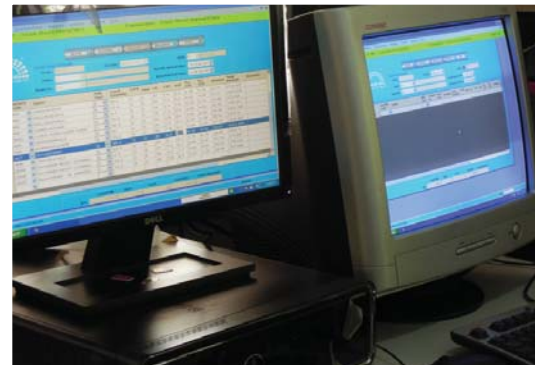


# Audit Manual for PACS



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**NABARD – GIZ**  
RURAL FINANCIAL INSTITUTIONS PROGRAMME (RFIP)



**July 2012, New Delhi**

**Institutional Development Department (IDD)**

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**ENHANCEMENT OF AUDIT CAPACITY FOR CCS**  
**JULY 2012**



# Foreword

The revival package for STCCS was announced by Government of India in January 2006 following recommendations of the Task Force on Revival of Rural Cooperative Credit Institutions (Vaidyanathan Committee). NABARD was entrusted with the responsibility of implementation of the package under the overall guidance of “National Monitoring and Implementation Committee”. The revival package aimed at converting the entities of the Short Term Cooperative Credit Structure (STCCS) into a well managed and vibrant medium to serve the credit needs of the rural people, engaged in agriculture, weaving, artisanal activities, micro-enterprises and non-farm sector. The reforms under the Revival Package will be incomplete without a well functioning audit system to bring transparency in the cooperative credit system. Audit of cooperatives is a legal requirement in all states for all the tiers viz. State Cooperative Banks, Central Cooperative Banks and the Primary Agriculture Credit Societies (PACS). Audit procedures followed are determined by the requirements of law in the respective states. The audit of the SCBs/CCBs is being carried out by professionally qualified Chartered Accountants and audit of PACS is mainly carried out by departmental auditors.

In order to enhance the quality of PACS audit, a joint technical mission of NABARD and GIZ, took stock of audit systems of PACS prevalent in the country and carried out a SWOT analysis, to recommend measures to bring about necessary improvements in their audit. “Developing an overall institutional audit strategy along with a framework for audit” and “Preparing a model audit manual for PACS auditors” were two key recommendations. This model Audit Manual for PACS is an endeavor in this direction.

The model audit manual includes broad guidelines relating to audit framework and duties of auditors, standardised audit documentation, audit planning and audit sampling techniques, procedures for conducting internal checks and substantive tests of transactions. The model manual also recommends standard format for audit reporting and audit classification for the day-to-day guidance of auditors. The audit is a means, not an end in itself. It should lead to good governance. Given the capacity constraints at PACS, their auditors need to look beyond errors/defects. They should assume the role of business counselor, educator and conscience-keeper to the PACS. Giving early warning signals (against default, disasters, risks, and threats of frauds) and pointing to systemic deficiencies through audit reports, may provide useful advice to the Board of the PACS and RCS. A good audit report will enable PACS to improve transparency, efficiency and soundness of the institution and thereby enhance, the confidence of members and general public in their business ventures.

We hope that this audit manual would become useful guide to PACS Auditors’ community in the days ahead. Beyond these guidelines, auditors have to undertake intensive pre-audit preparations and go through the awareness literature. They have to apply their own knowledge, insight, intelligence and judgment while auditing PACS, as any Manual could only provide broad framework. Auditors may suggest additions and refinements, based on their experience over a period, to make it more useful, relevant and rewarding. We acknowledge the contributions of the GIZ-RFIP team in the preparation and printing of this manual for PACS auditors.

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NABARD, Mumbai  
12 July 2012





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# General Disclaimer

The contents of this manual are designed to provide information to auditors of Primary Agricultural Credit Societies and thus are intended for the private and non commercial use of such auditors. The contents of the manual have taken into account the individual comments of the states on the draft audit manual in as far as there is universality of application. The readers are advised to learn and tailor the information contained herein to suit their individual needs based on the very specific and unique needs arising out of the cooperative legislation. Efforts have been made to make this manual as comprehensive and useful as it should be therefore, the readers of this manual are advised to use this manual as a tool for general guidance. This manual is for the internal use of the auditors who audit PACS and it is not a commercial publication.

GIZ-NABARD RFIP and the teams associated with the production of this manual shall have neither liability nor responsibility to any person or entity with respect to any loss or damage caused, or alleged to have been caused, directly or indirectly, by the information contained in this manual.

GIZ and NABARD acknowledge the assistance it received from the offices of the Registrar of Coop Societies and/or Directorates of Audit in producing this manual for a common good.



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# Abbreviations

AAS	Audit and Assurance Standards
A/C	Account
AGB	Annual General Body
ARCS	Additional Registrar of Cooperative Societies
AS	Accounting Standards
BDR	Bad & Doubtful Debt Reserve
BRS	Bank Reconciliation Statement
CAAT	Computer Assisted Audit Techniques
CC	Cash Credit
CD	Compact Disk
DCCB	District Central Cooperative Bank
DIGCC	Deposit Insurance and Credit Guarantee Corporation
DLAC	District Level Audit Committees
DoS	Department of Supervision
DRCS	Deputy Registrar of Cooperative Societies
EDP	Electronic Data Processing
e.g.	Exempli gratia
EMI	Equated Monthly Instalment
EP	Execution Petition
ESI	Employee State Insurance
FAR	Fixed Asset Register
FD	Fixed Deposit
FDR	Fixed Deposit Receipts
GAAP	Generally Accepted Accounting Policies
GB	General Body
GL	General Ledger
GRN	Goods Received Notes
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (German Technical Cooperation)
IAS	International Accounting Standards
ICAI	Institute of Chartered Accountants of India
ICQ	Internal Control Questionnaire
IFRS	International Financial Reporting Standards
IMBP	Individual Maximum Borrowing Power
IRDA	Insurance Regulatory and Development Authority
IT	Information Technology
IOU	I Owe you
IVP	Indira Vikas Patra
KVP	Kisan Vikas Patra
LAMPs	Large Sized Adivasi Multipurpose Societies
LIC	Life Insurance Corporation of India
LT	Long Term
MC	Management Committee

MIS	Management Information System
MT	Medium term
MTC	Medium Term Conversion loan
NABARD	National Bank for Agriculture and Rural Development
NCDC	National Cooperative Development Corporation
NFS	Non Farm Sector
NII	Net Interest Income
NPA	Non Performing Asset
NSC	National Saving Certificate
OD	Other Deposits
O/S	Outstanding
OT	Over Time
PACS	Primary Agricultural Credit Society
PAN	Permanent Account Number
PDS	Public Distribution System
PF	Provident Fund
P&L	Profit & Loss
PV	Present Value
RBI	Reserve Bank of India
RCS	Registrar of Cooperative Societies
RIP	Regular Income Plan
RMTC	Rescheduled Medium Term Conversion loan
Rs	Rupees
SA	Standard on Auditing
SBDR	Special Bad Debts Reserve
SCB	State Cooperative Bank
ST	Short Term
SME	Small and Medium Enterprise
STCCS	Short Term Cooperative Credit Structure
TDR	Term Deposit Receipts
TDS	Tax Deduction at Source
UD	Updated
VAT	Value Added Tax
WDV	Written Down Value



# 1 Scope and Objectives of the Manual

## 1.1 INTRODUCTION

The manual has been designed to guide all auditors of primary agricultural credit cooperatives (PACS) to conduct statutory audits as envisaged by the respective State Cooperative Societies Act (“the Act”) as amended from time to time in accordance with uniform auditing scope, programmes and techniques as detailed in this manual. The principles, practices and programmes set out in this manual need to be applied for all audit of PACS irrespective of their geographical distribution.

The standards and practices set out in this manual should be incorporated as the minimum benchmark for all audits of PACS. However, the audit approach and the extent of the test procedures may be “tailored” by the auditors to suit the specific needs of the small or very large PACS.

## 1.2 STRUCTURE OF THE MANUAL

The manual is presented in 8 sub sections covering the following:

- Principles of Cooperative Audit
- Auditors – Roles and Responsibilities
- Audit Objectives , Audit Work Papers and Audit File Contents
- Audit Planning
- Audit Execution
- Audit Completion and Closure
- Audit Report
- Audit Classification and Rating

## 1.3 IMPLEMENTATION OF THE MANUAL

The manual is structured to facilitate easy adoption by the Registrars in each state desiring to implement uniform practices and techniques in the audit of PACS under the aegis of the NABARD recapitalization programmes of Cooperative Credit Structure entities. There may be a few sections that each state might want to customize in order to bring in certain specific statutory or regulatory compliances or techniques to suit the specific business needs of the PACS in those states. However, it is strongly recommended that such customization should be limited and specific to a particular section of an audit programmes.

Once the manual has been customized or approved in its current form (as recommended by NABARD) it should be approved by the Registrar and/or the Director in charge of audit of PACS. Upon its approval the manual must be implemented in its full format in the execution of audit of PACS. The implementation of the manual should be complemented by appropriate training of the users of the manual.

## 1.4 MATTERS NOT DEALT WITHIN THE MANUAL

The manual does not cover everything on Accounting and Audit Standards and the code of ethics which are expected to be followed by chartered accountants, as defined by the Chartered Accountants Act, 1949 while carrying on their audit assignments. The manual attempts to excerpt only those issues relevant for audit of PACS. In particular, the manual does not cover the following:

- standards on quality controls of audits as may be applicable to audit of PACS by any statutory or regulatory body;
- method of audit allocation amongst the auditors of PACS by the registrar/directorate of audit; the administrative powers or obligations to receive and certify financial statements; the timelines that may otherwise be fixed by the respective Cooperative Societies Act of the State Government;
- accounting procedures such as writing of books of accounts or preparation of financial statements of PACS.

# 2 Scope and Principles of Cooperative Audit

Cooperatives are user-owned enterprises (unlike joint stock companies which are investor owned) working on commercial principles to ensure proper flow of economic resources to its members and for their general well being. PACS are the lower tier of the cooperative structure with direct access to its members and connecting them to the higher tiers of the structure. Being democratic institutions, cooperative societies need to empower its members with powerful tools to ensure that the management of these institutions is truly democratic and professional. ***Audit and Audit Report are example of such tools.*** Failure to get the books of account audited and to publish the annual report in time is an indication of poor health and in effective management of the cooperative.

Historically, the responsibility for audit of these institutions is cast on the Registrar of Cooperative Societies (RCS) who is also the regulator and the administrator of PACS. However in some states, the role has been bifurcated with Audit of PACS (along with other cooperatives) having been shifted to a separate Directorate without disturbing the basic hierarchical reporting structure. This bifurcation to some extent has ensured professional independence of auditors in those states where the Directorate of Audit is independent of the RCS.

## 2.1 AUDIT IN PACS

Audit is a systematic examination of books of accounts with relevant supporting documents such as vouchers, bills, receipts and other documents to ascertain and/or to verify the financial operations and to report whether the balance sheet of PACS has been properly drawn up so as to give a true and fair view of the state of affairs of the society and whether the profit and loss account for the period under audit gives fair view of the profit or loss of the society.

Audit in PACS is a more comprehensive inquiry into the general affairs and management of the society, its governance in accordance with applicable statutory obligations and its byelaws and rules; its financial record keeping, propriety of transactions and adherence to basic internal controls and procedures. It is therefore a financial and an administrative audit.

According to the Maclagan Committee cooperative audit extends beyond the bare requirements of the Societies Act and should embrace an enquiry into all the circumstances which determine the general position of the society. It would, for instance be the duty of the auditor to notice any instances in which the Act, rules or byelaws have been infringed upon, to verify the cash balance and certify the correctness of the

accounts to ascertain that loans are made fairly for proper periods and objectives and on adequate security, to examine repayments in order to check book adjustments and improper extension and generally see that the society is working on sound lines and that the committee, the officers and the ordinary members understand their duties and responsibilities.

## 2.2 COOPERATIVE YEAR FOR AUDIT

The Cooperative Year begins on 1st April of a year and ends on 31st March of the succeeding year. Unless and otherwise required or prescribed by the Act and/or if the society was not in existence for a full period of 12 months, the accounts shall be maintained for the full Cooperative Year and the Financial Statements shall be drawn up for the period of 12 months beginning 1st April and ending with 31st March of the succeeding year.

## 2.3 SPECIAL FEATURES OF PACS AUDIT

The auditors of PACS, besides being well versed with core techniques of audit, are expected to have a fairly reasonable knowledge of subject of the cooperation and the accounting system and controls followed in PACS, particularly those PACS which owing to their small size would not be able to implement a regime of internal control systems and procedures due to which several of them may be vulnerable for several business risks and frauds. Some of the special features relevant to the audit of PACS are:

- the auditor of PACS should be familiar with the relevant provisions of the Cooperative Societies Act, 1912 (the Central Act) as well as the respective State Acts which are modelled on the basis of the Central Act;
- every PACS should have framed its byelaws and registered the same with the RCS; further no amendment to the byelaws will be valid until the same has been registered by the registrar; PACS shall amend its byelaws in accordance with any amendments to the Central/State Cooperative Acts from time to time; any deviations in this respect shall be reported by Auditors.
- PACS can accept deposits only from its members; similarly it can only lend to its members and not to the general public;
- in respect of any debt due from a member, PACS shall have a charge on his/her share or interest in the capital of the PACS, his/her share of deposits and on dividends, bonus or profits due to him from the PACS;
- PACS are permitted to invest only in the following securities:
  - post office savings banks;
  - any securities specified in Section 20 of the Indian Trust Act. 1882;
  - in the shares or the securities of any other registered Society;
  - with banks as approved by the Management of PACS;
  - in any other mode as may be prescribed by the Act or Rules made there under.
- PACS are required to create statutory reserves as prescribed by the Societies Act including transferring a prescribed percentage of profits to a reserve fund;
- under the provisions of the Act, as amended to incorporate the provisions of the MoU<sup>1</sup> between the Central, State Government and NABARD, the Registrar upon suitable recommendation by the Man-

<sup>1</sup> Memorandum of Understanding among the Central Government, State Government and NABARD for implementation of the revival package for rural credit cooperative structure (CCS) institutions.

agement of PACS can get the audit conducted by the departmental auditors or by persons/firms having stipulated qualifications;

- the audit of PACS shall include the following:
  - examination of overdue debts, if any;
  - verification of cash balance;
  - verification of Securities;
  - valuation of assets and liabilities<sup>2</sup> ;
  - prudent management of the affairs of the PACS;
  - examination of audit schedules and returns furnished to auditor along with books of accounts;
  - physical verification of stocks;
  - issue of an audit certificate.
- the statements that need to be furnished to the auditors along with books of accounts are:
  - membership and share capital of PACS; Cash balances; investments and other securities;
  - schedule of individual ledger balances with opening and closing balances duly reconciled;
  - details of loans and advances along with demand, collection and balances statements including statement on NPAs
  - statement of interest accrued and overdue on loans and advances;
  - statement of interest accrued and overdue on borrowings and deposits;
  - statement of investments with confirmations furnished by entities with whom those investments are made;
  - estimated bad and doubtful debts including the provisions for non performing loans and advances;
  - Stock statement with valuation;
  - any personal expenditure of Directors/Managing Committee debited to Profit & Loss Account.
- the annual statements of account to be prepared by PACS normally include (i) trial balance (ii) receipts and payments account (iii) trading account (iv) profit & loss account and (v) balance sheet in such format as may be prescribed; generally all the formats converge in the basic statements as provided in *Model Audit Report; These statements shall be prepared in the format prescribed by the Common Accounting System as recommended by NABARD.*
- the form of audit report to be submitted by the auditor may be prescribed in the Act. Several of these requirements are covered by the following minimum reporting requirements:
  - affirmations on proper maintenance of books of accounts; agreements of financial statements with the books of accounts; availability of necessary information and explanations; and true and fair nature of the financial statements;
  - particulars of transactions that may appear to be contrary to the provisions of the Act;
  - all sums that should have been brought in to the accounts but have not been brought in;
  - any impropriety or irregularity in the expenditure or in the realization of moneys due to the PACS;
  - any money or asset which appears to be bad or doubtful of recovery;
  - any other matter that is specified.

<sup>2</sup> Verification shall extend to examination of PACS adherence to IRAC norms and CRAR computation based on norms prescribed by NABARD as per its circular to all Registrars of Cooperatives.

## 2.4 BOOKS OF ACCOUNTS TO BE MAINTAINED BY PACS

Some of the Acts have prescribed the books of accounts to be maintained by a PACS; generally the books of accounts that need to be maintained by PACS are:

- share capital ledger and membership register
- daily deposit register;
- savings account ledger;
- fixed deposit ledger;
- recurring deposit ledger;
- borrowings ledger;
- cash book;
- investment ledger;
- short term loan ledger;
- MT/LT disbursement cum loan ledger;
- DCB register
- land, machinery, furniture, fittings, office equipment and other movable/non movable asset register;
- depreciation chart;
- sundry debtors ledger;
- sundry creditor ledger;
- safe deposit locker operation register;
- insurance policy register;
- minute book (meetings of board and/or management committee);
- purchase register;
- sale register;
- costing register;
- stock register;
- day book;
- bank book;
- general ledger;
- monthly interest payment register;
- accounts opened & closed register;
- gold stock register;
- maturity register for term, recurring and reinvestment deposits quarterly;
- register for acknowledgement of debt;
- NPA register (Statement of loan o/s);
- establishment and salary register;
- fund register;
- embezzlement/fraud register

# 3 Auditors' Roles and Responsibilities

## 3.1 POWERS OF AUDITORS

- auditors shall have free access to books and records of the PACS at all reasonable times to ensure that they can discharge their duties without any hindrance. in the presence of responsible officials of PACS, auditors shall also be given access to cash and securities and documents of PACS to facilitate their carrying out of audit procedures;
- auditors can requisition any data or information relating to any transaction, working and affairs of the PACS from its current and/or past officers, employees and members<sup>3</sup>;
- as may be required under the provisions of the act, auditors can probe even beyond the books of accounts and other information and evaluate the services rendered by the PACS to ensure that the objectives of PACS are met with and that its transactions with the members and other stakeholders are reasonable and were carried out in accordance with the principles of cooperation, the provisions of the act, the byelaws of PACS and other administrative and executive circulars and instructions issued by regulators and other authorities;
- in connection with the audit of PACS, auditors shall have adequate powers to call for explanations and responses on any matter/deficiency/defect as observed by the auditors during the course of their audit;
- auditors shall have powers to visit any facility of the PACS or facilities/crops of its borrowers to physically verify the existence of the assets financed by PACS.

## 3.2 DUTIES AND RESPONSIBILITIES OF AUDITORS

- auditor shall commence and complete the audit within such time as may be prescribed by the State Cooperative Act or within 6 months from the end of the relevant cooperative year whichever is later;
- as part of the audit of PACS, auditors shall examine and verify all books of accounts, records, assets and liabilities and shall value the assets and liabilities to satisfy themselves that they relate to PACS and to enable expressing an opinion on the same;
- an audit report in such format and content as may be prescribed shall be submitted by the auditors immediately upon completion of the audit;
- based on the audited financial statements and the rating chart recommended by the NABARD and

<sup>3</sup> In case of resistance by the management of PACS to produce any data/information it should be explicitly stated in the Audit Report with additional comments, if any, on the overall audit of the Society.

prescribed by the regulator, auditors shall rate the PACS annually and assign an overall rating for the PACS audited by them;

- auditors shall follow up the compliance of the audit report and its findings and shall report to the appropriate authorities of any non compliance by PACS; the auditors shall also examine the compliance of audit defects/observations of earlier years audit and report on their non-compliance.

### 3.3 LIABILITIES OF AUDITORS

- auditors shall discharge their duties with diligence and care and without any negligence. They should be honest and independent and exhibit necessary skills and knowledge to perform the audit assigned. Negligence, dishonesty and professional misconduct may make the auditors liable to the stakeholders of PACS that is subjected to audit;
- auditors may be liable to the PACS and/or to its financing entities if they fail to detect frauds, defalcations, errors etc., by their negligence for any direct loss incurred by such entities if such losses are attributable to misstatements in the audited financial statements of PACS;
- auditors are liable to all stakeholders for any breach of trust, misfeasance or fraud in performing their duties.



# 4 Audit Work Papers and Audit Documentation

Audit work papers need to be maintained to document matters which are important in providing evidence that the audit was carried out in accordance with the generally accepted audit standards and practices. Audit work papers aid in planning and performance of audit and facilitate supervision and review of the audit work and provide evidence of the audit work performed. These work papers should be preserved for such period of time that is prescribed by the Act or if there are no regulatory prescriptions, for such time as is required to meet the professional requirements of record retention.

Audit work papers and files as explained in this section should be maintained by Auditors. If PACS desires to maintain such files they may do so.

## 4.1 FORM AND CONTENT OF AUDIT WORKING PAPERS

- audit work papers normally record the audit plan, the nature and extent of the auditing procedures performed, and the conclusions drawn from the evidence obtained;
- the form and content of working papers are normally determined by the following factors:
  - nature and complexity of PACS business;
  - condition of records at PACS and the controls therein on which auditors place their reliance;
  - direction, supervision and review of work performed by audit assistants/junior auditors;
  - form and content of auditor's report.
- standardized work papers like checklists, specimen letters, questionnaires etc.;
- lead schedules, groupings and schedules prepared by PACS.

## 4.2 TYPES OF AUDIT FILES

Generally audit files are of two broad types:

- permanent audit files containing information relating to PACS and its environment; and
- current audit files containing work papers relating to the audit of a single period.

### 4.3 PERMANENT AUDIT FILE – RECOMMENDED CONTENT

- information concerning the regulatory requirements and the organizational structure of the PACS;
- copies of the Act, byelaws or other basic charter document governing the PACS;
- extracts from important legal documents, agreements and minutes of the MC;
- copies of audited financial statements for previous years;
- analysis of significant ratios and trends;
- document relating to evaluation of internal controls related to the accounting system. This may be in the form of narrative descriptions, questionnaires or flow charts, or a combination thereof;
- copies of management letters, representations etc., issued by PACS
- notes regarding significant accounting policies;
- significant audit observations of earlier years and audit rating of previous years;
- compliance with audit findings of earlier years.

