

Unit III Audit of Cooperatives & Banks

Unit III :- Special features in respect of Audit of Co-operative Societies, Banks
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1. AUDIT OF BANKS

In India banks or banking companies are controlled by the Banking Companies Regulation Act, 1949. The State Bank of India and its subsidiaries are governed by their own Act. There are many enactments, rules regulations, bye-laws which are found relevant while auditing the financial accounts of the banking company. Considering a large number and complexity of business transactions, it is practically impossible for an auditor of a bank to perform detailed audit. He has to rely considerably on the system of internal control and internal check. Before doing auditing of banks, the auditor should be well acquainted with these Acts and provisions.

1.1 Procedure of Bank Audit

1. Judge internal check system:

The auditor will study internal check before commencing audit as he cannot do detailed checking. If he finds it satisfactory, he will begin the audit work.

2. Vouch assets liabilities incomes & expenditure:

He will deal with assets and liabilities on Balance Sheet and income and expenditure on Profit and Loss Accounts.

3. Check cash balances:

He must attend at the bank on the closing date of the financial year on the date of Balance Sheet with a view to check the cash balances in hand on the date. He may count or weigh cash, notes, postal orders, cheques etc. that may remain with the bank.

4. Confirm deposits :

He should confirm with the Reserve Bank of India or any other bank for the cash deposit made by them.

5. Check bank balances :

He should verify and reconcile with other banks in Banker's ledger with the balances. Certificates should be verified for balances.

6. Verify cheques or drafts :

He should verify cheque and drafts received later on the Balance Sheet date for clearing. He should ascertain that they come later on within few days in due course.

7. Verify money at call & short notice :

He should verify money at call and short notice with the call deposit receipts.

8. Check securities :

He should check the securities for this purpose with the schedules attached to the borrowing notes.

9. Check unmatured bills :

He should check unmatured bills and see that they agree with the general ledger and that they are not over due for payment with the maturity date of the bill.

10. See provisions for dishonoured bills :

He should see that appropriate provisions are made for dishonoured bills.

11. Period of bills discounted and purchased :

He should see that bills discounted and purchased have not crossed the limits of limitation.

12. Rebate on bills discounted :

He should examine the rebates on bills discounted and see that right proportion of rebate for discount on bills due has been carried forward to the subsequent year.

13. Fixed & Savings Bank Account Balances :

He should check current fixed and savings bank accounts' balances with the help of schedules.

14. Loan ledger :

He should check loan ledgers.

15. Investments :

- (a) If the investments are made in the banks, a certificate must be had for such amount.
- (b) He should ensure that same security is not produced again for the investments.
- (c) He should check the investments in government securities, debentures and shares by real inspection on the Balance Sheet date.
- (d) He should see that banks provide confirmation certificates for investments they had.

- (e) He should ascertain that balances in investment ledgers agree with Investment Accounts in the General Ledger.
- (f) He should ensure that if the book value of investments should be disclosed in the Balance Sheet as needed.

16. Provisions of Sec. 19 (2) :

He should see that provisions of Section 19 (2) are properly observed.

17. Income from investments:

He should see that income from investments is vouched.

18. Loans & Advances:

- (a) He should see that customer's securities deposits must be examined for loans and overdraft.
- (b) He should ensure that loans are covered properly.
- (c) He should check that for unsecured advances, bank has confidential reports for the good financial position of borrower.
- (d) He should see that only bad doubtful debts have been properly provided.
- (e) He should confirm that secured and unsecured loans have been distinguished in Balance Sheet.
- (f) He should ensure that the balance sheet shows properly classified loans, advances, cash credits and overdrafts.

19. Interest payable :

He should ensure that all the interest payable on various accounts of the customers have been duly accounted till the date of Balance Sheet.

20. Interest Receivable :

He should ascertain that interest recoverable from the debtors is being regularly received from them.

21. Test check ledger balances :

- (a) He should test some Banks pass books and see that they tally with ledger accounts.
- (b) He should check general ledger balances with trial balance and final accounts.

22. Verification & Assets :

He should verify the assets with the bank for their existence value, title and possession.

23. Secret Reserves :

He should see that all assets and securities written off specially with a view to create a secret reserve.

24. Branch Returns :

He should ensure that branch returns are incorporated in the Head Office books and return is duly certified by branch managers.

