the said accounts shall be got modified by the authorised Final Auditor as per order under powers vested on the A.G.C.S. to modify the financial statements u/s 62(3) of O.C.S. Act.. Such modification shall be final and binding on the institution. The institution shall then be required to pass necessary entries in its original books of accounts such as Day Book, Ledgers and Subsidiaries.

The institutions like OCCF, OSCARD Bank where Conc. Auditors are Govt. Auditors on deputation, the said Auditor should start Concurrent audit for 2004-05. In other Apex and State Level Coops., the Concurrent audit shall be taken up by the Departmental Auditors on deputation or Departmental Auditors of this Directorate directly or by C.A. firms in part or in full, (to be decided by this Directorate), but positively with effect from 1.4.2004.

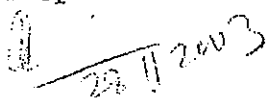
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This Circular issued u/s 62(1)(ii) of the O.C.S. Act, 1962 shall be followed by all concerned institutions henceforth for Concurrent audit of 2004-05 and onwards, without any deviation what so ever, failing which it shall be considered as a statutory breach.

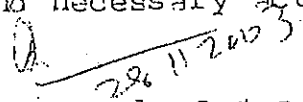

(Amar Patnaik)
Auditor General, 27/11/2003
Coop. Societies, Orissa.

Memo No. 7013(40)/Dt. 28.11.2003

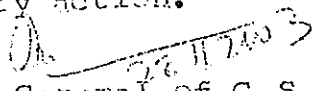
Copy forwarded to Presidents/Managing Directors of all Apex and State Level Coop. Institutions (except O.S.C.B.) for information and immediate action.


Memo No. 7014(7)/Dt. 28.11.2003
Joint Auditor General of C.S.(O).

Copy forwarded to Registrar of Coop. Societies, Orissa/
Director of Textiles, Orissa/Director of A.H.&V.S., Orissa, Cuttack/
Director of Industries, Orissa, Cuttack/Director of Handicrafts &
Cottage Industries, Orissa/Director of Fisheries, Orissa, Cuttack/
Managing Director, OMRED for information and necessary action.


Memo No. 7015(4)/Dt. 28.11.2003
Joint Auditor General of C.S.(O).

Copy submitted to the Commissioner-cum-Secretary to
Govt. of Orissa, Cooperation Department/Principal Secretary to
Govt. of Orissa, Industries Department/Principal Secretary to Govt.
of Orissa, Fisheries and A.R.D. Department/Commissioner-cum-
Secretary to Govt. of Orissa, Textiles & Handloom Development Deptt.
for favour of kind information and necessary action.


Memo No. 7016/Dt. 28.11.2003
Joint Auditor General of C.S.(O).

Copy submitted to the Principal Secretary to Govt. of
Orissa, Finance Department for favour of kind information and
necessary action.


Joint Auditor General of C.S.(O).

Copy to Audit-I/G.F./
20 spare copies.

M. M/-22.11.2003.