### 4.4 CURRENT AUDIT FILE – RECOMMENDED CONTENT

- audit plan and audit programmes check lists, questionnaires etc. and a record of audit procedures performed;
- copies of communication relating to the audit allocation and audit resources;
- material weaknesses in internal controls as observed;
- evidence that the work performed by assistants was duly supervised and reviewed;
- extracts of matters in the minutes of the board meetings and general body meetings as are relevant to audit;
- analysis of transactions and ledger balances;
- copies of communications with PACS; half margin memos and responses received from PACS;
- copies of the financial statements being reported on and the related audit reports;
- list of audit observations for the audit period;
- evidence for resolution of defects/deficiencies as pointed by auditors – unresolved issues to be reported.

### 4.5 PERMANENT AND CURRENT AUDIT FILES CHECKLISTS

The purpose of these checklists is to set out the minimum documentation that should be included in the PACS permanent and current audit files. The original working papers in the permanent file must be updated at each audit. The information history should be captured for at least 3 years. *Annexure 1 and Annexure 2* provide the recommended check lists.

# 5 Audit Plans and Audit Programmes

## 5.1 PLANNING THE OVERALL AUDIT STRATEGY

Normally an overall audit strategy that sets the scope, timing and direction of the audit precedes the development of a detailed audit plan. The overall audit strategy should be well documented so that the detailed audit plans and programmes can be properly developed. The key components of an audit strategy, inter-alia, include:

- discussion with the PACS management to review and update background information on PACS, its location, the financial reporting framework applicable for PACS, accounting systems, specific reporting requirements as may be imposed by the RCS, NABARD and other authorities;
- audit commencement and reporting deadlines;
- method of communicating with management and the RCS in resolving the audit defects/observations; special reporting requirements, if any;
- review of control environment and setting out audit materiality;
- plans to obtain evidence regarding the effectiveness of internal controls;
- instructions on analytical procedures and other substantive procedures for audit;
- review of recent entity-specific, industry, financial reporting or other developments;
- assessment of the internal resource requirements and use of experts on complex matters;
- resource allocation to specific audit areas;
- review of last year's files and audit observations and audit compliances.

## 5.2 AUDIT PLANS

Audit plans are critical to ensure that the audit is performed in an effective manner. Planning is about establishing and documenting the overall audit strategy. Audit plans include significant audit procedures to be carried out by the field auditors to obtain appropriate and sufficient audit evidence to reduce audit risk and express necessary audit opinions. Audit plans facilitate:

- devoting appropriate attention to key audit areas and significant risks;

- identification of potential problems and their resolution;
- assignment of audit work to audit staff;
- directing and coordinating the work done by experts and other auditors.

Audit plans should cover amongst other things the following:

- business understanding of the PACS, its accounting systems, policies and internal control procedures;
- degree of reliance to be placed on internal controls;
- nature, timing and extent of the audit procedures to be performed; and;
- audit allocation by DRCS/ARCS/Directorate of Audit;
- coordinating the work to be performed.

Audit planning normally involves the following elements:

- developing an overall plan for the expected scope and conduct of audit;
- developing an audit programmes showing the nature, timing and extent of audit procedures; and
- further development and revision of plans (as necessary during the course of audit).

### 5.3 DEVELOPING AN OVERALL AUDIT PLAN

The audit plan documents, amongst others, the assessment of risks, the areas of audit and the extent of audit procedures to be performed to address those risks. The audit plan should be prepared by the senior most member of the audit team and may be reviewed by the chief auditor. Prior to commencement of audit engagement the overall audit plan and the audit programmes need to be completed and communicated to the audit staff. The nature and extent of planning varies with the size and complexity of operation of PACS and the auditors' experiences with audit of PACS. Generally, the audit plans should cover the following:

- Preliminary business understanding and analytical review
  - nature of business of the PACS; events and transactions and practices that may have significant impact on the financial information of the PACS;
  - accounting system and accounting policies followed;
  - applicable legal and statutory requirements;
  - review of key business ratios, trends and other financial information available at the commencement of audit to obtain an understanding of the entity and its environment.
- Preliminary risk assessment

A preliminary review of overall risk and key risks in individual audit areas and their impact on audit procedures considering:

- past experience and audit classification and rating of previous years;
- accounting policies and financial reporting standards and degree of reliance that can be placed on them;
- Significant Audit areas; audit areas prone to risk of material misstatement or fraud.
- level of computerization of PACS operations and its impact on book keeping and financial statements; use of specialized audit tools like computer assisted audit techniques (CAAT);

- events/transactions requiring special attention, such as related party transactions, loan write-offs/reliefs, provision for non performing assets, contingencies, market and industry conditions.

#### ■ Sources of audit evidence

Nature and extent of internal and external audit evidence required to confirm the transactions and reduce audit risks

#### ■ Materiality

Degree of materiality that the auditors are willing to accept for audit purposes and the reasons therefor.

#### ■ Samples and procedures for controls and substantive testing

Cumulative knowledge of the PACS and its accounting systems and the related internal controls; extent of samples to be used to test controls and to perform substantive testing of transactions i.e. whether testing should be based on 100% of verification of transactions or on samples; their size and sampling techniques to be adopted

#### ■ Audit timetable and requirements

■ determination and communication of the accounting work and audit schedules to be prepared by the PACS and the auditors;

■ overall audit timetable including that for completion of the audit;

■ time and cost budgets;

A summarized audit planning checklist is provided in *Annexure 3*.

## 5.4 AUDIT PROGRAMMES

Audit programmes outline the whole procedure of audit and are specific to each PACS, although a general template can be prepared and made applicable with necessary customization to each PACS. Audit programmes are valuable records for the auditor for checking the progress of work done and enable the auditor to effectively control the whole scope and conduct of audit in an efficient manner. Besides, these are part of audit work paper documentation as required under the established standards of audit.

Audit programmes should normally cover the following:

- review of the system of internal controls and procedures;
- checking of routine audit items like postings, casting and arithmetical accuracies;
- checking the audit evidences through vouching; internal and external evidences, confirmation, and reconciliation;
- ledger scrutiny;
- review of cut off procedures for transactions and closure of accounts;
- ascertaining and confirming consistency of accounting principles;
- examining the accuracy of financial statements and their presentation;
- application of analytical procedures and ratio analysis;
- audit closure and reporting.

## SPECIMEN AUDIT PROGRAMMES

A general template of an audit programme that can be adapted universally is given in *Annexure 4*. In addition, specimen audit programmes for significant audit areas are given in *Annexure 5 to Annexure 12*.

### 5.5 AUDIT MATERIALITY

Audit materiality is a concept relating to the importance/significance of an amount, transaction, or discrepancy when either seen/judged individually or in aggregate. Auditors express opinion on the financial statements as to whether they are prepared, in all *material* respects, in accordance with the General Accepted Accounting Policies. The assessment of what is material is a matter of professional judgment.

As defined in SA 320 (corresponding to AAS 13)<sup>4</sup>

“Information is material if its misstatement (i.e. omission or erroneous statement) could influence the economic decision of users taken on the basis of the financial information. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”

The level of audit materiality can be quantified using some common rules as given below:

- percentage of profits before tax ( for example, 5% of profits or 10% of profits etc);
- percentage of gross profit;
- percentage of total assets; (for example, 1% or 2% of total assets);
- percentage of total turnover (total revenue) (for example, 0.5% or 1% of total revenues);
- percentage of total cost or net cost;
- the stakeholders may also determine the materiality levels for auditors in which case those figures may become the benchmark. (for example, the DCCB or NABARD may fix up some tolerable limits for materiality);
- if the RCS or the Societies Act or the Rules made there under specify specific materiality levels or reporting requirements those will then become the benchmarks.

Materiality refers to the tolerance levels of auditors for a probable misstatement and therefore should be planned and quantified with care and caution. Unlike in the audit of commercial enterprises, materiality in the audit of PACS, qualitative factors (in addition to quantitative factors) also assume importance. Qualitative factors are those which are non-financial, yet are likely to influence the judgment of the readers of the financial statements. Some examples of such factors are (i) elections to the management committee (ii) number of management committee meetings held (iii) fit and proper guidelines of key personnel (iv) byelaw violations etc.,

### 5.6 AUDIT SAMPLING AND TEST CHECKING

*Audit Sampling* is the application of audit procedures to less than 100% of the items within an account or class of transactions to enable the auditor to evaluate audit evidence about selected characteristics of the

<sup>4</sup> “SA” refers to Standard on Auditing and “AAS” refers to Audit and Assurance Standard issued by the Institute of Chartered Accountants of India (ICAI). These standards are relevant if audit is conducted by Members of the ICAI.

items selected in order to form an opinion on the whole population. The sampling units are defined by the auditors to achieve a particular audit objective.

Test Checking is the checking of a selected sample of transactions/class of transactions from a given population. The extent of test checking and the sample size for such test checks depend upon the effectiveness of internal controls and the satisfaction obtained by the auditors on such controls. The decision of auditors either to employ 100% check of all items/transactions or conduct test checks on a given sample should be final.

Population is the entire set of data from which the auditor should extract a sample in order to reach a conclusion. It is however not the entire ledger account transactions and is generally dependent upon the specific audit objective. For e.g. to test if the debtors or loans and advances are overstated, the population is the entire listing of debtors or the loans and advances. If the objective is to test whether the sundry creditors are understated then the population would be the list of (i) unpaid invoices (ii) suppliers statements (iii) disbursements after the year end (i.e. 31st March) and so on.

## 5.7 SCOPE AND EXTENT OF SAMPLING AND TEST CHECKING

The extent of sampling depends upon the system of internal checks and effectiveness of the internal controls employed by PACS. The minimum control framework for PACS should comprise the following:

- ***segregation and rotation of duties*** to the extent the environment permits and to the extent it is feasible;
- ***authorization of transactions*** by such persons as the secretary and/or the president acting within the scope of authority administratively sanctioned to them by the Act;
- ***maintenance of adequate records and documents*** that ensure that the transactions are recorded at the correct time and in correct amounts and in the accounting period that they relate to;
- ***accountability and safeguarding of assets*** to ensure that the assets of PACS are in the safe custody of the secretary/president and that their existence is confirmed by physical verification and their representation is ensured by correct recording of such assets in the books of accounts.
- ***periodical inspections by the registrar*** as required by the provisions of the Cooperative Societies Act and timely compliance with such inspection findings.

If the internal controls are effective and working well, then the auditors may want to employ different sampling techniques to draw samples for their audit procedures. Otherwise 100% of the transactions may be examined to form an audit opinion. As the internal control environment in PACS is generally perceived to be weak, the following approach is recommended for selecting items for sampling or for 100% verification.

Audit area	Sample size by value		Remarks
	Recommended sample size	All transactions check	
Verification of opening and closing balances		100%	
Testing of new membership and share capital and cessation of members		100%	
Testing of borrowings from DCCB		100%	
Testing of borrowings from others		100%	
Testing of new loans and advances to members from DCCB	30%		
Testing of new loans and advances to members from own/other sources	50%		
Testing of new deposits	30%		
Testing of new investments	30%		
Physical verification of stocks		100%	Once a year
Physical verification of cash and securities		100%	Once a year
Physical verification of assets		100%	Once a year
Verification of borrowers and the assets acquired by them	10%		
Checking of receipts and payments vouchers and postings to ledgers and verification of voucher register	50%		
Checking of ledger balancing		100%	
Reconciliation of sub ledger and control accounts in general ledger		100%	
Checking of classification of loans and NPA provisioning	100%		
Checking of interest on borrowings and loans	50%		
Checking of overdue debts		100%	
Verification of confirmations		100%	
Verification of compliance with byelaws and administrative circulars		100%	
Checking of revenue items of P&L account (sales and other income)	30%		
Checking of expenditure items of P&L account	30%		
Checking grants and subsidies received		100%	
Checking of acquisition of fixed assets		100%	
Checking of depreciation		100%	
Checking of provisioning for expenditure and transfer to reserves		100%	
Review of budget and actual expenditure		100%	
Scrutiny of GL accounts	30%		



## 5.8 SELECTION OF A SAMPLE

Samples must be designed keeping in view the specific audit objectives. It may be useful to consider the technique of Stratification in designing the sample. Stratification is the process of dividing the population into sub populations based on some acceptable characteristics. Each of the sub populations is a sampling unit. Stratification may increase in number of sampling units but may result in smaller sample size.

While the above table is illustrative in deciding the sample size auditors on the field may increase or decrease the sample size based on their professional judgment. However, in determining the size of the sample, auditors should consider the sampling risk, the tolerable error and the expected error that may vitiate the opinion on the whole population.

Sampling risk is the risk of forming an opinion based on a sample that may be different from the conclusion/opinion that would be reached if the entire population were subjected to audit procedures. Size of the sample is affected by the level of sampling risk the auditors are willing to accept. Smaller the risk, the larger the size of the sample. Tolerable error is the maximum error in the population that the auditors would be willing to accept to conclude that the sample has achieved the audit objective. The smaller the tolerable error, the larger the sample size. Expected error is the error is expected in the population which requires selecting a larger sample size to ensure that the actual error, if any, is not greater than tolerable error. If the population is expected to be error free, then smaller sample size should suffice.

Sample may be selected randomly (which ensure that all items have an equal chance of selection); Sample may also be selected using a systematic selection using a constant interval between selections; sample may also be by a haphazard selection provided the auditors attempt to draw a representative sample from the population with no bias towards any item.

## 5.9 AUDIT EVIDENCE AND AUDIT PROCEDURES

The auditors of PACS have to express an opinion on the financial statements audited and such opinion has to be based on audit evidence obtained by performing test of controls and substantive procedures.

- test of controls are designed to test transactions to obtain reasonable assurance that the internal controls are effective;
- substantive procedures are designed to obtain evidence as to the completeness, accuracy and validity of the data produced by Accounting System. Substantive procedures could be (i) test of details of transactions and balances and (ii) analysis of ratios and trends.

Audit evidence is intended to assure the auditor in the following manner:

- audit evidence from tests of controls assures that internal controls are functioning and are effective;
- audit evidence from substantive procedures assures that :
  - that a transaction pertaining to the entity took place and the same is recorded in the proper amount and relates to the correct period;
  - that an asset is rightfully owned by PACS on a given date;
  - that a liability exists as an obligation of PACS at a given date;
  - that the value of an asset or a liability is carried at its appropriate value;
  - that the asset/liability or income/expenditure is disclosed, classified and recognized in accordance with Generally Accepted Accounting Principles;

The source and nature of audit evidence is important in considering its reliability for the purpose of assurance on financial statements. While the assessment of audit evidence should be left the best judgment of the auditors, the following generalization may be useful in understanding the source and its reliability.

- external evidence, like confirmations from third parties, is more reliable than internal evidence;
- internal evidence is more reliable when related controls are effective and satisfactory;
- documents and written representations are more reliable than oral representations;
- evidence obtained by auditors directly is more reliable than obtained through PACS.

Some of the methods that may be employed in obtaining audit evidence are:

- examination of records, documents, inspection of assets- in this connection it is relevant to note that the documentary evidence originating from different sources like (i) from third parties (ii) from the PACS itself but held by third parties (iii) originating from and held by PACS is an acceptable evidence;
- observing a process or procedure being performed by the PACS staff;
- formal written enquiries to third parties; oral enquiries to PACS staff and MC members; confirmations to corroborate the information in the accounting records of PACS;
- checking the arithmetical accuracy of source documents and/or performing independent calculations by auditors;
- computing and studying significant ratios and trends and investigating unusual/unexplained fluctuations.

## 5.10 ANALYTICAL PROCEDURES

### NATURE AND PURPOSE

“Analytical procedures” are the analysis of significant ratios and study of resulting information or fluctuations which appear inconsistent or which deviate from prescribed or predicted ratios. Auditors normally employ analytical procedures at the audit planning stage or at the overall review stage. It may also be necessary to employ these procedures during the course of audit if the available audit evidence requires such procedures.

The purpose of analytical procedures is to:

- help the auditors in planning their other audit procedures and their timing;
- substitute the test of details (substantive procedures) when they can be more effective in reaching an audit opinion/conclusion;
- facilitate an overall review of the financial statements at the time of closing the audit and arriving at an overall conclusion as to the reasonableness of the financial statements and expression of an opinion.

The choice and extent of analytical procedures is a matter of professional judgment and the size and complexity of the PACS. However, these may include any or all of the following:

- **simple comparison** (either absolute or simple averages) of current financial information with the previous year/periods and with the budgets for the year;
- performing a **ratio analysis**, generally done either during the course of audit or at the overall review stage. An illustrative list of performance ratios that need to be studied are given in Table 1;

- **complex analysis** of standard deviations, variance co-efficient, portfolio at risk etc., (however, these are seldom applied in audit of small entities such as PACS);
- **consideration of relationships** between the data – for example, payroll costs to number of employees; acreage financed to growth in agricultural loan portfolio, number of total members to number of borrowing members etc.

The extent of reliance that can be placed on analytical procedures depends on several factors, some of which are:

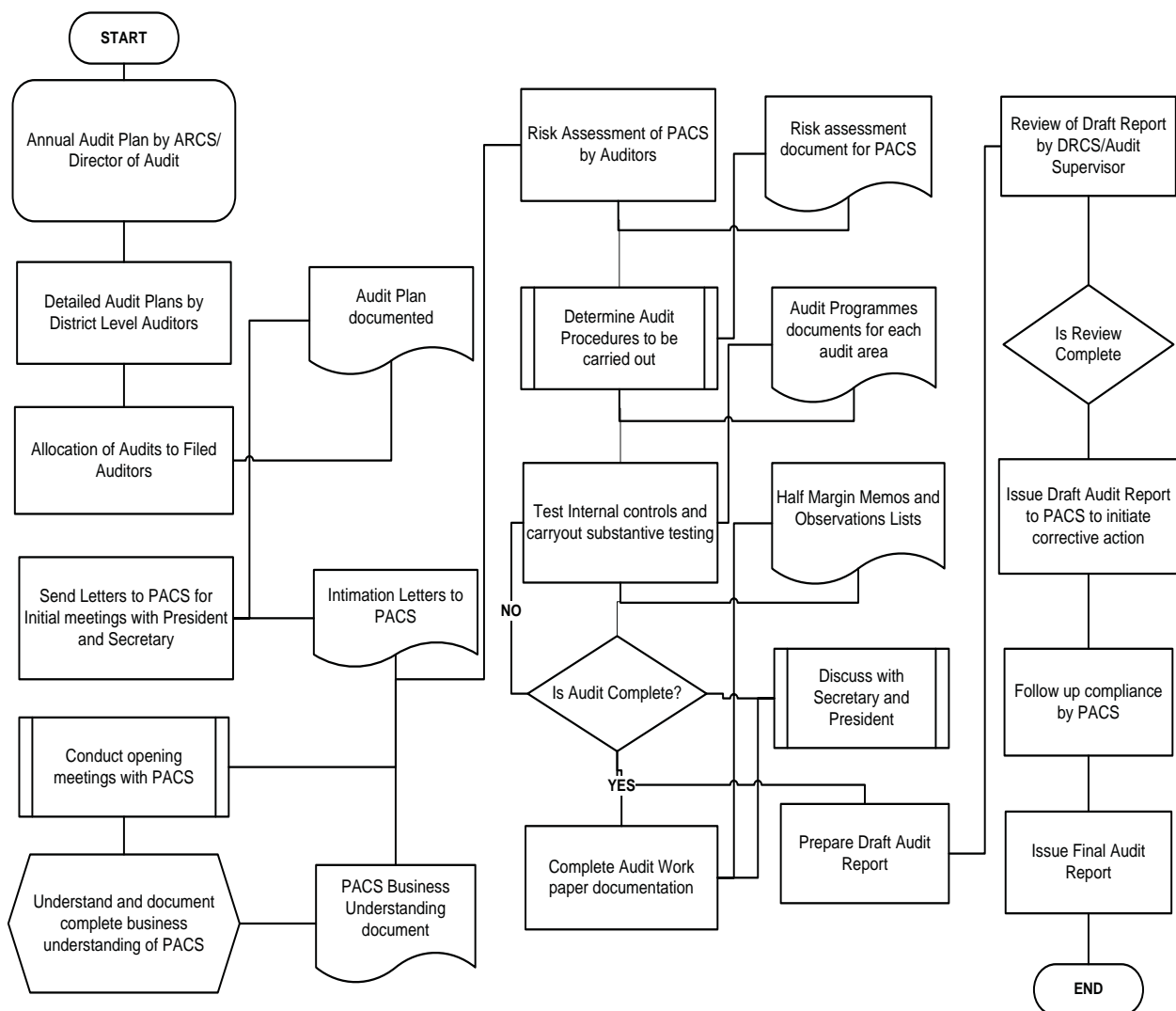
- **assessment of internal controls**, if controls are found to be weak auditors should not rely too much on analytical procedures and instead should perform more of substantive procedures to test the transactions.
- **materiality of the items involved**, for example when testing the loans and advances more of tests of detail should be employed; similarly, when testing interest received in the context of government sponsored large debt reliefs/write offs, test of detail should be preferred; where the expenditure items are small and not individually material, analytical procedures can substitute the test of detail.
- **controls on preparing the MIS**, in a manual or semi manual accounting environment, MIS may not always be as reliable as in a fully computerized environment, therefore, in a manual environment tests of detail should be preferred to analytical procedures.