25. Foreign currency transactions :

He should ascertain that foreign currency transactions are scrutinized and incorporated in accounts.

26. Liabilities :

(a) He should see that all liabilities of bank are rightly brought into account.

(b) He should verify the liabilities on account of letters of credit and guarantees given by the bank or on behalf of the constituents with the help of documents and registers and it should be seen that proper margin is held.

27. Bills for collection :

He should verify the centre items in connection with Bills for collection or acceptances, endorsements and other obligations. He should check them with the registers maintained by the bank for recording these transactions.

1.2 AUDIT OF COOPERATIVE SOCIETIES

Cooperative societies are established under the provisions of Cooperative Societies Act. They enjoy following privileges:

- (i) A cooperative has privileges of a body corporate.
- (ii) It has perpetual succession and a common seal.
- (iii) It has power to hold property.
- (iv) It has power to enter into contracts with others.
- (v) It has power to suing and being sued by others.
- (vi) It has shares no-attachable and non-stable under any decree or order of the court for any debt or liability incurred by members.

- (vii) The Central Government may exempt a cooperative society or remit income-tax payable in respect of the profits of the society or the dividend or other payments received by the members of the society on account of products.
- (viii) The Central Government exempt a registered society from any fee or stamp duty payable in respect of certain documents as per Section 28.
- (ix) It has a prior claim as against other creditors for the recovery of any amount due from a member or a past member in respect of debts.
- (x) Its shares are not liable to be attached or sold against any decree or order issued by a court or by an assignee or official receiver under the Insolvency Act.

According to Section 17 of the Co-operative Societies Act, 1912, the responsibility of audit of accounts of cooperative institutions rests with Cooperative Department of the State Government. Auditors are appointed by the members except under certain conditions.

1.2.1 Audit Procedure:

- (i) Study the Co-operative Societies Act, 1912 and byelaws of the society.
- (ii) See that a member should not hold more than 10% of capital of society.
- (iii) Vouch receipts of cash on accounts of deposits with the cash books and counterfoils of the receipt book and check them with relevant accounts. Some societies permit non-members to deposit money with the society.
- (iv) Vouch the money borrowed from the Central Co-operative Bank with Cash Book, check correspondence and resolution passed by Managing Committee of the society to borrow money, the period with the society.
- (v) Vouch interest received from borrowers or return of loan from them with the agreement entered into between the society and the borrower, regulations of the society, counterfoils of the receipt books and cash book.
- (vi) Check loans to the members with the agreement regulations and resolutions passed by the Managing Committee. Receipt issued by the member concerned, cash book etc. permission of Registrar is a necessary if non-member is given a loan. If loan is given a cooperative society by the Central Cooperative Bank, it should be within the prescribed limits.
- (vii) Vouch expenses as usual.
- (viii) Give priority to Reserve fund 25% and Welfare Fund 10% after that.
- (ix) Check cash in hand with actual counting of cash and by comparing it with the Cash Book.
- (x) Verify investments by inspecting the ledger for investment Account.
- (xi) See that surplus funds of cooperative society are invested only in Government Saving Bank. If approved by the Registrar they may be invested in securities mentioned in Section 20 of Indian Trust Act, 1882 or in shares and services of other cooperative societies with limited liability. The investments should be as per rule.

- (xii) Check the sales summaries with the sales in a consumers' society. Check the purchases with Order Book, and the Stock Book. Verify the stock and examine the method of valuation.
- (xiii) See if accounts of Society are prepared as per Cooperative Societies Act and Income Tax Act as applicable to cooperative societies.
- (xiv) See that Balance Sheet and Profit and Loss Accounts are to be prepared as per Part V. Third Schedule, Section 56 of Bank Regulation Act, 1945.
- (xv) The Registrar of cooperative societies of few states have prescribed a proforma for drawing up the auditor's Report and the final accounts. See that report is according to the proforma.
- (xvi) See that the cash Reserve is according to Section 50(f) of Banking Regulations Act.
- (xvii) See that the Balance Sheet and the Profit and Loss Account are drawn as per Section 56 (2) of Banking Regulation Act or as near thereto as possible unless the Registrar of cooperative societies has prescribed another form.
- (xviii) Verify furniture and stationary physically and compare with the Stock Registrar.
There is no internal check system in the Cooperative Banks.