**TABLE 1: PERFORMANCE RATIOS AUDITOR MAY APPLY IN THEIR AUDIT OF PACS**

S. No	Financial ratio	Formula for computation	Remarks
1	Average yield on assets	(Total interest received/Average working fund ) x 100	Refer <i>Appendix 2 Annual Report –Part B</i> for Working Fund Definition.
2	Average yield on advances	(Interest income from loans & advances / Average Loans and Advances) X100	
3	Average cost of deposits	(Total interest on deposits/Average deposits) X 100	
4	Average cost of borrowings	(Total interest on borrowings/Average borrowings) X 100	
5	Average cost of funds	(Total interest expense/Average working fund) X 100	Refer <i>Appendix 2 Annual Report –Part B</i> for Working Fund Definition.
6	Gross financial margin	Average yield on assets – Average cost of funds	
7	Ratio of non fund Income	(Total non fund Income/Average working Fund) * 100	All income other than interest income is "non fund income"
8	Risk cost	(Provision made for NPA and Standard Assets/ Average working fund) X100	Refer <i>Appendix 2 Annual Report -Part B</i> for Working Fund Definition

9	Net financial margin	{(Gross financial margin+ Ratio of non fund income)-Risk cost}	Compare these ratios over 2 or 3 different years. Unusual increase/decrease to be tested in detail.
10	Transaction cost	(Total cost of management /Average working fund) X 100	
11	Net margin	Net financial margin-Transaction cost	
12	Return on assets	Net profit per P&L/Total assets	
13	Return on equity	Net profit per P&L/Total equity	
14	Return on net worth	Net profit per P&L/Shareholders funds	
15	Ratio of interest earned to interest paid	Interest received/Interest paid	Compare these ratios over 2 or 3 different years. Unusual increase/decrease to be tested in detail.
16	NPA ratio	(Total NPA/Total loans & advances) X 100	
17	Credit deposit ratio	(Total loans outstanding/Total deposits outstanding) X 100	
18	Capital adequacy ratio	(Own funds/Risk weighted assets) X 100	

## 5.11 AUDIT PROCESS FLOW CHART



# 6 Audit Execution - Vouching

## 6.1 OBJECTIVES OF VOUCHING

“Vouching” is examination of documentary evidence supporting and substantiating the transactions recorded in the books of accounts. Vouching is an exercise to verify and establish the accuracy and authenticity of transactions with reliable evidence. The main objectives of vouching are:

- to examine the accounting entries recorded in the books of accounts with supporting documentary evidence known as vouchers;
- to examine the authenticity of the transactions recorded in the books of account;
- to examine the adequacy and reliability of documentary evidence;

## 6.2 GENERAL CHECKS TO BE APPLIED WHILE VOUCHING

- all vouchers should necessarily contain (i) account head/account code.(ii) date of transaction (iii) amount (if there is any overwriting, it should be authenticated by the secretary/president of PACS or other authorized personnel) (iv) name of party and (v) quantities wherever applicable; supporting bills, receipts to vouchers should be in the name of PACS;
- vouchers should be serially numbered; they may either be manually numbered or machine numbered; In a computer environment, the vouchers are serially numbered by the programme itself;
- proper authorization of vouchers and supported by necessary external and/or internal documents;
- in case of payment vouchers check whether the cheque/demand draft or pay order number is duly specified;
- check whether the transactions fall within the accounting year under audit;
- check the sequence of transactions to verify that no entry has been inserted in between. For this purpose, the vouchers numbers and their dates should be properly checked;
- verify the totals and sub-totals for accuracy;
- also verify the succeeding year’s vouchers to ensure that no transaction relating to current year is recorded in the succeeding year;
- list out items remaining unticked after the vouching is complete; list out the missing vouchers and these should be reported as part of deviations observed;

- vouchers should relate to the business of the PACS; Expenditure for which payment has been made should not be ultravires the Act or the bye laws.

## 6.3 AUDIT EXECUTION - VOUCHING OF RECEIPTS

Cash audit, also known as verification of receipts and payments is one of the major components of examination process in an audit. Vouchers may be in different forms such as (a) cash receipts (b) adjustment receipts (c) sales bills/invoices or chits (d) counterfoils of cheques (e) pay in slips (f) fixed deposit receipts (g) acknowledgement of money orders (h) bank pass books or account statements. The procedures for carrying out vouching of receipts with cash/bank book are:

### 6.3.1 OPENING BALANCE

- verify the opening balances from the closing balances of the cashbook of the previous year and the balances shown in the audited balance sheet of the PACS;
- examine whether the opening balances are duly entered in correct columns.

### 6.3.2 INTERNAL CHECKS FOR CASH/BANK VOUCHING

- cash receipt should be acknowledged by a printed receipt duly signed by secretary or other responsible official of PACS;
- cashier should not have access to general ledger and loan and deposit ledger;
- cash receipts must be booked daily; cash receipts should not be cancelled in the normal course, where there are cancellations, they should be done by the highest authority of PACS;
- if cash is received by any field level officer of PACS, three copies of the receipts should be prepared and cash should be deposited either on the same day or the next day along with one copy of the receipt;
- unused receipt books should be in the control of secretary or other authorized official of the PACS;
- cash receipts should be sequentially numbered;
- field level officers should deposit collections in full, without adjusting any expenses there-from. Any expenditure met by them shall be separately claimed;
- number of receipt slips in each receipt book shall be counted by the cashier and certified by the cashier and secretary before using receipt book;
- signature of the payee should be taken on the receipt; original receipts should be issued to the party.

### 6.3.3 CASH SALES/LOAN RECEIPTS

- if cash is received against outstanding loans, verify the receipt issued and verify that the summary of such receipts agree with the total loan receipts recorded in cash book;
- in case of sales, verify the cash sales summary book with carbon copies of the sales memos;
- verify that the daily totals of the sales and loan summary book agree with total cash sales/loan receipts recorded in cashbook;
- check whether the cash is deposited everyday into the bank. Verify the pay-in-slips;
- if cash memos are cancelled then its original copy should be verified;

- if cash discounts are granted, verify discounts are authorized by the secretary/authorized personnel of PACS.

#### 6.3.4 RECEIPTS FROM DEBTORS/CREDIT SALES/LOAN RECEIPTS

- verify the counterfoil or carbon copy of the receipt issued to customer;
- ensure that the receipts are serially numbered;
- verify that the unutilised receipt books remains in the custody of a responsible official;
- in case where any discount is allowed on receipt of amount from debtors, ensure that such discount is granted as per the policy of the PACS and is duly authorized by secretary of PACS/other authorized personnel;
- where cheques are received and accounted, check if the amount has actually been realized;
- if a cheque is dishonoured, ensure that the debtor was properly informed and payment received either by cash or demand draft or a fresh cheque.

#### 6.3.5 RECEIPTS AGAINST SHARE CAPITAL

- verify receipts issued to members for capital received, admission fees etc against the entries in the cash book. Each entry should be checked with the relevant receipt;
- ensure that the admission fee is not clubbed with share capital;
- verify resolutions of the management committee in the minutes books for the number of shares allotted and admission of members to ensure that the shares are allotted against cash receipts by the appropriate authority;
- trace the day book summary of cash receipts with share capital account and the member registers;
- where applicable, check and verify if there are any receipts from DCCB for withdrawal of share capital to ensure that there is no withdrawal of capital from DCCB.

#### 6.3.6 RECEIPT OF LOANS AND ADVANCES

- check PACS byelaws to ensure it has power to borrow money from different sources;
- verify the loan agreements and also vouch the receipt of money (necessary credits) from the receipt/ other acknowledgement issued to lender;
- check and verify that the entries for interest accrued and due or interest accrued but not due, are correctly made in the books.

#### 6.3.7 BAD DEBTS RECOVERY

- verify the entries in the cash book/bank book with vouchers and with the receipts issued to borrowers/debtors;
- trace the entries in the cash book to the loan accounts of the members from whom the recovery was made.

#### 6.3.8 RECEIPTS FROM SALE OF FIXED ASSETS

- verify from the minute book of the management committee meetings if the sale of fixed assets and the sale value was authorized by the committee/other appropriate authority of PACS;



- verify if the sale of asset/s is in the interest of PACS and is not detrimental to PACS business; verify if the sale price agreed is not detrimental to interests of PACS;
- verify the receipts issued to the party with the entries in the cash book/bank book to ensure that cash/cheque has been received from the party;
- check if the fixed assets account has been duly credited and cash amount has been debited with amount for which the assets have been sold;
- verify the depreciation account of the asset sold to ensure that it is properly booked and adjustment for profit/loss on sale of fixed assets was properly made.

### 6.3.9 SALE OF INVESTMENTS

- verify the minute book of the management committee to ensure that sale of investments is properly authorized and is in the interests of PACS;
- verify the sale proceeds with reference to the DCCB advice or other Agent's sold note or advice and the receipt issued to the buyer; verify the sale price is appropriate in the given circumstances;
- verify that the profit or loss on the sale of investments is correctly adjusted in the accounts;
- if the investments relate to any earmarked fund, check that the profit or loss on sale of investments is duly transferred to that fund.

### 6.3.10 RECEIPT OF RENT

- verify the receipt of rent with supporting documents like rent receipts issued to the tenant and with reference to the rental agreements signed with the tenant;
- trace the entries in the cash book to the ledger account;
- if rent was received in advance check if it is duly credited to 'rent received in advance account' and not to rent account. In the following month/year vouch reverse entry;
- check accrual/receivable entries in respect of rent outstanding with reference to the agreements. In the following year reverse entries should be checked.

### 6.3.11 COMMISSION RECEIVED

- obtain a list of names of parties from whom the commission is receivable and also the rate of commission in each case. If there is no such list, prepare one for the purpose;
- verify the commission received from the copies of the receipts issued to the parties;
- if commission has become due but not received, check if necessary entries are passed in the books for commission due but not received.

### 6.3.12 INTEREST RECEIVED FROM BANKS

- verify the entries with reference to the advice received from bank/s. Trace the cash book/bank book entries with ledger accounts;
- check the calculation of the interest to ensure that it is correctly received;
- for interest that has become due and not received, check the respective accounts with bank advices and ensure that necessary entries are passed for accruals.



### 6.3.13 INTEREST RECEIVED FROM MEMBERS/PARTIES TO WHOM LOANS ARE GIVEN

- check that the rate at which interest is received from the borrower is as per the terms and conditions of the loans sanctioned;
- verify the vouchers with reference to receipts issued and/or credit to the parties accounts; trace the entries in the cash book with parties account and transfer to interest received account;
- check that the interest is correctly credited to the interest account and the corresponding debit is raised to the cash/bank account;
- if interest is received by a cheque ensure that the cheque is actually realized;
- when interest is received along with a loan instalment, ensure that the interest component is segregated and credited to the interest account.

### 6.3.14 RECEIPT OF DIVIDENDS

- check that the dividend warrant is in the name of the PACS;
- verify the entries in the bank book with reference to the dividend warrant;
- check that the dividend was actually realized.

## 6.4 AUDIT EXECUTION - VOUCHING OF PAYMENTS

Payments are generally supported by (i) payment/debit vouchers (ii) acquittance register (iii) muster rolls/wage bills/pay sheets/invoices/bills/receipts (iv) fixed deposit receipts (v) loan documents and loan receipts (vi) tax register and tax challans (vii) treasury challans etc.

### 6.4.1 INTERNAL CHECKS REQUIRED TO BE VERIFIED

- voucher and its content should relate to the business of PACS; personal expenditure of PACS personnel should not be paid by PACS;
- the payment should relate to the period of audit;
- duplicate vouchers should not be allowed in the system; if there exists a duplicate voucher it must be ensured that the approval of the highest authority of PACS is taken on the voucher;
- cashier should not authorize the payments;
- cheques must be crossed “account payee” and must be in the name of the party shown on the voucher; the names on the voucher and on the cheque should not differ;
- voucher must show the correct account head to which the debit/credit should be posted;
- vouchers should contain appropriate narration to describe the nature of payment;
- if voucher relates to prior period expenditure, it should be clearly stated so on the voucher with approval from the highest authority of PACS;
- all vouchers should have the “receiver’s signature” on them or a receipt from the payee must be collected and attached to the voucher.

### 6.4.2 CASH PURCHASES

- check that purchases are duly authorized by authorized personnel of PACS. This authorization should either be evidenced by “passing” the voucher or certifying the supporting bills/invoices etc for payment;

- check cash payment entries with reference to supporting documents like bills/invoices/receipts etc.;
- check cash purchases by reference to cash memos or receipted bills and goods inward book;
- trace the entries in the cash/bank books with purchase ledger and trace the summary of purchase ledger to the purchase account in the general ledger.

#### 6.4.3 CREDIT PURCHASES AND PAYMENTS TO CREDITORS

- check that purchases are duly authorized by authorized personnel of PACS. This authorization should either be evidenced by “passing” the voucher or certifying the supporting bills/invoices etc for payment;
- verify purchase vouchers with goods inward books and invoices;
- verify the payments to creditors with reference to the receipts issued by the creditors, invoices raised by them and the ledger account of the party to ensure that the payment was correctly identified and posted;
- check the statements of account from creditor;
- in case of incorrect payments (other than the amount to be paid as per the bill) inquire into the reasons therefore and ensure recovery of excess amounts paid. This should form part of audit observations.

#### 6.4.4 PURCHASE OF FIXED ASSETS

- verify the vouchers with reference to purchase order, goods received note and invoice received from supplier. Ensure vouchers are authorized by the authorized personnel of PACS;
- check that the payment did not exceed the invoice amount;
- check that the bills/receipts are in the name of PACS;
- if immovable property is purchased in the name of PACS, check that the agreement is in the name of PACS and is signed by its authorized representative; check if the asset is required by PACS for its business activities;
- in case of purchase of immovable property or high value movable assets, check the minutes book of the management committee to ensure that the asset purchases are properly authorized.

#### 6.4.5 PURCHASE OF INVESTMENTS

- check the minutes book to ensure that the approval of the management committee was obtained for purchase of investments; ensure that the purchase is in the interest of PACS;
- verify the vouchers with supporting documents like receipts, advice from bankers/brokers, invoice/trade notes from the seller of investments;
- verify the investments physically; where investments are held by bankers obtain a bankers’ certificate in this regard.

#### 6.4.6 MEMBERS LOANS AND ADVANCES

- check the minutes book of the management committee meetings and the resolutions passed to verify the sanction of the loan and also the individual maximum borrowing power (IMBP);
- ensure that the loans are given through cheques and/or credit to Members’ savings accounts and not in cash;

- cheque the voucher/receipt obtained from the members with the cash book entry and the members' loan register;
- in case of agricultural loans, check that the individual sanction does not exceed the maximum fixed by the DCCB or the DLAC for the crop preferred by the members;
- check that charge is created over the agricultural/other land of the borrowing members in land revenue records by obtaining appropriate forms;;
- ensure that the loan application for LT loans is properly scrutinized by the PACS with respect to the asset to be bought and the ability of the member to payback. Also check the track record of repayment and past NPA (if any) of the borrower; ensure that there are no restrictions on such advances;
- examine the loan documentation – loan application, loan sanction, bond executed by the member for mortgaging the property/hypothecating the goods, title clearance report/s, non-encumbrance certificates, fulfilment of loan conditions and encumbrance certificates to satisfy that loans are properly sanctioned and appropriate security obtained;
- verify that the amount of loan does not exceed the value of security;
- verify a few loans by contacting the borrowers directly and verifying their passbooks, signatures, asset bought with the loans and/or crop raised by the borrower.

#### 6.4.7 REPAIRS TO ASSETS

- check that the repairs are undertaken on the basis of permission of authorized personnel of PACS and the management committee;
- verify that repairs of capital nature are not debited to the profit and loss account and that the amount is included in the cost of assets.

#### 6.4.8 COMMISSION TO AGENTS

- if commission is paid or payable, check that the rate of commission is as per the terms and conditions of the purchase or work order as well as the correctness of the amount;
- check that the commission is properly authorized by the authorized personnel of PACS;
- verify the payment of commission by reference to the receipt given by the agent.

#### 6.4.9 TRAVELLING EXPENSES

- examine the policy of PACS in respect of reimbursement of travelling expenses;
- check the payment voucher with reference to documentary evidence produced such as tickets, hotel bills and other receipts;
- check that the expenses are reimbursed on the basis of approval of the appropriate authority and that it is in accordance with the policy of the PACS;
- in case any advance is given to employees, check whether such advance has been appropriately adjusted.

#### 6.4.10 INCOME-TAX AND TDS REMITTANCES

- check the accounting year for which the payment has been made;
- check whether the payment is advance tax payment or payment on the final assessment;
- check the receipted challans for payment;

- check the assessment order, wherever applicable;
- check the orders on appeals, if any;
- check that the ledger accounts for payment of income tax are maintained separately for different accounting years;
- check whether the interest on belated payment of income tax is properly recorded;
- check that the TDS was properly deducted, accounted and remitted to government on due dates.

#### 6.4.11 SALES-TAX/VAT

- check the payment challan in support of the payment voucher;
- check the assessment order where the assessment has been completed;
- check the returns and verify the calculations in order to ensure the correctness of the amount paid;
- check if all input credits as may be eligible were taken and the amount remitted to the government was computed after taking into account all such credits.

#### 6.4.12 FEES/COMMISSION/EXPENSES OF THE MANAGEMENT COMMITTEE MEMBERS

- check if the members of the management committee are eligible for such payments in terms of the Act and bylaws of the PACS; verify the resolutions passed by the committee in this regard;
- check the minute book to find out the amount payable and to whom it is payable;
- check the minute books to ensure that the director member has actually attended the meeting;
- check correctness of the amount paid and that the voucher is duly supported by a receipt.

### 6.5 AUDIT EXECUTION - VERIFICATION OF REVENUE

#### 6.5.1 REVENUE

Revenue is the gross inflow of cash, receivables, or other consideration arising in the course of ordinary activities of the PACS from its lending activities, the sale of goods and from rendering of services. Revenue is measured by the charges made to members/customers for loans given, goods supplied and services rendered to them and by the charges and rewards arising from the use of its resource by them.

#### 6.5.2 AUDIT EVIDENCE

Obtain sufficient and appropriate audit evidence to corroborate the financial statements disclosures:

- **occurrence** - that revenue recorded in books of accounts arose from transactions that took place during the relevant period and pertain to the PACS being audited; the revenue is not from activities that are ultravires to bylaws of PACS;
- **completeness** - that there is no unrecorded revenue for the period under audit;
- **measurement** - that proper amount of revenue is recorded;
- **disclosure** - that revenue is disclosed, classified, and described in accordance with the Generally Accepted Accounting Policies.

### 6.5.3 INTERNAL CONTROL EVALUATION

- evaluate the system of internal controls relating to revenue to determine the nature, timing, and extent of audit procedures;
- review the procedures relating to generation and recognition of revenue including authority to fix interest rates, prices, offer discounts.

### 6.5.4 VERIFICATION OF REVENUE

Verification of revenue may be carried out by employing the following procedures:

- examination of records, and
- analytical review procedures.

### 6.5.5 EXAMINATION OF RECORDS

- examine whether the revenue was recognized in accordance with Indian GAAP;
- verify if there are adequate cut-off procedures to ensure that revenue relating to the period under audit is fully recognized and that revenue not relating to the period under audit is not recognized;
- prepare/obtain a list of interest received on loans and advances. Verify a sample of selected entries or all entries in the loan ledger (interest and loan accounts) with cash/bank book and general ledger to ensure that interest is correctly recorded;
- select a sufficiently large sample of entries in the loan ledger accounts and verify them with supporting documents like loan agreements, security provided by the borrower and interest rates to ensure that interest is properly charged and accounted in the books of accounts;
- if EMIs are received from the borrowers, verify and ensure that the interest portion of EMI is correctly calculated and credited to Interest Account;
- examine the delivery challans, lorry receipts, railway receipts etc (dispatch documents) relating to a few days before the year-end and verify that the related sale invoices have been recorded as sales of the current year;
- verify a sample of entries in the sales journal/sales register with their supporting documents like sale invoices, dispatch documents, and other supporting documents such as the customers' orders, credit approval notes, etc.;
- examine and ensure that the price charged on sales were as per the authorized price lists or if there are no price lists, as per the appropriate approval of authorized personnel of PACS;
- trace selected entries in the sales journal/sales register to the customer's accounts in the general ledger;
- if there are sales returns, verify selected entries in the sales return journal/sales register with supporting documents like goods returned notes, credit notes, and entries in the customer's accounts;
- in respect of revenue in the form of fees, commission, brokerage etc arising from services rendered examine the related agreements to ensure that such revenue is correctly recognized in the books of accounts;
- examine interest received from various sources a few days after the date of balance sheet to identify unrecorded revenues.

## 6.5.6 ANALYTICAL PROCEDURES

Analytical procedures that may be helpful in the audit process to strengthen the audit assertions are:

- comparison of interest revenue by type of loan for the current year with the corresponding figures for previous 2 years; similarly, comparison of other revenue for the current year with the corresponding figures for previous 2 years;
- comparison of net interest income (NII= total interest received –total interest paid) for the current year with the corresponding figures for previous years;
- comparison of net interest margin (NII-expenditure related to loaning business) for the current year and previous two years;
- comparison of sales margin and discounts (if any) for the current year with corresponding figures for previous years;
- comparison of product wise quantities sold (for major product sales) during the current year with corresponding figures for previous years;
- comparison of interest income received for the current year with the corresponding figures for previous years;
- comparison of ratio of income on deposits and investments to average investments for the current year;
- comparison of ratio of salaries and wages to total sales and deposits for the current year and for two previous years;
- comparison of ratio of overall expenditure of PACS to its working capital for the current year and for previous two years.

## 6.6 AUDIT EXECUTION – VERIFICATION OF EXPENDITURE

“An expense is a cost relating to the operations of an accounting period or to the revenue earned during the period or the benefits of which do not extend beyond that period. The expression “cost” means the amount of expenditure incurred on or attributable to a specified article, product, or activity.”<sup>5</sup>

Cost or expenses may be directly related to the revenue recognized (like the consumption of materials or carriage in, carriage out etc) or indirectly related such as salaries, telephones, printing and stationery, etc.,

While auditing the expenses, the auditors need to establish the following:

- that the expenses relate to PACS and arose from the events relating to the period under audit;
- that all expenses are fully recorded and that there are no unrecorded expenses;
- that all expenses are recorded in proper and correct amounts;
- that all expenses are sanctioned by appropriate authority of PACS; and
- that all expenses recorded adhere to the norms, if any, and are in accordance with the guidelines prescribed by the CS Act and/or NABARD;
- that the expenses are recognized, classified and disclosed in accordance with Indian GAAP.

<sup>5</sup> Guidance Note on Audit of Expenses published by the Institute of Chartered Accountants of India.

### 6.6.1 EVALUATION OF INTERNAL CONTROLS

The auditor should assess the following aspects:

- existence of budgets as recommended by the management committee and approved by the appropriate authority such as the affiliated DCCB/the RCS;
- written policy/procedures for initiating and recording the expenses;
- expenditure authorization procedures/delegation of powers to various personnel of PACS for authorization of expenditure;
- procedures including the cut off procedures followed to recognize the expenses in the books of accounts;
- periodical analysis of budgets and actual expenditure.

### 6.6.2 VERIFICATION OF EXPENDITURE

The extent of audit procedures to be employed depends upon the effectiveness of internal controls in the Society. However, generally audit procedures consist of:

- examination of supporting records and documents;
- analytical procedures.

### 6.6.3 AUDIT PROCEDURES FOR MAJOR HEADS OF EXPENSES

*Annexure 9* covers an illustrative audit programme for audit of expenses. Audit procedures for some of the significant and major heads of expenditure that may be common to several or all PACS are detailed below:

#### PURCHASES AND PURCHASE RETURNS

- select a sample of purchase transactions from the Purchase Journal/Register (or 100% of all transactions if circumstances so warrant) and verify them with (i) relevant purchase order (ii) purchase invoice (iii) material/goods receipt note (iv) copy of delivery challan/notes received from supplier/s;
- examine that all purchases are properly authorized as per the delegations of powers in force;
- trace the selected sample of transactions to the suppliers/creditors accounts in the ledger. (applicable for credit purchases);
- examine if all taxes and costs incurred in connection with the purchases are included in purchases unless the input credits are availed by PACS;
- if the suppliers have passed on any discounts examine if the same are deducted from purchases;
- select a sample of material/goods received notes and verify the same with purchase invoices and purchase journal/register;
- select a sample of purchase returns transactions (or 100% of all returns if circumstances so warrant) and examine the same with material/goods returned notes, debit notes and supplier accounts;
- select a sample of debit notes issued and verify the same with material/goods returned notes and entries in the purchase return journal/register;
- verify a sample of goods received notes/bills received after the balance sheet date to ensure that purchases are accounted in the correct accounting year;
- verify all payments made to suppliers immediately after the balance sheet date to ensure that the corresponding purchase entries, if any, are properly recorded in the books of accounts.



In addition to the substantive audit procedures as above, the auditors should also employ analytical procedures as below:

- quantum and value of purchases of the current year with the previous year should be compared and explanations sought for large variances;
- ratio of purchase returns to purchases of current year and previous year should be compared and explanations sought for large variances;
- gross margin on sales of current year with that of previous year should also be computed and analyzed to verify correctness of purchases recorded.

## TRADING EXPENSES AND/OR CONVERSION COSTS

- identify from the trading and manufacturing account significant expenses for detailed verification. (selection of individual items may be based on their ratio to sales – say expenses above 3% (or such other percentage as auditor may find it necessary) of sales may be selected for detailed verification);
- select a sample (or 100% if required) of transactions in each head of expenditure selected as above and examine the same with supporting documents like invoices, requisitions, receipts, work certification certificates, etc., Trace the same to the entries in the respective ledger accounts;
- examine that the expenditure is authorized as per the delegation of power in force;
- compare the individual items of expenditure with that of previous year costs and seek explanation for large movements;
- compute the ratio of individual and significant expense items to total trading expense/manufacturing cost for the current year and compare the same with those of the previous year; seek explanations for large and material variances.

## SALARIES AND WAGES

- obtain/prepare a list of employees of PACS, whether employed on full time or part time or on contractual basis; also obtain a list of contract labour, if any employed by PACS during the year;
- if a wage/payroll sheet is prepared for disbursement of salaries, verify the entries relating to basic and allowances in the payroll sheet with the list of employees and records in individual employee files for the PACS like Service Book, Leave Register etc.
- verify the payroll/wage sheet data or if wage sheets are not prepared, the individual entries in the ledger account with time and attendance records and leave records to ensure that salary/wages are paid only for days worked;
- if the statutory provisions of the ESI/PF Act are applicable, ensure deductions on account of the same from individual payments; verify the remittance of those deductions with ESI/PF challans;
- if the provisions of Minimum Wages Act apply, verify that the wages/salaries paid comply with those provisions;
- in case of payment of wages to casual labour, ensure sanction of secretary/president or other authorized persons of PACS for employment of casual labour and disbursement of their wages;
- if labour contractors are employed, examine the contracts and compliance with the terms of such contracts; statutory deductions for taxes, PF, ESI on contract labour should also be verified with individual payment entries in the ledger; verify the contract labour attendance records to ensure wages are paid for the actual work done;
- in case of new employees during the year under audit, examine the sanction of appropriate persons for appointment; appointment letters and offer letters if any;



- examine that employee who retired or left the service of PACS have not been included in the payroll/wage sheets of PACS;
- compare the salaries/wages of current year with that of previous year and enquire into large increases if any;
- compute the salary to total cost/salary to sales ratios and compare the same with corresponding figures of previous years; inquire into large adverse variances if any;.
- Examine whether the expenditure incurred by PACS are in accordance with norms recommended/prescribed by NABARD/RCS.

## ESTABLISHMENT AND GENERAL ADMINISTRATIVE EXPENSES

- identify from the profit & loss account significant expense items for detailed verification. (selection of individual items may be based on their ratio to sales or gross profits – say expenses above 3% (or such other percentage as auditor may find it necessary) of sales may be selected for detailed verification); such expense items may be rent, rates, travelling, telephones, printing & stationery etc.,
- select a sample (or 100% if required) of transactions in each head of expenditure selected as above and examine the same with supporting documents like invoices/bills, requisitions, receipts, work certification certificates, etc., Trace the same to the entries in the respective ledger accounts;
- examine that the expenditure is authorized as per the delegation of power in force;
- compare the individual items with corresponding figures of the previous year;
- compute the individual expense to total cost ratios and compare the same corresponding figures of previous year; seek explanations for adverse variances;
- examine to ensure that personal expenses are not included in any expenditure head.

## INTEREST EXPENSES (ON DEPOSITS AND BORROWINGS)

- select a sample of interest transactions (or 100% of all transactions if circumstance so warrant) and check the same with the reference loan documents and interest rate specified in deposit/borrowing documents;
- verify the resolution of the management committee for loans/deposits accepted by PACS, particularly with reference to interest rates, securities to be provided and other financial terms and examine if these terms are complied with;
- interest on fixed deposits and savings accounts should be checked with the reference interest policy of PACS; also examine no interest is paid on current accounts;
- examine that interest is provided on all deposits and borrowings up to the balance sheet date; also examine if interest is provided on overdue deposits;
- work out the weighted average rate of interest paid and compare the same with average interest rate on different types of deposits and inquire into material differences, if any;
- compare the average rates of interest paid with the corresponding rates of previous years and enquire into any disproportionate movements;
- prepare/obtain a list of overdue/matured deposits and examine if the interest on the same is provided for in the accounts;
- interest paid to DCCB on borrowings should be verified with DCCB records (or confirmations) and the loan agreements;
- imbalances in interest and loan balances between DCCB and PACS should be properly enquired into and noted.

## DEPRECIATION

- prepare/obtain a schedule of fixed assets as on the date of balance sheet;
- verify that all additions/transfers made during the year have been correctly included in the schedule;
- examine the rate of depreciation and method of depreciation is consistently applied; any change in the depreciation policy should be suitably disclosed in the financial statements; if rates are prescribed by Cooperative Society Act, such rates should be applied; otherwise rate applied should enable writing off the assets during its reasonable working period;
- check the calculation of depreciation;
- compare the depreciation charged for the current year with corresponding charge for the previous year; identify reasons for large variations, if any;
- ensure that the accounting for depreciation is in accordance with the Indian GAAP.

## 6.7 AUDIT EXECUTION- VERIFICATION OF CASH AND BANK

### 6.7.1 VERIFICATION OF CASH

- carry out physical verification of cash on the last day of the financial year and/or on a surprise basis during the course of audit after the date of balance sheet and ensure it tallies with the cash book balance; obtain explanations for differences if any;
- check that cash is physically verified by the secretary or other responsible official on a surprise basis during the year;
- verify that the entire petty cash in hand is deposited with the cashier on the last day of the financial year;
- if PACS has the practice of paying cash on IOUs or other similar documents check that these are settled and posted in the cash book within 24 hours; obtain necessary explanations for IOUs;
- verify and ensure that post-dated cheques on hand on the date of the balance sheet have not been accounted as collections during the period under audit;
- ensure cash on hand and in transit is adequately insured.

### 6.7.2 VERIFICATION OF BANK BALANCES

- obtain and verify balance confirmation letters from banks where PACS maintains its accounts; also obtain and verify from the affiliated DCCB confirmatory letters for all accounts held by PACS;
- examine the bank reconciliation statement prepared for March and April of the following year and ensure that there are no unexplained debits/credits; ensure there are no outstanding cheques for unusually long periods;
- check and verify that post-dated cheques, if issued, have not been accounted for as payments during the period under audit;
- verify that cheques issued on the last few days of the month of March have all been cleared; if they remain unpaid/uncleared obtain necessary explanations;
- examine the FDRs duly supported by bank advises to ensure these are correctly reflected in the financial statements;
- ensure that all stale cheques at the close of the financial year were either cancelled and/or accounting entries reversed.

### 6.7.3 CASH AND BANK BOOK VERIFICATION – RECEIPTS AND PAYMENTS

- match the opening balances with cash book;
- check if the cash collections for the day are duly deposited in the bank the next day or within such time as the management committee has prescribed;
- check if the cash book is balanced monthly and ensure that the cashbook always has a positive balance. Check the balance at the end of the day for different days at random and ensure that the cash book is closed daily and balances carried over to next day;
- check if cash book entries and the closing balance are periodically checked by the authorized officials of PACS and ensure proper authentication of entries at regular intervals;
- if there are heavy cash balances, ascertain reasons; also check substantial cash withdrawals, if any;
- check daily transfers from petty cash book to cash book and vice versa;
- check if bank reconciliation is done at the end of every month;
- check entries in bank reconciliation statement with clearance in next month/s;
- list out all entries appearing in the bank statement but not appearing in bank book to pass necessary rectification entries;
- check bank interest and ensure that it is entered in the bank book;
- check whether the contra entries appear on the same dates for cash withdrawals and cash deposited.

## 6.8 AUDIT EXECUTION - OTHER AUDIT PROCEDURES

### 6.8.1 VERIFICATION OF OPENING BALANCES

Audit procedures begin with verification of opening balances. For the purpose, the auditors should do the following:

- match the opening balances of all ledger accounts with the previous year's audited balance sheet figures. To verify the opening balances the following ledgers should necessarily be checked:
  - general ledger;
  - debtors' ledger (if any);
  - creditors' ledger.(if any);
  - deposit ledger;
  - loan ledger;
  - other subsidiary ledgers (if any)
- opening balance of cash should be matched with the cash book maintained by the PACS;
- opening balance of stock should be matched with the stock register.

Differences in opening balances, if any, should not be “corrected” by overwriting unless these are clerical errors (i.e. for e.g. instead of writing Rs. 650/-, the auditee has written Rs. 560/-). Similarly, the audited balance sheet of the previous year should also not be amended to correct the mistake. The correct way is to pass a necessary journal entry to rectify the mistake in the opening balances.

### 6.8.2 SALES BOOK VERIFICATION

- verify sales invoices with delivery challans with corresponding entries in sales book;
- verify if the stock registers are updated with corresponding entries for sales;
- check whether the rates at which sales have been made are according to price lists approved by the Management Committee/authorized persons of PACS. In case of variations, if any, ascertain the reasons therefor;
- verify if sales returns are duly accounted and stock adjusted;
- if goods are sent on approval basis or on consignment basis ensure these are not recorded as sales but recorded separately in a “sales on approval account” or “sales on consignment account”;
- tally the total sales as per sales register and sales account with the sales disclosed in sales tax returns;
- reconcile sales tax collections with sales tax payments and ensure that the balance is transferred to appropriate accounts;
- verify the adjustments of sales tax set-off with relevant journal entries.

### 6.8.3 PURCHASE BOOK VERIFICATION

- verify purchase book entries with delivery challan quantities, related invoices and purchase orders (if any);
- check the rate at which purchase orders have been booked and ensure those rates are approved by the management committee/authorized persons of PACS;
- verify the invoices and delivery challans with stock records to ensure all quantities are duly recorded in the stock records;
- list out purchases mentioned in the invoices for which there is no corresponding entry in stock record;
- verify if the ‘goods received notes’ (GRN) are properly correlated with purchase invoices and purchase book entries;
- verify if the discount shown in the invoices is properly accounted for in the books of accounts;
- check if the purchase returns are accounted correctly and stock duly adjusted;
- in respect of goods in transit, verify the delivery notes and corresponding bills to confirm that purchases are recorded correctly.

### 6.8.4 JOURNAL VOUCHING

- verify if all journal vouchers are properly authorized by the authorized persons and are duly supported by appropriate documents, state the correct head of accounts and carry appropriate narration;
- if Journal entries are posted to write off debit balances or write back credit balances verify whether the management has duly authenticated all these entries;
- if there are entries relating to earlier or subsequent period, check for their authenticity.

### 6.8.5 SALARY/WAGES

- verify salary sheets with the payments in cash book / bank book or journal;
- check attendance with time card or master register maintained by the PACS;
- verify if statutory deductions in respect of (i) provident fund (ii) ESI (if applicable) advance recovery (if any), Income tax (if any) have been correctly made;

- check overtime (OT) payments with attendance registers and the rules of the Society;
- if provisions of the Minimum Wages Act and/or Payment of Bonus Act are applicable check whether they have been duly complied with; also check correctness of computation of incentives;
- list out incentives and check if they are authorized by authorized persons and agree with the entries in relevant sales/loans registers;
- if there are payments to contractors or casual workers check if these are properly authorized; check the same payments with labor attendance record and payments in the cash book. Also check whether statutory deductions have been duly made;
- tally staff advances accounts with their respective salary accounts and check whether adjustments have been made on time;
- check increments with approvals/relevant agreements, if any.

### 6.8.6 STOCK RECORDS

- check the opening stock as per stock register with previous year's inventories and audited balance sheet;
- check the receipts of materials with GRN and invoices;
- check issues in the stock records with materials issued note;
- trace closing stock with physical inventory sheets;
- materials given/received to/from others for processing should be checked with corresponding receipt/dispatch of processed goods and goods in process;
- check whether the materials given or taken on loan have been properly accounted for and proper records have been duly maintained;
- check if obsolete and damaged items have been properly identified;
- tally year-end stock inventories with statements submitted to bank;
- check daily production with reports / excise records.(only for those PACS with production activities);
- reconcile opening stock, production if any, sales and closing stock;
- verify the basis on which the PACS has valued its inventories.

### 6.8.7 CAPITALIZATION OF ASSETS/EXPENSES

- check additions to assets with account heads and approvals of the Management Committee. While verifying, check to ensure that expenditure not related to the asset has not been capitalized;
- if interest is paid on loans for assets, check if interest relating to those assets is capitalized in accordance with accepted accounting practices;
- if assets were sold/disposed of, check if prior approval of the appropriate authority was obtained and the sale is properly recorded in the books of accounts;
- where the advances given to contractors are transferred to relevant asset account, check if such transfers are done after the asset was installed; also check if the security deposit has been withdrawn or adjusted;
- if expenses relating to assets have been capitalized, ensure that proper approval has been taken for such expenses and the same are not debited to profit and loss account.

### 6.8.8 POSTING

- check ledger posting from the following records:  
(a) day/cash book; (b) bank book. (c) sales register; (d) purchase register (e) deposit Ledger; (f) loans ledgers (g) debit notes and credit notes; (h) journal and (i) any other principal book;
- make a list of items remaining unticked and find out the reasons for the same.

### 6.8.9 LEDGER SCRUTINY

- following ledgers should be scrutinized:  
(a) general ledger; (b) debtors' ledger; (c) creditors' ledger; (d) loan ledger, (e) deposit ledger; (f) other subsidiary ledgers (if any)
- list out the year-end balances of these ledgers with break-up in precise terms;
- check the expenses accounts to ensure that only expenses relevant to the period under audit have been entered. If expenses are not paid but incurred, ensure such expenditure is duly provided for in the books by appropriate provisioning;
- check the revenue accounts to ensure that all revenues during the year are duly accounted for and that credit has not been taken for any revenue not accruing during the year;
- check the assets and liabilities accounts to ensure that all assets and liabilities have been properly accounted for; ensure that asset/liability not relating to PACS has not been accounted for;
- check whether the assets/liabilities have been properly valued (fixed assets at WDV and current assets at lower of historical cost or current market price);
- verify to ensure that contingent liabilities are not included in the liabilities;
- while scrutinizing the creditors' ledger ensure the following:
  - advances against goods have been adjusted against receipt of such goods. If not adjusted, they are listed separately for scrutiny;
  - list out long outstanding creditor account balances to check if the liability booked is real;
  - only authorized transactions are recorded in such ledger.
- verify the debtors' ledger by keeping the following specific points in mind:
  - long outstanding receivable must be listed for a separate scrutiny of their collectability; categorize the debtors outstanding for more than 6 months and otherwise;
  - doubtful debts must be calculated by scrutinizing the overdue debtors.
- examine specifically the accounts relating to building repairs, machinery repairs and other repairs to ensure whether they relate to revenue or capital;
- verify whether any material deviations have been noticed in the gross profit or net profit rate as compared with the previous year. If so, ascertain the reasons therefor.

## 6.9 AUDIT EXECUTION- VERIFICATION OF LOANS AND ADVANCES

One of the key business activities of PACS is lending to its members for various purposes as authorized by its bylaws and as further recommended/prescribed by the RCS and/or NABARD. PACS can only lend to its Members and for purposes such as:

- crop loans (crop loans constitute a significant portion of the loan portfolio of PACS);

- gold loans (for agriculture or non-agriculture purposes);
- loans against goods;
- loans against fixed deposits/KVPs;
- loans against LIC policies;
- loans against vehicles;
- loans against property.

Loans shall be segregated into (i) secured and (ii) unsecured and within each category into (i) loans not overdue and (ii) loans overdue; these shall also be classified into (i) short (ii) medium and (iii) long term loans.

The audit procedures for audit of loans and advances portfolio shall be designed and evidence collected to achieve the following:

- that the loans and advances are recognized and classified (i) in accordance with the generally accepted accounting policies and practices and (ii) relevant regulatory prescriptions;
- that the amounts stated in the balance sheet against loans and advances are outstanding as on the date of balance sheet;
- the amounts are appropriately supported by loan documents as prescribed or as required by commercial prudence to the nature of loans and advances;
- that appropriate loan appraisal procedures and monitoring procedures have been employed by the PACS;
- there are no unrecorded loans and advances;
- basis of valuation of loans and advances is appropriate;
- loans have been classified and provisions for non performing assets made in accordance with the recommendations made by NABARD.

### 6.9.1 EVALUATION OF INTERNAL CONTROLS OVER LOANS AND ADVANCES

The auditors should examine the following controls:

- existence of sufficient and appropriate procedures to check the creditworthiness of the borrowers and such procedures has been followed in sanction of loans;
- the loans are sanctioned with appropriate approval of the management committee and/or authorized personnel of PACS;
- necessary documents like loan agreements, demand promissory notes, letter of hypothecation have been executed prior to disbursement of loans;
- end use of funds is being properly monitored by PACS and the terms of sanction are complied with by the borrowers;
- securities as specified in the sanction letters have been obtained and their registration in favour of PACS where required has been done; the margins on securities are being properly monitored;
- periodical inspection of hypothecated goods is being conducted by PACS;
- the authorized personnel of PACS and DCCB where required, review the operation of each loan account at least once a year.



## 6.9.2 VERIFICATION OF LOANS AND ADVANCES

The auditors should employ the following procedures for verification of loan portfolio.

- prepare a lead schedule and ensure it tallies with the loan ledger and the general ledger control accounts;
- prepare/obtain a classification of loans statement to facilitate appropriate provisioning for NPAs;
- examine the resolution of the management committee for the loans sanctioned during the year as well as for provisions created for overdue/bad loans. Ensure that loans are given as per the provisions of the Societies Act and the byelaws of the society;
- examine the loan documents – loan application, loan sanction, bond executed by the member for mortgaging the property/hypothecating the goods, fulfilment of loan conditions and encumbrance certificates to satisfy that loans are properly sanctioned and appropriate security obtained. Verify that the conditions of the loans are fulfilled by the borrowers;
- verify all types of loans given to a member and outstanding on the balance sheet date and ensure that there are no internal adjustments of recoveries;
- verify the credit appraisal process employed by PACS and ensure borrowers are appraised properly prior to sanction of loans; Select a sample of cases and examine that the loan application for ST/MT/LT loans are properly scrutinized by the PACS with respect to the asset to be bought and the ability of the member to payback. Also check the track record of repayment and past NPA (if any) of the borrower;
- select and verify a few loans by contacting the borrowers directly and verifying their passbooks, signatures, asset bought with the loans and/or crop raised by the borrower;
- in all or some cases of all types of loans, obtain and verify confirmations from borrowers. Ensure that the confirmed balance agrees with the balance shown by the loan account;
- in the case loans against assets such as FDRs or gold, physically verify the security pledged such as FDRs or gold in the presence of the Secretary/authorized personnel of the Society; also examine the valuer's certificate in case of gold loans;
- verify that the amount of loan does not exceed the value of security where the loans are secured;
- in case of secured loans, assess and examine the market value of the security given to ensure that the loans are properly secured;
- verify that interest is charged as per the conditions of the loan agreement and is correctly computed and charged;
- ensure that the loans are given through cheques and/or credit to members' savings accounts and not in cash;
- check the voucher/receipt/other acknowledgment obtained from the members with the cash book entry and the members' loan register;
- in case of agricultural loans, check that the individual sanction does not exceed the maximum fixed by the DCCB or the DLAC for the crop preferred by the members;
- check that Form for creating the charge is properly obtained from the member.

## 6.9.3 VERIFICATION OF NPAS

Detailed guidelines have been issued by NABARD/RBI regarding the classification of loans and provisioning for non-performing assets. Guidelines issued by NABARD and currently in force are attached in *Appendix 5*. In this connection auditors should ensure the following:



- prepare/obtain a statement of classification of loans and advances and an NPA statement;
- prepare/obtain a statement of age-wise overdue loans;
- examine and verify the overdue statements and their recoverability; of these overdue debts, estimate the bad and doubtful debts and ensure necessary provisions are made against such assets;
- enquiry and verify any legal action taken or proposed to be taken against defaulting borrowers; if legal action is pending, then the auditors may comment upon the same in their auditors' report;
- independently compute the provisioning required for various types of loans as per the prescribed guidelines and ensure that the same has been provided for in the accounts.

#### 6.9.4 INCOME RECOGNITION AND VERIFICATION OF INTEREST OVERDUE

In the normal course interest income on loans and advances should be recognized on accrual basis as there may be no uncertainty as to its ultimate collection. However, in view of the uncertainty involved in collection of income from non performing loans, the current guidelines require that interest from such loans should be recognized only on realization.

- ensure interest is segregated between that which is overdue and that which is normal interest; apply the norms prescribed by NABARD or the RCS to determine the portion of “overdue” interest;
- interest overdue should not form part of “divisible profit” of PACS; therefore ensure an appropriate reserve is created for the overdue interest;
- verify and ensure all interest as well as fees and commission, if any, on non performing loans is reversed or alternatively a provision is created in the books to fully cover interest on non performing assets;
- verify and ensure that interest is not credited to P&L account on non performing assets of earlier years.

#### 6.9.5 VERIFICATION OF LOANS WRITTEN OFF

The PACS management may decide to write off some loans considered non recoverable. . The auditors should verify the following:

- examine that the legal process against the borrower and the sureties is fully exhausted prior to such write off;
- the EP has been dismissed and the management committee and the general body of the PACS resolved to write off the loans;
- examine the procedural lapses or irregularities by PACS in recovery of such loans and verify if the responsibility is fixed on any PACS staff for act of neglect; verify if any recovery proceedings are initiated against those staff members;
- examine and verify that the write offs as approved are done against the bad and doubtful debts reserve existing in the books;
- examine if any loan is recovered by sale of the security pledged by the borrower; in such cases ensure that the net write off is only adjusted against the BDR.

#### 6.9.6 VERIFICATION OF RESCHEDULED/RESTRUCTURED LOANS

- obtain/prepare a schedule of restructured/rescheduled accounts and ensure they are appropriately classified as per the prevailing asset classification guidelines of NABARD;
- verify the compliance with circular/s issued by NABARD/RBI/RCS (if any) for reschedulement/restructuring of commercial loans and advances;

- verify if the interest, in addition to the principal, has also been rescheduled with sacrifice or without any sacrifice. If there is a sacrifice, examine that the requirements of any circulars/directions issued by NABARD/RBI/RCS are complied with;
- examine if the interest involved is either written off or provided for by a debit to the Profit & Loss Account. This provision should not be merged with any other provision and should be held in a separate account;
- where sacrifice is involved, it should be computed on every balance sheet date until completion of all repayment obligations and full repayment by the borrower; this recomputed sacrifice must be examined with existing provision/write off to ensure excess/shortfall in such provisions;
- ensure that the asset has been restructured either before the asset has been classified as “sub standard” or after it has been classified as substandard or doubtful;
- select a sample of restructured accounts and examine the process employed by PACS in taking up accounts for restructuring/reschedulement. Loans can only be restructured/rescheduled if there is a reasonable assurance of their recovery as per the terms of restructured package;
- verify that the asset classification of restructured/rescheduled advances continues with the one prior to such restructuring;
- verify that the up gradation of advances to the “standard category”, if any, is done only after observing the satisfactory performance during the period of one year from the date first instalment of interest/principal fall due under the restructured/rescheduled terms;
- interest on restructured advances should be recognized on accrual basis if those assets fall under “standard” category; otherwise interest on such advances should be recognized on cash basis.

### 6.9.7 DEBT WAIVER AND DEBT RELIEF SCHEMES

- examine the norms prescribed by NABARD/RBI/RCS vide their prevailing circulars/directions, if any, have been correctly and fully applied by the PACS in granting the waiver/relief; the terms and conditions are scheme specific, therefore auditors should exercise due care in verifying these conditions;
- ensure that interest in excess of the Principal amount, or unapplied or unrecognized interest, penal charges if any, legal charges if any, inspection and miscellaneous charges if any are not recovered from the borrower. All such interest and charges are to be borne by the PACS;
- interest, if any, on NPA loans should not be claimed from the borrower;
- if the scheme mandates relief on the amounts paid, examine that the eligible amounts are credited to the borrower accounts;
- amounts receivable from Government/NABARD, if any under the waiver/relief schemes, should be transferred to a separate account “Amount receivable from Government/NABARD”; this asset may be treated as performing asset provided adequate provision is made for loss in present value (PV) terms.

## 6.10 AUDIT EXECUTION-VERIFICATION OF CREDITORS, ACCRUALS, PROVISIONS AND CONTINGENT LIABILITIES

### 6.10.1 CHECK THE INTERNAL CONTROL MEASURES

- all purchase invoices received are correctly recorded in the purchase ledger:
  - purchase invoices are sequentially numbered and recorded in an inward register;
  - all invoices are matched with goods received notes; unmatched purchase invoices/goods inward notes should be separated;

- PACS staff receiving and accumulating the invoices and submitting them for processing are different from those who receive the goods or services.
- all entries in the purchase ledger in respect of payments must be valid:
  - check correct account codes of payment prior to posting;
  - check that purchase ledger control account is regularly reconciled with purchase ledger;
  - obtain and reconcile the suppliers' statements with their respective ledger account;
  - ensure cashier was not involved in accounting for purchases;
  - cheques should be crossed "account payee" so that any fraudulent endorsement is prevented;
  - ensure cheque/cash payments to suppliers are made only after verifying the suppliers account balances.
- entries in the purchase ledger in respect of debit notes have been correctly posted:
  - debts notes should be serially numbered and authorized by secretary/authorized persons of PACS;
  - debit notes should be batched before posting and this total should be matched with account total;
  - debit notes should be compared with goods inward notes/rejected purchase invoice or any other claim against supplier;
- all journal adjustments are accurately posted:
  - all journal vouchers should be serially numbered, properly supported and adequately narrated to ensure they are posted correctly;
  - posting of all journal vouchers should be properly noted on the vouchers;
  - all journal vouchers should be reviewed by secretary/authorized persons of PACS;
  - corrections on the vouchers should not be permitted.
- the purchase ledger should be correctly maintained:
  - regular reconciliation of all individual account balances with suppliers' statements.
  - if computerized, purchase ledger master file should be protected by password system and new entries in the master be properly authorized;
  - there should be no corrections/overwriting in the ledger;
  - entries in the ledger should have adequate description like voucher no, cash book reference;
  - in a manual system of accounting, there should not be any time lag between transactions executed and posted;
  - posting must be done only from authorized source with supporting evidence.
- cut-off procedures should be correctly applied:
  - prepare a list for all goods and services received just before March 31 (the year-end) but for which invoices were not received;
  - ensure goods received after the year end were not processed for the current year accounts;
  - prepare a list of goods returned for which credit notes have not been issued to ensure their correct accounting;
  - accruals other than purchases should also be scrutinized in similar manner;
  - all expenses invoices should be sent immediately to accounts department for posting and then returned to the relevant department for verification.

### 6.10.2 VERIFY CREDITORS AND ACCRUALS

- ensure that creditors and accruals for purchases and expenses are correctly and accurately included in the balance sheet;
- review numbers of days' credits as at the year-end including recent purchase and compare it with relevant figures for previous years;
- review and scrutinize the list of total trade creditors and compare with previous year's list. Enquire if any significant change is found;
- perform analytical review of expenses to provide assurance as to completeness and accuracy of overhead expense accruals;
- obtain balance confirmations with suppliers and verify the same with PACS GL at year end;
- check a sample of accrual of purchases and expenses with goods received notes and invoices;
- check all purchase and expense invoices recorded after the year-end to ensure accruals are made for goods or services received before the year-end;
- check payments made after the year-end with supporting documentation to see whether they relate to pre or post year-end purchase;
- check whether provisions were made and ensure that they are calculated on consistent basis;
- if PACS purchases include any continuous or periodic services, the year-end liability must be verified by calculating twelve months cost to be charged in the profit and loss account;
- scrutinize a sample of ledger accounts to ensure that ledger balances are correct;
- check if there are any debit balances in suppliers' accounts and examine them to ensure how they have arisen and probability of their recovery.

### 6.10.3 UNPAID WAGES AND SALARIES

- verify unpaid wages and salaries; ensure appropriate provisions were made with reference to total cost of salaries for twelve months; payroll records and the nominal ledger;
- check if bonus is payable to PACS employees and ensure that adequate accruals are made for annual bonus;
- in case of accrual for accumulated leave payments ensure calculations are correct and documented on the permanent notes file;
- check if PF and TDS need to be deducted and that the same are correctly deducted and remitted;
- check posting of TDS, PF and other deductions with clearing accounts and respective challans.

## 6.11 AUDIT EXECUTION - VERIFICATION AND VALUATION OF ASSETS AND LIABILITIES

Auditors of PACS are charged with the responsibility of ensuring that the assets and liabilities as at the yearend are properly valued and correctly stated in the balance sheet to ensure that it presents a true and fair view of the state of affairs of PACS. The verification of assets and liabilities should begin with the auditors preparing or obtaining detailed schedules of assets and liabilities and ensuring they agree with the figures stated in the balance sheet.

### 6.11.1 VERIFICATION OF LIABILITIES

The auditors' need to examine and ensure that:

- all liabilities relate to the business of PACS being audited;
- all liabilities are correctly stated and properly authorized prior to their entry in the books of account;
- all liabilities are shown at their actual figures and have been clearly stated on the balance sheet.

### VERIFICATION OF MEMBER'S SHARE CAPITAL

Share capital in PACS is the total value of the shares subscribed to by its members, whether or not such shares have voting rights. All members shall have a right to service under the provisions of the Cooperative Societies Act. Key features relevant to verification of share capital of PACS are the following:

- the byelaws of the PACS must provide for the authorized and paid up share capital and its division. They must also provide rules to accept subscription and allotment of shares to an intending member. Wherever the society exceeds the limit of authorized share capital by collection of paid-up share capital in excess of the authorized share capital, the auditor has to make an observation in the "defects sheet" and suggest suitable amendment to the byelaws so as to increase the authorized capital;
- eligibility for membership may vary from society to society depending on the type of the society;
- generally the paid up share capital of a member is the basis to decide the eligibility for and quantum of loan to be sanctioned to the member. This is known commonly as individual credit limit or maximum borrowing power as specified under the byelaws of the society;
- it may generally be prescribed that a member of the PACS shall be a resident within the jurisdiction or the area of operation of the society and shall be landholder cultivating the land as owner or on lease;
- the admission shall be made through a resolution of the managing committee which should allot shares to its members. Admissions shall be limited to the extent of services the society can afford to render;
- any reduction in share capital, as a result of exit/death/expulsion of member shall be verified with MC resolution/approval by authorised official of PACS;
- in case of transmission of shares, if any, check where the same is authorised by the byelaws of PACS, properly approved by authorised officials of PACS;
- it may generally be prescribed in the Cooperative Societies Act or in the byelaws of PACS that no member other than a Cooperative Society shall hold more than one tenth of the total share capital of the society;
- the state government holding shall not exceed 25% of the total capital of PACS at any point of time; as per the terms of the government, a share capital redemption fund may have to be created and separately invested to enable redemption of government capital on due dates

In order to verify the share capital, the auditors should employ the following substantive test procedures.

- prepare a lead schedule of capital with movements during the year under audit. Ensure the total of the schedule tallies with the capital control account in the general ledger. The schedule of share capital should disclose all types of shares together with the category of shares, including the Government share capital;
- the auditor should check the membership register with reference to members admitted during the year, shares allotted membership withdrawn or removed and share capital refunded. He should also check whether photo identity cards have been issued to all;

- trace a sample of the capital entries in the control account to the members ledger, register of members, cash book and the respective resolution of managing committee;
- ensure all new shares issued during the year are supported by a management committee resolution;
- check a sample of applications received during the year and trace the same to entries in the cash book and register of members (admission register);
- check and verify that full payment was received from the members for the shares allotted as no part payment of the value of share capital is permissible and such part amount, if any, should be taken to a share-suspense account/share application account until full payment is received and shares allotted;
- admission/cessation entries in the register of members (or admission register) with the date of admission of a member, the date of cessation and his nomination under his signature duly authenticated by the secretary/authorized personnel are the prima facie evidence for the admission/cessation of a member. Therefore, check and ensure that all entries in the registers are duly authenticated;
- check that the number of members as per the register of members (admission register) shall tallies with the schedule;
- the membership ceases ipso facto, when the member expires and the share amount paid by him/her shall not be treated as share capital, but should be transferred to suspense account until it is disposed of in terms of the provisions of the Cooperative Societies Act and its rules;
- verify that share certificates are issued to all members according to its byelaws.

## VERIFICATION OF STATUTORY RESERVES

Reserves created as per the provisions of the Societies Act and the rules made there under are the statutory reserves for the society. Statutory reserves may also have to be created if the byelaws require creation of such reserves. Statutory reserves are created:

- out of the profits earned by the society and/or;
- funds granted by the Government for certain specific purposes.

When reserves are represented by specifically earmarked investments it is called a reserve fund. Reserve Fund, bad debts reserve, agricultural credit stabilization fund, cooperative education fund and administrative contingency fund are some of the statutory reserves that need to be created. In some states, statutory reserves have to be invested outside the business of the Society. However, with the permission of the RCS, the Reserve fund can be utilized in the business of the society. From a commercial prudence, these reserves should be invested outside the business of PACS.

- verify the opening balances with reference to the audited balance sheet of previous year;
- appropriation from P&L account for creation of reserves or their subsequent utilization need to be authorised by a Resolution of the management committee; check the resolution of the management committee that suitably authorizes such transfers;
- check that the transfer of prescribed percentage of profits to reserve fund and other reserves as per the Cooperative Societies Act and rules made there under and/or byelaws of PACS, are complied with. As per the Cooperative Societies Act a prescribed percentage of profits should be transferred towards (i) reserve fund (ii) bad debts reserve (iii) common good fund (iv) cooperative education fund etc.;
- subsidies received from state government for purchase of assets need to be suitably supported by sanction letters from Government/affiliated DCCB; check these letters and the related entries in the bank book and the General Ledger to ensure these are correctly accounted;
- check if the subsidies/grants are fully utilised during the year of receipt; otherwise the auditor should make a note of the unutilised portion of the subsidy/grant in the audit report;



- if the statutory reserves are utilised for any purpose, ensure that necessary permission from the RCS was obtained and the same was on record at the time of audit;
- ensure that the reserve fund, if any, is properly disclosed in the balance sheet;
- ensure that the interest earned if any, on investments representing the reserve fund is taken to the P&L account as income.

## VERIFICATION OF NON-STATUTORY RESERVES

While it is optional for the society to create non statutory reserves, they need to be created if the byelaws so require. Depreciation reserve, reserve against audit objections, Reserve for overdue interest, Reserve for deficit stocks etc. are some types of non-statutory reserves. Building fund and dividend equalisation fund are also non-statutory reserves appropriated out of net profits as per the option of the Society in accordance with the byelaws.

- verify the opening balances with reference to the audited balance sheet of previous year;
- examine the resolution of the management committee authorising the appropriation from P&L account for creation of such reserves;
- verify working of additions/deletions to the fund to see whether the amounts co-relate with the resolutions

Utilisation of these reserves can be freely made but need to be supported by a suitable Resolution of the management committee; in case of utilisations, check the authorising resolution and the related entries in the books of accounts.

## VERIFICATION OF DEPOSITS AND BORROWINGS

The deposits and borrowings portfolio of PACS includes deposits from members and borrowings from DCCB and other lenders to PACS. The objective of the auditor in verification of these accounts is to ensure that the known liabilities are corrected stated at appropriate amounts.

- prepare a lead schedule of deposit and borrowings with movements during the year under audit. Ensure that the total of the schedule tallies with the deposit and borrowings control account in the general ledger;
- a random check of pass books of day depositors should be done to ensure that these are correctly accounted;
- verify, on a sampling basis, individual accounts of various types of deposits accepted by PACS and examine whether the individual accounts tally with respective control accounts in the general ledger;
- in case of differences between sub ledgers and control accounts, ensure that a proper reconciliation statement is prepared and differences adjusted with appropriate authority;
- examine whether the deposit receipts are issued serially and all of them are accounted in the ledgers. Verify that the un-used deposit receipt book is maintained in the safe custody of secretary/authorized personnel of the PACS;
- examine whether the correct rate of interest was applied in interest paid and payable accounts. Also ensure proper provision for interest payable for accrued interest is made in the in the books of accounts;
- inspect on a random basis some depositors' premises to verify the correctness of the depositors;

In respect of borrowings the following checks are to be conducted:

- the borrowings from DCCB and others outstanding as on the balance sheet date should tally with the confirmation letters issued by the respective lenders. Imbalances must be properly reconciled and verified by auditors and authenticated by the secretary/authorized personnel of PACS;
- borrowings shall be verified with reference to the loan application, loan agreements, other correspondence with the lenders and the resolutions of the managing committee to ensure that these are stated correctly. Borrowings shall be within the maximum borrowing power of the society according to its byelaws;
- unutilised subsidies and borrowings should be probed into and highlighted in the defects sheet;
- the secretary shall be made responsible for the imbalances in the borrowings between PACS and its affiliated DCCB; imbalances may arise due to several reasons such as faulty appropriation by DCCB, diversion of recoveries of loans towards payment of salaries and contingencies and instalments of go-down loans borrowed from NCDC and others. These imbalances should be probed into and explanations obtained;
- examine if the conditions relating to interest and repayment of principal and the security were fulfilled;
- verify the interest and principal repayments to ensure that there are no defaults to DCCB or other financing agencies;
- the appropriation of principal and interest shall be thoroughly examined. If any adjustment entries are passed to reconcile the differences, they should also be checked;
- the maximum borrowing power of the society shall be as prescribed in the byelaws in terms of a multiple of paid-up share capital and the reserve fund outstanding. A society at any point of time shall not hold deposits and borrowings, exceeding this limit; any excess noticed should be reported;
- verify the register of pledged goods to ensure that all borrowings against pledge/hypothecation are properly recorded and that the assets acquired have not been disposed of prior to liquidation of loans and/or sale proceeds from pledged goods have been deposited in the advance account as per the conditions of the loan agreement.

## VERIFICATION OF INTEREST PAYABLE

The auditors will have to check that PACS has made necessary provisions for interest payable on deposits and borrowings. They have to verify the following for the same:

- prepare a list of borrowings and deposits and interest thereon and independently compute the interest due to the lenders and deposit holders; ensure the PACS records agree with these calculations;
- in case of borrowings from DCCB and other Financing Agencies, obtain confirmations as well as detailed list of transactions and ensure the same agree with the balances shown by PACS.

## VERIFICATION OF SUNDRY CREDITORS

- prepare a lead schedule of creditors and check the same with the personal ledgers/ledger accounts; ensure all the differences are reconciled and adjusted in the books of accounts;
- individual/institutional confirmations must be obtained and the balances as confirmed should be agreed with the PACS books and differences, if any be reconciled. If the confirmations are not obtained, it has to be stated so in the auditor's report (Notes on Accounts);
- where seeds/fertilisers are received on loan for onward sale to farmers/members, (i) it should be ensured that the sale proceeds are remitted to the agencies (ii) commission on such sale is recognised as trade



income (iii) materials not included in the stock of PACS and (iv) any unsold stock is not included in the stocks of PACS but disclosed as note to accounts.

### VERIFICATION OF ADVANCES

- prepare a lead schedule of all advances which remained unadjusted as on the date of balance sheet; check the same with the ledger accounts; ensure all the differences are reconciled and adjusted in the books of accounts;
- examine if the supplies/work relating to advances received has been executed or pending as on the date of balance sheet; ensure that advances are adjusted to the extent of bills raised on the suppliers and the balance is shown in the advances account;
- individual/institutional confirmations must be obtained and the balances as confirmed should be agreed with the PACS books and differences, if any be reconciled. If the confirmations are not obtained, it has to be stated so in the auditor's report (Notes on Accounts).

### VERIFICATION OF OUTSTANDING EXPENSES

- prepare a lead schedule of outstanding expenses as on the date of balance sheet; check the same with the ledger accounts;
- check the payments relating to a few weeks after the close of the year to ensure that they do not relate to the year under audit;
- check payments made during the first few weeks after the close of the year to ensure that the outstanding expenses provided for have been paid during the following year;
- perform a scrutiny of all expense accounts in the general ledger to check that the expenditure relating to the year has been fully accounted and that which is not accounted but related to the year under audit has been fully provided for.

### VERIFICATION OF PROVISIONS

Provisions are amounts retained by way of providing for any known liability the amount of which cannot be determined with substantial accuracy. Provisions are made by charging to the profit and loss account. For example, expenditure on salaries, allowances or administrative expenses like rent, electricity etc., or provision for gratuity, bonus, or provision for dividends or provision for taxes are some of the items for which provision may be created by PACS. The following points may be kept in mind by the auditor while checking such provision:

- examine the reasonableness and adequacy of the provisions created to ensure provisions is not created in excess of what is found to be reasonable;
- in case of gratuity, bonus provisions, examine whether those provisions apply to PACS and in that light verify the adequacy and reasonableness;
- in case of provisions for dividend, examine the byelaws and the provisions of the Societies Act to ensure whether such provision is required to be made;
- check if the PACS is liable to pay Income tax and ensure necessary provision is made for estimated tax liability;
- check provisions created for non performing assets as per the prudential norms recommended for PACS.

### 6.11.2 VERIFICATION AND VALUATION OF ASSETS

One of the primary objectives of audit is to provide an assurance as to the existence of assets stated in the balance sheet at the values computed in accordance with Generally Accepted Accounting Principles. In order to provide such assurances, the auditor has to perform the following functions:

- ensure by physical verification or otherwise that assets are actually in existence on the day of the balance sheet;
- examine the title and ownership of assets to ensure that the assets are the property of the PACS and are free of charges;
- ensure the assets that ought to be stated are clearly stated at their proper values.

Valuation, in the context of audit assurances, is to ensure that the assets are stated at a value based on their utility and in accordance with Generally Accepted Accounting Principles. In assuring that assets are stated at correct values, the following should be considered:

- fixed Assets should be valued at cost less depreciation – in arriving at cost and appropriate depreciation, examine the original cost, probable working life, the estimated wear and tear, expected scrap value and the chances of assets becoming obsolete;
- investments should be valued at cost or market price whichever is lower. Depreciation in terms diminution in value of investments should be provided for;
- current assets should be valued at cost or market price whichever is lower.

While the auditors are not expected to be technical experts or “valuers”, it is their duty to ensure that in valuing the assets, PACS has followed GAAP and ascertain that valuation is made according to some accepted principles. Cost, for the purpose of valuation, includes, the original cost of purchase and the expenses directly related to such purchase and/or installation like, legal charges, salaries and wages, interest on borrowings upto the date the asset is put to use, installation charges and other pre operative expenses directly relating to such asset. Book value is the value at which the asset appears in the books of account.

#### VERIFICATION OF CASH ON HAND

- verify that cash book is updated and balanced as on the date of the balance sheet as well as on the first day of the audit;
- on the first day of the audit, physically verify the cash and ensure it agrees with the balance as shown by the cash book;
- enquire and ensure that the cash balance was verified on the date of the balance sheet by an authorised person of PACS and examine that physical verification report to ensure that cash balance is stated correctly on the balance sheet;
- verify the cash book and ensure that retention of cash is not high, that instances of cash withdrawal from bank/DCCB in spite of large cash balances on hand are not too many and there have been no temporary adjustments of cash.

#### VERIFICATION OF BANK BALANCES

- obtain confirmation certificate for each bank account held by PACS as on the date of balance sheet and ensure that the balance as confirmed agrees with the books of accounts;
- in case of deposit accounts, obtain separate certificate for each deposit and ensure that the balance agrees with the books of accounts;

- examine the cash book and bank book and ensure that cash in excess of required amounts is deposited in the bank regularly;
- verify if the PACS has obtained necessary approval of its Management Committee for the bank accounts held by it;
- scrutinize the bank book/bank account to ensure all collections and payments are accounted correctly;
- examine the bank reconciliation statement (BRS) for each bank account prepared by PACS and ensure that the balances are properly reconciled and that there are no unexplained debits/credits; verify that adjustments required by BRS are made in the books of account;
- Verify to ensure that BRS does not contain any long outstanding items that have not been provided for or not properly explained.

## VERIFICATION OF INVESTMENTS

Investments by PACS may be categorised into (i) short term investments, which can be encashed when needed to meet the business obligations of PACS and (ii) long term investments which are held until maturity. The auditors should employ the following procedures for verification of investments:

- prepare a lead schedule of investments and tally the same with the general ledger account;
- verify that the investments are in accordance with the applicable provisions of the Societies Act and the byelaws of the society and any other circular/s issued by the Registrar of Cooperative Societies;
- verify the resolution of the management committee for new investments as well as encashment of existing investments;
- verify that the investment transactions are properly authorised (by the secretary/president);
- verify all documents relating to the investments made by PACS; for example, verify all FD receipts, cash deposit receipts, pass books, share certificates, debenture certificates, broker notes, financial journals and match the amounts on those documents with the accounting records to ensure that they are recorded correctly in the books of accounts;
- if any of the investments are lodged with the financing agency (e.g. DCCB and/or other banks) obtain and verify the confirmations/certificate from that agency;
- ensure investments are recorded at their cost in the books of accounts; any diminution in the value of investments should be separately shown as “Depreciation on Investments”;
- in case of earmarked investments, auditors should check the investments made with the balances in the respective funds and specify the same in the auditors’ report;
- in case of sale/maturity of investments ensure that sale/maturity proceeds are received in full and accounted correctly in the books of accounts; ensure the interest income, if any, and capital gains, if any are segregated and accounted;
- examine the investments and verify if provision needs to be made for any diminution in their value and ensure such provision is made when necessary.

## VERIFICATION OF INTEREST ACCRUED ON INVESTMENTS

- ensure interest is segregated between that which is overdue and that which is regular interest; apply the norms prescribed by NABARD or the Registrar of Cooperative Societies to determine the portion of “overdue” interest;
- interest accrued but overdue should not form part of “divisible profit” of PACS; therefore ensure an appropriate reserve is created for the overdue interest.

## VERIFICATION OF LOANS AND ADVANCES

PACS can only lend to its members. Loans shall be segregated into (i) Secured and (ii) unsecured and within each category into (i) loans not overdue and (ii) loans overdue; these shall also be classified into (i) short (ii) medium and (iii) long term loans. The auditors should employ the following procedures for verification of loan portfolio:

- prepare a lead schedule and ensure it tallies with the loan ledger and the general ledger control accounts;
- prepare/obtain a classification of loans statement to facilitate appropriate provisioning for NPAs;
- examine the resolution of the management committee for the loans sanctioned during the year as well as for provisions created for overdue/bad loans. Ensure that loans are given as per the provisions of the Societies Act and the byelaws of the society;
- examine the loan documents and the bonds executed by the borrowers and that the conditions of the loans are fulfilled by the borrowers;
- verify all types of loans given to a member and outstanding on the balance sheet date and ensure that there are no internal adjustments of recoveries;
- verify the credit appraisal process employed by PACS and ensure borrowers are appraised properly prior to sanction of loans;
- select a few loanees and contact the members to conduct the verification; verify the utilization of loan proceeds with them; verify their pass books and signatures to satisfy the actual disbursements;
- in all or some cases of all types of loans, obtain and verify confirmations from borrowers. Ensure that the confirmed balance agrees with the balance shown by the loan account;
- in the case loans against assets such as FDRs or Gold, physically verify the security pledged such as FDRs or gold in the presence of the secretary/authorized personnel of the Society; also examine the valuer's certificate in case of gold loans; also check if PACS has a system of periodically verifying such assets by its MC members; comment on adequacy of such system;
- in case of secured loans, assess and examine the market value of the security given to ensure that the loans are properly secured;
- verify that interest is charged as per the conditions of the loan agreement and is correctly computed and charged.

## VERIFICATION OF NPAs

Detailed guidelines have been issued by NABARD/RBI regarding the classification of loans and provisioning for non performing assets. In this connection auditors should ensure the following:

- prepare/obtain a statement of classification of loans and advances and an NPA statement;
- prepare/obtain a statement of overdue loans, age-wise. Examine and verify the overdue statements and their recoverability; of these overdue debts, estimate the bad and doubtful debts and ensure necessary provisions are made against such assets;
- enquiry and verify any legal action taken or proposed to be taken against defaulting borrowers; if legal action is pending, then the auditors may comment upon the same in their auditors' report;
- independently compute the provisioning required for various types of loans as per the prescribed guidelines and ensure that the same has been provided for in the accounts.

## VERIFICATION OF INTEREST OVERDUE

- ensure interest is segregated between that which is overdue and that which is normal interest; apply the norms prescribed by NABARD or the RCS to determine the portion of “overdue” interest;
- interest overdue should not form part of “divisible profit” of PACS; therefore ensure an appropriate reserve is created for the overdue interest;
- verify and ensure all interest on non performing loans is reversed or alternatively a provision is created in the books to fully cover interest overdue on non performing assets;
- verify and ensure that interest is not credited to P&L account on non performing assets of earlier years;

## VERIFICATION OF LOANS WRITTEN OFF

The PACS management may decide to write off some loans considered non recoverable and accordingly provide for the same in P&L account. The auditors should verify the following:

- examine that the legal process against the borrower and the sureties is fully exhausted prior to such write off;
- the EP has been dismissed and the management committee and the general body of the PACS resolved to write off the loans with prior approval of the Registrar of Cooperative Societies;
- examine the procedural lapses or irregularities by PACS in recovery of such loans and verify if the responsibility is fixed on any PACS staff for act of neglect; verify if any recovery proceedings are initiated against those staff members;
- examine and verify that the write offs as approved are done against the bad and doubtful debts reserve existing in the books;
- examine if any loan is recovered by sale of the security pledged by the borrower; in such cases ensure that the net write off is only adjusted against the BDR.

## VERIFICATION OF SUNDRY DEBTORS

Sundry debtors include all amounts recoverable/receivable for the goods sold and services rendered on credit by the PACS to its customers/members. However sundry debtors do not include the loans and advances. Auditors should employ the following procedures in verification of sundry debtors:

- prepare a schedule of balances and check it tallies with the sub-ledger balances and the control account in the general ledger;
- prepare age-wise debtors position and examine the long outstanding receivables and estimate provisioning as may be necessary;
- select a few accounts and scrutinize the same in detail with supporting documents;
- obtain confirmation from all or selected parties and ensure the balances confirmed tally with the balance as shown by PACS books of accounts;
- test check collections or adjustments made in the subsequent period to ensure that the debtors are properly stated;
- ensure that the credit balances from debtors and debit balances from debtors are shown separately and are not netted for the purpose of balance sheet;
- inquire and examine the credit balances from parties against whom there may be debit balances in the debtors schedule/accounts. These may arise due to wrong accounting or fictitious nature of entries which should be commented upon in the auditors’ report;

- if a write off of bad debt is proposed, examine the resolution of management committee authorising such write-off;
- ensure all debtors are stated at their book values;
- provision for any doubtful debts should be shown separately.

## VERIFICATION OF CLOSING STOCK IN TRADE

Stock unsold and on hand as on the last day of the year (31<sup>st</sup> March) represents the closing stock and is carried on to the balance sheet. The auditors should employ the following procedures to verify the stock:

- ascertain if the stocks are physically verified on the last day of the year either by the management of PACS or the verifiers appointed by the registrar; examine the physical verification report and differences on such verification; if the stock was not verified on the last day of the year, the auditors should append a note in the notes on accounts section of the auditors' report;
- verify the method of physical stock verification to ensure that proper control was exercised in the verification and the data is reliable; verify that qualified staff of PACS has verified the stock;
- examine the stock verification sheets and ensure that the verifiers have attested the balance as per stock register and the physical balance on inspection; Differences should be adjusted with appropriate approval of the management committee;
- check the stock register and the goods inward register, particularly, for a few days before and after the close of the year to ensure all purchases are included in stock and all sales are excluded from stock;
- during the course of the audit, the auditors should insist on verification in their presence of some or all of the stocks by qualified staff of PACS; difference if any should be noted in the auditors' report;
- verify the valuation method employed by PACS; it should be ensured that stocks are valued at cost or market price whichever is lower. Ensure that the principles of valuation are followed consistently from year to year. Some of the common mistakes in stock verification and valuation are:
  - incorrect valuation and addition;
  - including in the current year stocks, the material purchases/sales not relating to that period;
  - inclusion in stock, materials for which invoices were not received and vice versa;
  - inclusion in stock, materials that have already been sold;
  - incorrect pricing of individual stock items;
  - non inclusion of stock lying with others but belonging to PACS;
  - inclusion of stock which does not exist;
  - non inclusion of stocks in transit but belonging to PACS.

## VERIFICATION AND VALUATION OF FIXED ASSETS

PACS may acquire fixed assets out of its own funds, loans from DCCB/financing agency or grants from government. In verifying the fixed assets, the auditors should employ the following procedures:

- prepare a schedule of assets and sub-schedules for each group of assets and ensure that the aggregate total tallies with the general ledger accounts;
- verify if any approval from Registrar of Cooperative Societies for plans, estimates and acquisition of fixed assets is required and examine such approval ;



- verify the resolution of the management committee and the general body (if the byelaws of PACS so require) for acquisition of assets and ensure the actual cost and other details entered in the books of account match with the details as per the resolution;
- examine the title deeds of ownership and legal opinions if any;
- examine the municipal tax receipts relating to the immovable assets;
- in case new purchases/acquisition examine valuation certificates, if any along with sale/lease deed and ensure all expenses in connection with such charges are included in the “cost” of the asset;
- if the title documents are in the possession of the DCCB or any other financing agency, obtain and examine a certificate from that agency to establish the ownership of PACS to that asset recorded in the books of account;
- if the assets are constructed by PACS itself, verify the layouts, approved estimates, register of works showing allocation of materials and labour; attendance sheets of labour and wage sheets; purchase invoices and delivery notes for steel, cement, bricks and other materials, stock register showing the receipts and issues of materials, measurement books and a completion certificate from the engineer-in-charge;
- in case of motor cars/vehicles, check the ownership/registration certificates for ownership of PACS and to ensure that there are no undisclosed encumbrances;
- physically verify the assets and ensure that the data from physical verification agrees with the fixed asset register and the general ledger accounts;
- examine the depreciation methods and check if depreciation is charged correctly;
- verify the premium receipts and insurance policies to ensure that the assets are adequately insured;
- sale/disposal/transfer of assets can only be done upon the approval of management committee/registrar of cooperative societies. Examine the resolution of the management committee and the approval of the registrar. Verify that the asset account is properly credited with sale proceeds and gain/loss on sale is correctly recognised;
- in case of library, ensure that a register of library books is maintained with date of purchase and cost. Conduct a physical verification of books and recommend adjustments if required;
- where the general funds are utilised for purchase of assets, these funds should be recouped by suitable appropriation of profits; ensure such appropriations are made.

## 6.12 AUDIT OBSERVATIONS – DEFECT REPORTING

During the course of audit, the auditors might notice several irregularities and/or defects which could be rectified during the course of audit or need to be reported to the management committee and/or general body for necessary resolution. Some of these defects may affect the financial statements requiring qualification of audit report by the auditors. The defects should be primarily categorized into:

### 6.12.1 FINANCIAL IRREGULARITIES

These defects could relate to any or all of the following or similar problems:

- expenditure exceeding the approved budget/s limits;
- expenditure not covered by the budget/s;
- expenditure not in accordance with relevant provisions of the Societies Act;

- due procedures like quotations, comparative statements, purchase orders/work orders etc not followed in incurring the expenditure;
- collections by PACS not properly deposited or accounted for;
- expenditure not supported by vouchers/supporting documents;
- income not recognised or recorded correctly in the books;
- retention of heavy cash balances without proper justification and/or withdrawal of heavy sums;
- irregular loan disbursements or loans not supported by required documents;
- irregular encashment of deposits;
- frauds and misappropriation of cash and other assets.

### 6.12.2 ACCOUNTING IRREGULARITIES

These defects could relate to any or all of the following or such similar problems:

- prescribed books of accounts not maintained; prescribed registers not maintained;
- incomplete/improper maintenance of books of accounts;
- vouchers, registers, ledgers not authorized/authenticated by the appropriate persons;
- wrong recording of expenditure/income; wrong postings; wrong classification of expenditure;
- inadequate provisioning or non provisioning for expenditure/liability;
- loans and advances not classified as per norms recommended by NABARD.

### 6.12.3 ADMINISTRATIVE IRREGULARITIES

These are essentially compliance/organizational/management related defects such as:

- delegation of powers not accorded; where accorded not adhered to in the day to day functioning of the PACS;
- general body meetings/management committee meetings not held or not held in time;
- elections not held as required under the provisions of the Societies Act;
- resolutions of general body/management committee not recorded properly;
- internal controls not implemented and/or where implemented, not effective or adequate considering the size and complexity of business;
- poor housekeeping (of accounting and other records);
- infringement of byelaws of the society;
- non compliance with defects as per previous audit reports;
- non adoption of accounts and audit reports.

The financial and administrative irregularities should be necessarily reported to the management committee for its information and resolution. Some of these defects which remain unresolved may have to be escalated to the Registrar of Cooperative Societies for regularization and/or for necessary ratification. Such defects should also be reported in the auditor's report through a defect sheet.



The accounting defects should be corrected by the society during the course of audit and financial statements should be prepared after such correction. However, unresolved accounting defects should be reported to the management committee and included in the auditor's report.

Defects as pointed out should be supported by reference to the audit evidence gathered during the course of audit. These should form part of audit work paper files. (current audit file). Defects may be communicated by any suitable mechanism such as half margin memos, other audit memos, etc. These half margin memos with clarification obtained shall be part of audit work paper files of the auditors.

A recommended schedule of audit defects/observations is included in model audit report attached at ***Appendix 1.***

In addition to the above, a special report should be prepared in case of fraud and other serious irregularities and sent to RCS directly by the auditors. Depending on the provisions of the State Cooperative Act, Auditors may also be required to file FIR in case of frauds.





# 7 Audit in a Computerised Environment

Computerization in PACS is generally limited to maintaining its books of accounts using packaged/customized software on standard hardware platform. This is unlike computerization in commercial banks and other commercial enterprises where the entire operations are computerized using Enterprise Solutions.

In view of the above, audit in a computerized environment in PACS should generally follow the standard test procedures detailed in the manual. In addition, the following factors need to be considered by the auditors.

## 7.1 ACCOUNTING AND RECORD KEEPING

- review the process of creating heads of accounts to ascertain there are adequate controls on opening and closing of accounts. Obtain a list of new accounts opened and those which were closed during the year of audit and verify the adherence to the process and controls;
- review the nature and title of heads of accounts and map the same with the main heads in the financial statements;
- where sub-ledgers are maintained manually and the control accounts on the system, this need to be properly verified to ensure the balances in the sub ledgers tally with control accounts;
- review the process of actual recording of transactions in various books and the usage of correct vouchers. Verify that transaction authorization controls are properly followed and no unauthorized entries exist in the books of accounts;
- are there any transactions adjusted “out of books” at the year-end while finalizing the financial statements? Ensure these are properly authorized and carried through the books of accounts;
- are the financial statements (profit & loss account and balance sheet) including the trial balance correctly generated? Does the trial balance tally? Ensure that the trial balance is generated for full set of accounts and not just for those accounts having a debit/credit balance;
- are the financial statements and other reports as generated by the system are properly authenticated by the Secretary?
- review the preservation of reports both in soft and hard forms to ensure that critical data/information is preserved for at least 7 year.

## 7.2 BASIC SOFTWARE AND HARDWARE CHECKS

- is the hardware like the basic computers, external drives, CD writers etc are in good working condition?
- check the number of times the hardware failed and/or shut down for maintenance? How was the data processed during those times?
- check the software register and ensure that all software used is properly entered in the register and maintained computer-wise;
- check the software is a licensed version;
- check that the software is fully installed as per the rights purchased;
- check the manuals and physical versions (CDs) of the soft-wares;
- examine if the hardware and software are covered under an annual maintenance contract.

## 7.3 CHECKING OF CONTROLS TO VERIFY DATA INTEGRITY, DATA SAFETY AND SAFEGUARDING OF ASSETS

- is there a proper EDP dept or an authorized officer in-charge of the data processing activities? Is he properly trained? Is a system administrator identified and authorized?
- are all available features for data safety been installed?
- who grants the access levels? Is there a formal process?
- do users have only a minimum access based on their job needs?
- is the access level of users restricted to specific applications/files/menus and/or servers?
- is file maintenance on the systems restricted to EDP in-charge or distributed? If distributed, are those persons appropriately authorized?
- is the password (of users) encrypted?
- Are the access levels periodically reviewed by secretary/authorized persons of PACS?
- how is the modem usage controlled?
- are there specific internet access controls?
- are there firewalls/system protection software installed?
- is the data properly and periodically backed up? Is the backed up data stored within PACS (on site) or outside PACS (offsite)? Who authorizes the storing of data outside the PACS and within PACS is it in the custody of authorized officials of PACS?
- is backed up data tested periodically for recovery?

## 7.4 PASSWORD CONTROLS

- are users sensitized to use a password that will be difficult to copy/guess by others;
- secrecy of password is maintained by all users;
- passwords for the following activities should only be with the secretary/system administrator:
  - taking backups;
  - entering into/updating the operating systems;
  - creating/editing master records;

- system shutdowns and rebooting;
- check if users change their passwords regularly;
- check that passwords are not shared.

## 7.5 KEY TRANSACTION CONTROLS

### CONTROLS ON APPLICATION OF INTEREST RATES

- obtain interest rates keyed into system and match with rates prescribed by management;
- obtain log of interest rate changes and match with changes prescribed by management;
- ensure that interest rate changes are duly authorized;
- test check few calculations;
- obtain cases of interest defaults and ensure that reversals have been properly.

### DATA BASE MANAGEMENT

- transaction dates in the system are properly authorized;
- controls to accept only current date entries. There is either no provision for back dated entries or the back dated entries are properly authorized appropriately;
- where there is more than one terminal in the PACS and if the same are not being used, they are switched off.



# 8

# Audit Completion and Review

## 8.1 OBJECTIVES OF AUDIT COMPLETION PROCEDURES

Audit completion procedures are required to be followed to ensure:

- that audit evidence as planned for has been obtained to support the audit opinion;
- work papers are completed to evidence that all workings and decisions taken have been documented;
- the audit defects/deficiencies are documented and discussed with PACS management.

Audit completion procedures include

- applying analytical procedures based on the audited financial statements;
- review of events occurring after the year end (post balance sheet events);
- review of the presentation and disclosures in the financial statements to ensure that they comply with the Indian GAAP;
- consultation with external parties such as tax advisors, where necessary;
- test audit by DRCS and/or other senior auditors;
- review, where necessary, by DRCS of the audit for issuance of audit certificate as provided in the Co-operative Societies Act.

## 8.2 COMPLETION OF AUDIT AREAS

### 8.2.1 LEAD AND SUPPORTING SCHEDULES

- cross reference all lead SCHEDULES as referred to in the manual and appropriate supporting schedules to the financial statements and the audit work papers;
- lead schedules for each audit area/work along with other documents supporting each lead schedule should show the audit objective, the work performed and the conclusions reached;
- any adjustments made to the figures in the financial statements should also be reflected in relevant schedules.

## 8.2.2 ANALYTICAL REVIEW

Summarize analytical review procedures and make notes to explain material changes and variations. This enables corroboration of conclusions formed during the audit and assist in arriving at the overall conclusion as to the reasonableness of the financial statements.

## 8.2.3 AUDIT AREA CONCLUSIONS

- draw a conclusion for each audit area and summarize key issues in each audit area;
- ensure that audit has been done in accordance with the audit plan and programmes and the audit procedures have been carried out as required and the overall audit strategy followed. Any deviations in the audit strategy and plan should be documented and evidenced by the initials of the senior most member of the audit team;
- update all working papers to reflect all audit queries and the responses to queries raised by the audit reviewing seniors;
- summarise all internal control and other weaknesses and obtain necessary signatures of PACS management team on the same;
- if any representation/explanation is required from the PACS management obtain the same and file it in the audit work papers file.

## 8.2.4 REVIEW OF ACCOUNTING POLICIES

Review the accounting policies as part of the substantive procedures adopted to ensure that the accounting policies are:

- acceptable;
- consistently applied; and
- appropriate to the nature of business of PACS.

Review should also ensure that

- the additions and cross-casts are correct;
- the comparative figures agree with the previous year's financial statements;
- the audit opinion is supported by the audit evidence on the file;
- there are no errors of fact and there are no omissions;
- the financial statements comply with society's legal requirements and its applicable financial reporting framework;
- the pending audit compliances relating to previous years have been properly rectified/addressed to by the PACS management.

## 8.2.5 REVIEW OF AUDIT FILES

The audit files should be reviewed by (i) the senior most auditor as well as his/her superior/s. Generally, the review should focus on the following:

- maintenance of audit files as well as to the audit opinion expressed in the light of audit defects observed;



- working papers for their completeness and adequacy to support the audit opinion;
- sample sizes are adequate and appropriate and the method of sample selection is properly documented;
- conduct of audit in accordance with the audit plan and strategy, modified as necessary during the course of the audit;
- working papers provide appropriate and adequate audit evidence to support conclusions reached;
- identification of areas of weakness in internal controls for PACS.

The review of audit files should be evidenced by signatures on the working papers and notes of the reviewer/s.

### 8.3 DISCUSSION WITH PACS MANAGEMENT

Upon completion of the audit and review of the audit files by the senior most member of the audit team and preparation of the “Schedule of Defects” (*refer Model Audit Report at Appendix 1*), these observations should be discussed with the secretary/president of the PACS and where necessary, with the members of the management committee for necessary clarifications and resolutions.

The process of communication and discussion with PACS management should happen:

- during the course of audit by the field auditors through half margin memorandum/others acceptable communication modes to elicit replies/responses to the audit observations and defects; and
- upon the closure of the audit and before formalizing the audit opinion and audit report.

At the time of audit closure and discussion with the management of PACS either the DRCS or one of the senior auditors not involved in the field audit should be present along with the audit team. These discussions should ensure that the irregularities/defects that remain unresolved during the course of audit are taken to the notice of the secretary/president in order to resolve as many defects as possible prior to the issue of audit report.

If the audit defects were serious in nature such as frauds or embezzlement etc., these should be communicated to the RCS as the administrative authority for necessary action. All such defects must be disclosed in the audit report either as “disclosures” or by “qualification” of the audit report depending upon the impact such defects may have on the financial statements subjected to audit.

### 8.4 AUDIT COMPLIANCE

Compliance by PACS to the observations made by Auditors should be submitted either during the course of audit or prior to closure of audit and issue of audit report by the auditors. Unresolved issues should be reported in the Audit Report and their compliance should be monitored by Auditors in the following year of audit.

### 8.5 AUDIT OPINION

Upon conclusion of audit closure meetings with the management of PACS and making of audit led adjustments to the financial statements, the auditors should form an audit opinion based on the review of the financial statements and the audit evidence an audit conclusion schedule shall be filled in and signed by the auditors including the reviewer.

A draft audit report based on such opinion shall be made and issued to the PACS. To this audit report the financial statements together with notes and schedules that were the subjected to audit shall be annexed.

# 9 Audit Rating and Audit Classification

Rating enables stakeholders to get a correct perspective on the working and stability of the PACS audited by independent auditors (whether department auditors or chartered accountants) and promote the development of the business and governance of the PACS by implementation of suitable corrective actions. However, rating in order to be effective requires definition of peer groups and setting up necessary minimum overall rating and minimum criteria wise ratings. Ratings should be based on standard profitability/financial stability ratios as suggested in the *Table -1* of section – 5.10 (Analytical Procedures) and also the rating tools to be developed using these ratios.

## 9.1 AUDIT CLASSIFICATION

Based on individual ratings for each sub criteria and the overall rating PACS should be classified into 4 groups as below:

- **Group A** – PACS securing 70% and above marks as per the scoring suggested herein.
- **Group B** – PACS securing 50% – 69% marks as per the scoring suggested herein.
- **Group C** – PACS securing 35% - 49% marks as per the scoring suggested herein.
- **Group D** – PACS securing less than 35% marks as per the scoring suggested herein.

## 9.2 SCORING NORMS FOR RATING

*Table 2* below details main criteria, sub criteria and min and max marks which are suggestive in nature. The actual rating to be given by the auditors will depend upon their professional judgment and will be linked to nature and impact of audit observations and the performance ratios computed by the auditors using the audited financial statements.

**TABLE 2: RATING CHART BASED ON MAIN AND SUB CRITERIA**

S. No	Main criteria for audit rating	Sub criteria for audit rating	Max marks for each sub criteria	Total max marks
1	Statutory/Administrative Compliances	<ul style="list-style-type: none"> <li>a. Elections are held on time</li> <li>b. General body meetings are held as per the Act and the byelaws</li> <li>c. Management committee meetings are held as per byelaws</li> <li>d. Audit defects rectified in time</li> <li>e. Legal action against defaulters taken in time</li> </ul>	<ul style="list-style-type: none"> <li>2</li> <li>2</li> <li>2</li> <li>2</li> <li>2</li> </ul>	10
2	Effective internal controls and efficient MIS	<ul style="list-style-type: none"> <li>a. Segregation of duties is effective</li> <li>b. Internal checks and balances are adequate</li> <li>c. Expenditure is properly authorised and approved prior to its accounting</li> <li>d. Prescribed accounting books and records maintained.</li> <li>e. No errors in ledger balancing</li> <li>f. Controls on assets of PACS are adequate</li> <li>g. MIS as recommended by NABARD is implemented</li> </ul>	<ul style="list-style-type: none"> <li>2</li> <li>2</li> <li>2</li> <li>2</li> <li>2</li> <li>2</li> <li>3</li> </ul>	15
3	Capital structure and capital adequacy	<ul style="list-style-type: none"> <li>a. Capital adequacy ratio is in accordance with NABARD rules</li> <li>b. Growth in share capital and reserves is at least 10%</li> </ul>	<ul style="list-style-type: none"> <li>5</li> <li>5</li> </ul>	10
4	Profit earning capacity	<ul style="list-style-type: none"> <li>a. PACS incurred operating losses for the year.</li> <li>b. PACS incurred operating profit but not adequate to make necessary provisions and transfer to statutory reserves.</li> <li>c. Profits are adequate to make provisions and transfer to statutory reserves.</li> <li>d. Profits are adequate to declare dividends</li> </ul>	<ul style="list-style-type: none"> <li>0</li> <li>1</li> <li>3</li> <li>5</li> </ul>	5

5	Liquidity, credit and financial stability	<ul style="list-style-type: none"> <li>a. Recovery of loans greater than 95% of demand (dues) 5</li> <li>b. Recovery of loans is between 65% -94% of demand (dues) 3</li> <li>c. Recovery of loans less than 65% of demand (dues) 0</li> <li>d. % of NPAs greater than 5% 0</li> <li>e. % of NPAs less than 5% 5</li> <li>f. (Owned funds +deposits ) cover at least 50% of loans 3</li> <li>g. Owned funds are at least 10% of total assets 3</li> <li>h. (Owned funds +liabilities with maturity of greater than 1 year) cover assets with maturity of greater than 1 year 3</li> <li>i. Loans to deposit ratio at least 1:1 3</li> <li>j. Growth in deposits is at least 10% 3</li> <li>k. Growth in loans is at least 15% 3</li> <li>l. Bad debts written off fully covered by Reserves. 3</li> <li>m. Average loan per member repayable to DCCB always less than average loan per member 3</li> <li>n. Return on total assets is greater than 1 3</li> <li>o. Interest on loans is higher by at least 1% than interest on borrowings. 3</li> </ul>		40
6	Productivity and general business parameters	<ul style="list-style-type: none"> <li>a. Increase in total deposits per employee 5</li> <li>b. Increase in total loans per employee 5</li> <li>c. Decrease in transaction cost 5</li> <li>d. Increase in net margin 5</li> </ul>		20





# 10 Audit Report

## 10.1 AUDIT REPORT ON FINANCIAL STATEMENTS

The auditor's report on financial statements is a report issued as a result of an audit performed by the auditor/s on the financial statements of PACS. The auditor's report expresses a clear written opinion on the financial statements based on conclusions drawn from the audit evidence gathered by the auditors during the process of audit.

Auditors report should be addressed to the members of the PACS and/or the authority appointing the auditors. The report should identify the financial statements subjected to audit and must clearly state that the preparation of those financial statements is the responsibility of the management of PACS and auditor only expresses an opinion. It should identify the scope, particularly where such scope is determined by a statutory Act and include a statement that the audit was performed to obtain reasonable assurance that the financial statements are free of material misstatements. It should indicate the financial reporting framework and express a clear opinion as to whether the financial statements present a true and fair view and comply with the statutory requirements.

When the auditor concludes that the financial statements give a true and a fair view, an unqualified opinion should be expressed; However if the circumstances warrant, the auditor should qualify the report but clearly state in the body of the report the nature of defect/deficiency due to which the report has been qualified. Examples for such qualified opinions are: (i) limitations on the scope (ii) disagreement with the management on the nature and type of accounting policies followed (iii) non adherence with the accounting standards, if applicable (iv) inadequate disclosures (v) wrong accounting leading to distortion of financial statements etc.,

The balance sheet as on 31<sup>st</sup> March and the profit & loss account for the year ended on that date which were subjected to audit should be appended to the auditor's report and properly signed by the auditors along with the audit report. In addition the schedules to the balance sheet and the P&L account and notes on accounts annexed to the financial statements shall also be signed by the auditors along with the management of PACS.

A model format of auditor's report is attached at *Appendix -1*.

## 10.2 ANNUAL REPORT OF THE MANAGEMENT AND AUDITORS AGREEMENT THEREOF

Generally, an auditor's report is confined to the expression of an opinion on the financial statements. The Cooperative Societies Act in some states seeks a narrative report in addition to a normal auditor's report. To quote from the Tamil Nadu Cooperative Audit Manual:

*“The reporting of audit does not end with the certifying to the correctness of the final accounts..... with several supporting documents and declaring the net profits available for distribution in accordance with the provisions of the Act, the Rules and the Bylaws of the societies. Such statements are intelligible only to people, who have sufficient knowledge of accounting. As the statements are intended for the members of the society, many of whom are not conversant with the techniques of accounting, it is but proper and imperative that a narrative report is attached to the final accounts by the auditors. This report should contain a review of the financial working of the institutions, its achievements and its shortfalls, commissions and omissions.” Again “it is not the quantity, but the quality of the report that matters.”*

Similar requirements appear to exist in some other states as well. This narrative report is akin in several ways to the “Annual Report” published by Corporate Institutions. However, preparation of this report should be the responsibility of the management of PACS and auditors should only state their agreement to the facts and opinions stated in such report.

Accordingly, a model annual report is attached at **Appendix 2**. This may be adopted with suitable customization deemed necessary by the auditors.



## 11

# Glossary of Terms Used in the Manual

Term	Description/Explanation
Accounting system	Refers to the significant accounting records and documents and accounting and financial reporting process beginning with initiation of transactions and ending with their inclusion in the financial statements.
Analytical procedure/Review	Refers to studying of ratios and trends and finding the reasons for unusual fluctuations/variances.
Assertions	Representations by the Management, in any form, that are used by the auditors to consider potential misstatements that may occur.
Audit documentation (Also referred to as work papers)	Record of work papers prepared by the auditors or obtained by the auditors for the work done, results obtained and conclusions reached. Documentation can be either through permanent Audit File or current audit file.
Audit evidence	Refers to the information collected, examined and used by auditors to draw conclusion the true and fair presentation of financial statements that are subject to audit. Audit evidence may be internal and external.
Audit materiality	It refers to the importance of a transaction/amount/discrepancy/defect when seen/judged individually or in aggregate. Materiality levels for audit should be estimated at the audit planning stage and is a matter of professional judgment.
Audit sampling	Refers to applying audit procedures to less than 100% of transactions.
Audit team/Engagement team	The team of all audit staff and other personnel carrying out an audit. This also includes any experts consulted in the course of audit.
Audit plan	A document containing the overall audit strategy, detailed audit programmes covering timing and extent of audit procedures and audit calendar.
Assurance	Assertion that financial statements subjected to audit do not contain any material misstatements.
Business risk	Risk resulting from any events, conditions, actions or inactions that could adversely affect an entity's ability to achieve its objectives.
Confirmation	Refers to a response received to corroborate information in the accounting records of PACS.
Computation	Refers to the checking of arithmetical accuracy of an accounting record or performing an independent calculation.

Term	Description/Explanation
Internal controls	System of processes, procedures and activities designed and implemented by the Management to provide assurance on reliability of financial reporting, effectiveness and efficiency of operations, safe guarding of assets and compliance with applicable laws.
Inspection	Refers to examination of records, documents or tangible assets.
Inquiry	Refers to seeking appropriate information from others either inside the PACS or outside the PACS
Lead schedule	A schedule at the beginning of audit documentation that summarizes the detailed schedules. It also refers to a columnar working paper combining the similar ledger accounts the total of which appear as a single item in the trial balance/balance sheet/profit & loss account.
Material weakness	Weakness in internal controls that could materially affect the financial statements.
Observation	Refers to witnessing a process or a procedure being performed by operating staff.
Professional Independence	The professional judgment is not subordinate/subordinated to any other consideration or influence.
Substantive audit procedures	Refers to the audit procedures for test of details of transactions/class of transactions, account balances and other disclosures and also the analytical procedures to be employed by auditors
Test of controls	Refers to audit procedures designed to test the effectiveness of controls in preventing or detecting and correcting material misstatements. Typically these are done by a "walk-through" test which means select samples of transactions are traced through the accounting system.

# Annexures

## ANNEXURE 1 PERMANENT AUDIT FILE CHECKLIST

### OBJECTIVE:

The purpose of this checklist is to set out the minimum documentation that should be included in the PACS permanent file. The original working papers in the permanent file must be updated at each audit. Superseded information should be transferred either to the current year's audit file or to the correspondence file (if relevant to the company's history). Use "UD" for updated and "X" against information not updated and "N/A" for not applicable. The information history should be captured for at least 3 years.

Information	200-	200-	200-
Section 1: General information Update details of locations.			
Update organization chart and details of principal contacts.			
Update the description of business, activities and relevant business and market information.			
Update the documentation of accounting and internal control review including the governance structure.			
Update changes in accounting policies including changes in estimates for depreciation, impairment provisions and obsolete stock.			
File copies of latest management letter with client comments.			
Section 2 and 3: Statutory and other information File updated copies of the byelaws/society regulations/circulars executed/issued during the year.			
Update extracts of management committee/general Body meeting minutes having audit significance and file copies of all resolutions passed during the year.			
File copies of charges created/discharged during the year.			
Section 4: Audit information Update audit planning and audit programmes checklists			

Information	200-	200-	200-
Update information on revised bank mandates and signatories.			
Section 5: Legal agreements Update information regarding all leases, property titles and other agreements and title documents of continuing audit importance and remove document not required.			
Update information on guarantees, indemnities and other contingent liabilities of PACS			

## ANNEXURE 2 CURRENT AUDIT FILE – CHECK LIST

### OBJECTIVE:

The current audit file should contain in a logical manner the evidence to support the opinion on the financial statements.

<b>1.</b>	<b>Financial statements and reports - final</b>
1.01	Copy of the signed financial statements
1.02	Signed letter of representation
<b>2.</b>	<b>Financial statements and reports</b>
2.01	Financial statements
2.02	Management letter
2.03	Other information to be issued with financial statements checklist
<b>3.</b>	<b>Audit completion and review</b>
3.01	Overall audit conclusion
3.02	List of audit errors/observations
3.03	Review notes of DRCS/ARCS
3.04	Consultations and conclusions
3.07	Matters for RCS attention
3.10	Notes on audit exit meetings with PACS
3.13	Summary of outstanding issues
3.14	Summary of unadjusted errors
3.15	Points carried forward to subsequent audit
<b>4.</b>	<b>Checklists</b>
4.01	Subsequent events review programme
4.02	Going concern review programme
4.03	Societies Act/byelaws checklist
4.04	Check lists of accounting policies
<b>5.</b>	<b>Planning and control</b>
5.01	Audit planning and audit scheduling checklist
5.02	Overall audit strategy and plan
5.03	Client acceptance questionnaires
5.04	Materiality
5.06	Analytical review
5.07	Analytical review working papers
5.08	Understanding the entity's business
5.09	Understanding the entity and its internal control
5.10	Risk assessment and approach to assessed risk
5.11	Assessment of fraud risk
5.12	Systems notes
5.13	Points brought forward from previous audit
5.14	Previous year's management letter
5.15	Previous year's approved financial statements
5.16	Permanent audit file review checklist
5.17	Standard auditing

<b>6.</b>	<b>Trial Balance and Adjustments</b>
6.01	Trial balance
6.02	Trial balance audit programme
6.03	Client's draft accounts
6.04	Adjusting journal entries
<b>A.</b>	<b>Intangible Assets</b>
A.01	Lead schedule
A.02	Audit programme
A.03	Working papers
<b>B.</b>	<b>Assets</b>
B.01	Lead schedules
B.02	Audit programme
B.03	Working papers
B.04	Test of controls
B.05	Physical verification report and depreciation schedule
<b>C.</b>	<b>Inventories</b>
C.01	Lead schedule
C.02	Audit programme
C.03	Working papers including physical verification report
C.04	Stock attendance
C.05	Test of controls
<b>D.</b>	<b>Trade and other receivables</b>
D.01	Lead schedule - trade receivables
D.02	Lead schedule - other receivables
D.03	Audit programme
D.04	Working papers
D.05	Test of controls
<b>E.</b>	<b>Cash and bank balances</b>
E.01	Lead schedule
E.02	Audit programme
E.03	Working papers
E.04	Bank confirmation and cash certificates
E.05	Test of controls
<b>F.</b>	<b>Trade and other payables</b>
F.01	Lead schedule - trade payables
F.02	Lead schedule - other payables and accruals
F.03	Audit programme
F.04	Working papers
F.06	Test of controls
<b>G.</b>	<b>Borrowings</b>
G.01	Lead schedule - loans
G.02	Lead schedule – overdraft
G.03	Audit programme
G.04	Working papers

G.05	Test of controls
<b>H.</b>	<b>Provisions for liabilities and charges</b>
H.01	Lead schedule
H.02	Audit programme
H.03	Working papers
H.04	Test of controls
<b>I.</b>	<b>Capital and reserves</b>
I.01	Lead schedule – capital
I.02	Lead schedule – reserves
I.03	Audit programme
I.04	Working papers
I.05	Copy of MC minutes
I.06	Copy of GB minutes
<b>J.</b>	<b>Commitments and contingencies</b>
J.01	Lead schedule - capital commitments
J.02	Lead schedule – contingencies
J.03	Audit programme
J.04	Working papers
J.05	Test of controls
<b>K.</b>	<b>MC Members emoluments and transactions</b>
K.01	Lead schedule
K.02	Audit programme
K.03	Working papers
<b>L.</b>	<b>Cash Flow Statement</b>
L.01	Lead schedule
L.02	Audit programme
<b>M.</b>	<b>Income</b>
M.01	Lead schedule – turnover
M.02	Lead schedule – interest
M.03	Other income
M.03	Audit programme
M.04	Gross profit analysis
M.05	Working papers
M.06	Test of controls
<b>N.</b>	<b>Expenditure</b>
N.01	Lead schedule - cost of sales
N.02	Working papers - cost of sales
N.03	Lead schedule - direct costs
N.04	Working papers - direct costs
N.05	Lead schedule - employment expenses
N.06	Working papers - employment expenses
N.07	Lead schedule - administrative expenses
N.08	Working papers - administrative expenses
N.09	Lead schedule - establishment expenses

N.10	Working papers - establishment expenses
N.11	Lead schedule - selling and distribution expenses
N.12	Working papers - selling and distribution expenses
N.13	Lead schedule - finance costs
N.14	Working papers - finance costs
N.15	Audit programme
N.16	Test of controls



## ANNEXURE 3 AUDIT PLANNING – CHECK LIST

### OBJECTIVES:

- to develop a suitable audit plan as required by Generally Accepted Audit Standards in order to provide a method of gathering sufficient, relevant, reliable audit evidence to support the audit opinion;
- to provide a quality service and to minimise the audit risk;
- to conduct the audit in the most cost effective manner.

Detailed contents	W/P Reference
1. Independence	
2. Factors affecting strategy	
Terms of engagement	
Review of last years and file and points brought forward from last year	
Review of business environment	
Understanding clients business and internal control	
Analytical review	
Risk assessment	
3. Audit strategy	
Materiality	
Key audit risks and approach to assessed risk	
Substantive or compliance testing	
Sampling techniques	
Analytical review	
4. Administration	
Allocation of audit areas	
Timetable	
Other matters	

### CONCLUSIONS

I have reviewed the planning schedules and consider that the planning objectives have been achieved.

### FIELD AUDIT IN CHARGE

( \_\_\_\_\_ )

### DRCS/ARCS

( \_\_\_\_\_ )



## ANNEXURE 4 SPECIMEN AUDIT PROGRAMME

Name of the PACS \_\_\_\_\_

Audit for the Year Ended: \_\_\_\_\_

Name s of the audit resources \_\_\_\_\_

S. No	Aspects to be verified	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Remarks
1.	Cash book													
	Balancing													
	Vouching the receipts													
	Vouching the payments													
	Checking the posting													
	Totalling and casting													
	Checking the authorization of payments													
	Contra entries													
	<b>Bank book</b>													
	Balancing													
	Vouching the receipts													
	Vouching the payments													
	Checking the posting													
	Checking the bank re-conciliation statement (BRS) of each bank.													
	Checking the authorization of payment													
3.	Contra entries.													
	<b>Petty cash book</b>													
	Balancing													
	Vouching the payments.													







## ANNEXURE 5 BUSINESS UNDERSTANDING OF PACS

### OBJECTIVE:

To obtain a preliminary understanding of the PACS and its business environment.

### PROCEDURE:

Carry this form forward from year to year with appropriate modifications and place it in the *permanent* file. A copy of this form should be placed in the current period's audit file. Use separate sheets if documentation requires more space than is available on this form.

Period ended	PREPARED / UPDATED BY	Reviewed by

### MEMBERS, COMMITTEE AND OFFICERS

#### MEMBER PROFILE

Profile	200-	200-	200-
Male			
Female			
Total			
Borrowing members			
Non borrowing members			

#### MANAGEMENT COMMITTEE MEMBERS

Name	Designation	Board responsibilities

#### ORGANISATION CHART

(This differs from PACS to PACS- To be updated continuously)

## KEY MANAGEMENT

Name	Responsibility

## BUSINESS DETAILS

Area	Details
Date of incorporation/registration	
Main location (Address)	
Sub locations (Addresses)	
Primary activity/ies	
Secondary activity/ies	
Key products	
Is the accounting computerised?	
Are there any special laws/regulations/circulars applicable to PACS?	
Are there any restriction on lending by PACS	

## TRADING AND MANUFACTURING AND OTHER FACILITIES:

	Location	Owned/leased/rented	W/P reference
Trading			
Loan & deposit business			
Processing facilities			
Others			

## GENERAL OPERATIONS

**Lending operations: Type of loans given to members and source for such loans**

**Sales: products**



**Purchase: Sources of purchases; products purchased**

--

**Production: (if any) – Products produced**

--

**LARGE SUPPLIERS TO PACS**

Name	Products purchased	Estimated annual volume/%	W/P reference

**LARGE CUSTOMER DETAILS**

Name	Products sold	Estimated annual volume / %	W/P reference

**RELATED PARTY DETAILS AND TRANSACTIONS: (RELATED TO SECRETARY/PRESIDENT AND OTHER MC MEMBERS)**

Name	Relationship	Transaction details with related parties	W/P reference



## ANNEXURE 6 MODEL INTERNAL CONTROL QUESTIONNAIRE

### OBJECTIVES:

The model internal control questionnaire is designed to assist the auditors in obtaining an understanding of the internal controls in specific audit areas. The questionnaire will assist the auditors to assess the extent of reliance that can be placed on the internal controls at PACS. The questions need to be answered using “yes”/”no” with additional comments as required. Assessment of controls is an important function to be carried out before undertaking the audit procedures to test controls.

		Yes / No	Comments
<b>1.</b>	<b>General Ledger</b>		
1.1	Are the ledgers balanced? Is the general ledger promptly updated and balanced?		
1.2	Are all journals supported and duly authorised?		
1.3	Are suspense accounts maintained? Are they reconciled, cleared with minimal delays and entries supported?		
1.4	Is there a clear description of what each account head in the general ledger should contain and where each account head should be summarised for management and statutory account purposes?		
1.5	Are entries in general ledger overwritten/corrected without proper authorisation or a Journal entry?		
<b>2.</b>	<b>IT Environment (If PACS accounts are computerised)</b>		
2.1	Is the accounting software properly installed and working without errors? Is there a proper supervision of the computerised accounting environment to ensure daybooks, ledgers is updated timely and financial statements are generated without errors?		
2.2	Are the accounting staff adequately trained to work in computerised environment?		
2.3	In a computerised environment, do the staff understand: <ul style="list-style-type: none"> <li>■ How the subsidiary ledgers are maintained and their link to the general ledger?</li> <li>■ How the master data is set and how changes to master data are affected?</li> <li>■ How source documents are captured in the subsidiary and the general ledger?</li> <li>■ Reconciliation procedures between control accounts and subsidiary ledger accounts?</li> </ul>		
2.4	Is access to accounting system restricted by use of passwords?		
2.5	Are there controls over access to data, posting of data and printing of data?		
2.6	Are data postings validated before the ledgers are updated?		
2.7	Can entries be altered and/or deleted from the accounting records without a formal and authorised journal entry?		

2.8	Are back-up copies taken regularly and stored away from the PACS premises?		
2.9	Are there any system failures during the year? Is the data properly restored from back up?		
2.10	Are anti-virus programmes installed and regularly updated?		
<b>3.</b>	<b>Fixed Assets</b>		
3.1	Is a Fixed Asset Register (FAR) maintained? Is it properly and timely updated?		
3.2	Are the assets physically verified yearly and differences identified and adjusted in the books?		
3.3	Are assets recorded on receipt in the general ledger and the register and are these tagged for ease of identification?		
3.4	Is the depreciation policy consistently followed and are the rates reflective of the useful lives of the assets?		
3.5	Is sale of assets properly authorised and recorded in FAR?		
3.6	Are assets under safe custody of authorised staff of PACS? Are the title deeds/log books kept in safe custody of authorised staff?		
3.7	Are assets adequately insured?		
3.8	Assets in possession of PACS officials should be confirmed by the respective official.		
<b>4.</b>	<b>Investments</b>		
4.1	Are investment limits defined for different types of investments by PACS?		
4.2	Are there any restrictions on purchase and sale of investments by PACS?		
4.3	Are the investments purchases approved by the management committee?		
4.4	Is there a detailed list of investments made by PACS? Is the total of such list reconciled with ledger account?		
4.5	Is there a proper control on investment instruments?		
4.6	Is income from investments accounted for on a regular basis?		
<b>5.</b>	<b>Inventories</b>		
5.1	Are Goods Received Notes (GRN) raised for receipt of goods? Are these pre-numbered by machine or manual?		
5.2	Is there a check of purchase order with GRN to ensure that goods sought to be bought are received?		
5.3	Are GRN's used to update inventory records?		
5.4	Are sales returns recorded vide GRN's?		
5.5	Are pre-numbered delivery notes/challans issued for despatch of goods?		
5.6	Are delivery notes/challans used as a basis of updating inventory records?		
Physical controls:			
5.7	Are inventories insured?		

5.8	Are inventories kept in the safe custody of the secretary or other authorised official of PACS?		
5.9	Are obsolete/damaged items identified and segregated?		
5.10	Is a list of inventory prepared periodically?		
5.11	Is stock physically verified at regular intervals? Are differences reconciled and losses ascertained properly?		
Valuation:			
5.12	Is the inventory valuation policy consistent and in accordance with Generally Accepted Accounting Practices?		
<b>6.</b>	<b>Sales and Receivables</b>		
6.1	Are sales done on credit? If so is credit approved by secretary or other authorised official of PACS?		
6.2	Is there a proper control on receivables from customers if sales are made on credit?		
6.3	Is sales pricing correctly done and approved by secretary or other authorised official?		
6.4	Are delivery notes/challans used to raise invoices and is there a check to ensure that all deliveries are invoiced?		
6.5	Are goods dispatched against approved delivery challans?		
6.6	Are invoices checked for conformity with delivery challans for arithmetic accuracy and are the price terms, discounts and rebates, credit terms, VAT and other taxes correctly recorded on the invoice? Are discounts allowed properly authorised?		
6.7	Are cash sales recorded at the time they are made?		
6.8	Are the sales totals reconciled to bank deposits and VAT and other statutory returns on a monthly basis?		
6.9	Are the debtors control account periodically reconciled to debtors listing totals ?		
6.10	Are receipts from debtors properly recorded using a pre-numbered receipt and banked immediately?		
6.11	In the case of pending cash sales, is the balance on the pending cash sale account duly reconciled to outstanding invoices?		
<b>7.</b>	<b>Bank and Cash</b>		
7.1	Is the cash sales controlled is it reconciled to the cash received?		
7.2	Is the cash banked daily and intact?		
7.3	Are initial records of receipts checked to bankings?		
7.4	Are all major payments made by cheque, credit transfer or other payment order?		
7.5	Is there a dual control on cheque books? Are cheques signed by two authorities?		
7.6	Are all payments checked to supporting documentation like purchase order, supplier delivery note, GRN, invoice and statement		

7.7	Are bills cancelled when paid and marked with the cheque number and Paid stamp.		
7.8	Are payment vouchers suitably authorised?		
7.9	Are all cheques sent out immediately on signing?		
7.10	Are cancelled cheques properly retained and controlled?		
Cash book and bank reconciliations:			
7.11	Is the cash book updated daily?		
7.12	Are bank statements reviewed by the secretary?		
7.13	Are bank reconciliations prepared regularly by and reviewed by the secretary?		
7.14	Are all unreconciled items reviewed and adjusted?		
7.15	Are vouchers properly supported by source documents and authorised for payment?		
7.16	Is the petty cash book regularly updated and reconciled to the cash balance and reviewed by the secretary?		
7.17	Is access to cash restricted?		
7.18	Is cash verified daily?		
7.19	Is cash adequately secured and insured?		
<b>8.</b>	<b>Purchases and Payables</b>		
8.1	Are pre-numbered purchase orders issued under the approval of secretary or other authorised officer?		
8.2	Are unfulfilled orders followed up?		
8.3	Are invoices received: <ul style="list-style-type: none"> <li>▪ Are they checked to evidence of receipt of goods or performance of services?; and</li> <li>▪ Are they checked for correct additions and extensions?</li> </ul>		
8.4	Are only original or certified copies of invoices to update accounting records?		
8.5	If invoices are not received are correct accruals made for supplies against receipt of all goods?		
8.6	Are cash purchases supported by invoices and bills?		
8.7	Are the purchase and expense totals reconciled to VAT and other statutory returns on a monthly basis?		
8.8	Are all returns made via pre-numbered delivery notes which are authorised by a responsible officer?		
8.9	Are credit notes received from suppliers compared to delivery challans and posted into the accounting records?		
8.10	Is a purchase ledger control account maintained?		
8.11	Are all invoices/credit notes correctly recorded in the purchase ledger and the totals posted to the respective purchase/expense, creditors control and the VAT control accounts in the general ledger and to the individual creditors account in the creditors ledger?		
8.12	Are all active accounts reflected on the creditors' listings?		

8.13	Are creditors' ledger balances: <ul style="list-style-type: none"> <li>reconciled to the creditor statement balances?</li> <li>reconciled to the control accounts and differences investigated and actioned?</li> </ul>		
8.14	Are all corrections/amendments to creditor balances approved by the secretary/authorised official of PACS?		
8.15	Are all transactions with secretary/MC members approved by the MC?		
<b>9.</b>	<b>Salaries and Wages</b>		
9.1	Are employees records maintained which contain: <ul style="list-style-type: none"> <li>Appointment letters and changes thereto;</li> <li>Increments and increase in salary;</li> <li>PAN and other statutory records;</li> </ul>		
9.2	Is payroll: <ul style="list-style-type: none"> <li>in agreement with the salary and benefits records in the employee file?</li> <li>reconciled to time records for overtime payments?</li> <li>reconciled to previous month's payroll for any differences?</li> </ul>		
9.3	Is there a control to ensure that all staff loans and advances are correctly recovered and the balances on loan / advance accounts are reconciled and reviewed by a senior official?		
9.4	Are amendments to the payroll approved by the secretary?		
9.5	Are salaries/wages records reviewed before signing the cheques for payment?		
<b>10.</b>	<b>Other Expenses</b>		
10.1	Are all expenses authorised by the secretary or other authorised official of PACS?		
10.2	Are there checks to ensure that: <ul style="list-style-type: none"> <li>the expenses are wholly and exclusively incurred for the purpose of PACS business;</li> <li>the supporting vouchers are correctly dated and originals or certified copies are in the PACS name;</li> </ul>		
<b>11.</b>	<b>General</b>		
11.1	Are budgets prepared and are these flexible?		
11.2	Are the budgets prepared annually? Are these budgets approved by the MC?		
11.3	Are budgets and actual compared periodically and variances properly investigated and explained?		
11.4	Is regular financial data available on: <ul style="list-style-type: none"> <li>Cash</li> <li>Sales</li> <li>Expenditure</li> </ul>		
11.5	Are cash flow, inventory and receivable forecasts prepared?		





## ANNEXURE 7 AUDIT PROGRAMME CHECKLIST- TRIAL BALANCE

	W/P Ref	Work completed initials and date	Remarks
<b>1. Opening balances</b>			
1.1 Check whether opening balances were correctly brought forward from last year's audited financial statements.			
1.2 Review the accounting policies and ensure that they are: <ul style="list-style-type: none"> <li>▪ Consistent with previous years; and</li> <li>▪ Comparable with policies of other PACS and suit the industry conditions</li> </ul>			
1.3 Where there is a change in accounting policies, ensure that: <ul style="list-style-type: none"> <li>▪ Such change is appropriate and not in contravention of GAAP</li> <li>▪ Opening balances adjusted accordingly; and</li> <li>▪ Adequately presented and disclosed.</li> </ul>			
<b>2. Comparatives</b>			
2.1 Match comparatives to prior years audited financial statements.			
2.2 In the event of reclassification of the previous year's comparatives, ensure: <ul style="list-style-type: none"> <li>▪ Accounting policies are amended to reflect the change in policy; and</li> <li>▪ Change is accounted for in accordance with applicable accounting standards.</li> </ul>			
<b>3. TRIAL BALANCE</b>			
3.1 Confirm journal entries and direct transfers in the general ledger with underlying documentation or authority.			
3.2 Check journal postings to the general ledger and vice-versa.			
3.3 Check additions of general ledger accounts.			
3.4 Check loans, deposits, payables and receivables listing totals to the general ledger control accounts.			
3.5 Check the extraction and additions of the trial balance.			
3.6 Check the trial balance to the financial statements and vice-versa.			



## ANNEXURE 8 AUDIT PROGRAMME – INCOME

	W/P Ref	Work completed initials and date	Remarks
<b>1. Lead schedule</b> Prepare a lead schedule setting out the summary of income as reported in the financial statements.			
<b>2. Accounting policies</b> Confirm that the accounting policies applied to income comply with Generally Accepted Accounting Policies.			
<b>3. Testing of controls</b> Test the key controls to conclude on their effectiveness of operation throughout the period.			
<b>4. Analytical procedures</b> Review income for reasonableness and consistency with previous years. Enquire into and obtain explanations for any unusual movements. For interest income perform an overall proof of interest received.			
<b>5. Substantive procedures</b>			
<b>5.1 Sales</b>			
5.1.1 Verify that entries in the initial records (customer order/dispatch records) can be traced to the general ledger and enquire into any missing numbers.			
5.1.2 Verify the serial number of documents to ensure completeness.			
5.1.3 Check pricing calculations and additions of invoices.			
5.1.4 Check discounts have been properly calculated.			
5.1.5 Check that debits in the sales account can be traced to claims by customers for credit notes, noting any delays in processing.			
5.1.6 Check the correctness of commission provisions to the initial records.			
5.1.7 Test computation of VAT, if applicable.			
5.1.8 Compare sales as reflected in the ledger and the VAT returns and investigate any differences.			
5.1.9 Verify any credits in the sales account for first few days of the next accounting period, with evidence of dispatch or performance, to identify whether sales are recorded in the correct period.			
5.1.10 Verify that dispatches or services in the last few days of the period, recorded in the initial records, are recorded as sales, if not already tested under "Inventory".			
5.1.11 Check any debits in the sales account in the last few days of the period, to supporting documentation, to ensure the amounts are recorded in the correct accounting period.			

	W/P Ref	Work completed initials and date	Remarks
5.1.12 Examine the following after date items to assess their relevance to the period: <ul style="list-style-type: none"> <li>▪ Invoices not yet recorded</li> <li>▪ Credit notes</li> <li>▪ Sales ledger adjustments.</li> </ul>			
5.1.13 Review the sales ledger account around the year-end for unusual items.			
5.1.14 Check the transfer to and calculation of cost of sales.			
<b>5.2 Investment income</b>			
5.2.1 Ensure that the audit work on investments income is completed when auditing investments and that it has been properly recorded on the income schedule.			
<b>5.3 Interest income</b>			
5.3.1 Obtain a list of interest received.			
5.3.2 Vouch a sample of receipts to supporting documents, e.g.: <ul style="list-style-type: none"> <li>▪ Bank statements</li> <li>▪ Loan agreements</li> <li>▪ Bank certificates.</li> </ul>			
<b>5.4 Impaired receivables recovered</b>			
5.4.1 Vouch any material/significant impaired receivables recovered ensuring that VAT has been properly treated.			
<b>5.5 Profit on disposal of property, plant and equipment</b>			
5.5.1 Agree profit on disposal of property, plant and equipment to work done on disposals under property, plant and equipment.			
<b>5.6 Other income</b>			
5.6.1 Calculate the percentage increase or decrease in individual items of other income and obtain explanation for significant unusual fluctuations.			
<b>6. Presentation and disclosure</b>			
Ensure that disclosure of income in the draft financial statements complies with IFRS, particularly IAS 18.			
<b>7. Additional tests</b>			
Consider whether any additional tests are required to achieve the audit objectives.			

## ANNEXURE 9 AUDIT PROGRAMME – GENERAL EXPENDITURE

	W/P Ref	Work completed initials and date	Remarks
<b>1. Lead schedule</b> Prepare a lead schedule setting out the summary of expenditure as reported in the financial statements.			
<b>2. Accounting policies</b> Confirm that the accounting policies applied to different heads of expenditure comply with Generally Accepted Accounting Policies			
<b>3. Testing of controls</b> Test the key controls to conclude on their effectiveness of operation throughout the period.			
<b>4. Analytical procedures</b>			
4.1 Review expenditure for reasonableness and consistency with previous years. Enquire into and obtain explanations for any unusual movements.			
4.2 Check if the overall expenditure is within the limits prescribed by the Coop Societies Act.			
4.3 Check if the expenditure is within the budget limits as approved by the affiliated DCCB.			
4.4 Purchases and cost of sales <ul style="list-style-type: none"> <li>▪ Compute the gross profit margin based on the sale price and cost of sale and document reasons for differences.</li> <li>▪ Document reasons for changes in gross profit margin from prior year.</li> </ul>			
4.5 Salaries and wages <ul style="list-style-type: none"> <li>▪ Compare number of employees in the current year to prior year and conclude whether increase/decrease in salaries and wages expense appears reasonable).</li> <li>▪ Check if there have been any increases in salaries of staff during the year that can explain the reason for increase in salaries and wages.</li> </ul>			
<b>5. Substantive procedures</b>			
5.1. Purchases and cost of sales			
5.1.1 Verify purchases in the purchase register and general ledger or cash book to supporting documentation: <ul style="list-style-type: none"> <li>▪ Books of prime entry;</li> <li>▪ Invoices;</li> <li>▪ Delivery notes.</li> </ul>			
5.1.2 Check those purchases are valid			
5.1.3 Test a sample of goods received notes with purchase invoices and other records to ensure they are complete.			

	W/P Ref	Work completed initials and date	Remarks
5.1.4 Check entries in the purchases ledger control account after the year-end and confirm that they relate to the following year.			
5.1.5 Select a sample of payments made in the following year to check that the liabilities for which the payments have cleared, have been recorded in the correct period.			
5.1.6 Select a sample of goods received notes of the following year to ensure the liability is recorded in the correct period.			
5.1.7 Check that items in transit have been correctly accounted for including: <ul style="list-style-type: none"> <li>▪ Goods received and not invoiced;</li> <li>▪ Unprocessed items;</li> <li>▪ Unmatched goods received;</li> <li>▪ Unmatched suppliers' invoices</li> <li>▪ Unmatched credit notes.</li> </ul>			
5.2. Salaries and wages			
5.2.1 Check ledger postings from payroll to salary accounts and reconcile any differences between the gross pay as per payroll and general ledger.			
5.2.2 Check the salary figures on the payroll to: <ul style="list-style-type: none"> <li>▪ Pay and benefit details in the employment letters, personnel files or salary lists;</li> <li>▪ Attendance records</li> <li>▪ Bonus and commissions to authorisations;</li> <li>▪ Overtime to overtime reports.</li> </ul>			
5.2.3 Check the records relating to payments to part time and casual workers, ensuring proper records have been maintained, and deductions have been dealt with correctly.			
5.2.4 Ensure that statutory deductions like PF, PT ESI, IT were deducted and remitted on a timely basis to the respective authorities.			
5.2.5 Select a few entries on the payroll with cash/bank book to ensure that they are paid correctly.			
5.2.6 Check by physical verification personnel records of a few employees.			

## ANNEXURE 10 AUDIT PROGRAMME – FIXED ASSETS

	W/P Ref	Work completed initials and date	Remarks
<p><b>1. Lead schedule</b></p> <p>1.1 Prepare a lead schedule.</p> <p>1.2 Prepare a schedule setting out the movement in the assets for the audit period.</p>			
<p><b>2. Accounting policies</b></p> <p>Confirm that the accounting policies applied to land, buildings, plant and equipment comply with applicable accounting standards.</p>			
<p><b>3. Testing of controls</b></p> <p>Test the key internal controls identified by the auditors to conclude on their effectiveness.</p>			
<p><b>4. Analytical procedures</b></p> <p>Review land, buildings, plant and equipment for reasonableness and consistency with previous years. Obtain explanations for any unusual movements.</p>			
<p><b>5. Substantive procedures</b></p> <p>Based on the above, and understanding of the entity and its accounting systems, tailor the substantive audit tests to provide sufficient assurance to enable conclude on the validity of each of the assertions.</p>			
<p>5.1 Compare land, buildings, plant and equipment as stated in the general ledger with the asset register and obtain explanations for any differences.</p>			
<p>5.2 Verify assets by:</p> <ul style="list-style-type: none"> <li>▪ Physical inspection; and</li> <li>▪ Examining the supporting records of their acquisition (for assets acquired during the audit period)</li> </ul>			
<p>5.3 Verify title to assets by:</p> <ul style="list-style-type: none"> <li>▪ Inspection of deeds; registration documents</li> <li>▪ Relevant purchase invoices</li> </ul>			
<p><b>Depreciation</b></p>			
<p>5.4 Review the reasonableness of depreciation rates, considering:</p> <ul style="list-style-type: none"> <li>▪ Compliance with IT rules/Accounting Standards</li> <li>▪ Estimated useful asset lives and Replacement policy</li> <li>▪ Previous gains or losses on disposals</li> <li>▪ Consistency with previous years</li> </ul>			
<p>5.5 Check the calculation of depreciation.</p>			

	W/P Ref	Work completed initials and date	Remarks
5.6 Ensure no further depreciation has been provided on fully depreciated assets.			
<b>Impairment</b>			
5.7 Consider the need for a provision for any impairment in value of assets due to external information, obsolescence and damage			
5.8 Check that impairment losses have been correctly calculated and disclosed.			
<b>Additions</b>			
5.9 Verify additions with invoices and other documentation.			
5.10 Confirm that value added taxes that are recoverable from the tax authority are not included in the capitalised cost of an asset.			
5.11 Check that purchases have been recorded in the property, plant and equipment register and in the correct general ledger account.			
5.12 Consider whether property, plant and equipment purchased are capital or revenue items.			
5.13 Investigate unusual additions.			
5.14 Identify additions that are not eligible for tax allowances and ensure that they have been correctly treated in arriving at the tax charge.			
<b>Disposals</b>			
5.15 Verify disposals with sales and purchase invoices.			
5.16 Check that items disposed of have been deleted from the general ledger and the Fixed Asset Register in the correct accounting year.			
5.17 Check the calculation of profit / loss, with reference to the WDV and any special charge of depreciation.			
5.18 Check whether the sale proceeds seem reasonable.			
5.19 Check to see if reorganisation of the business may have given rise to disposals that are not recorded.			
<b>Self- Constructed Assets</b>			
5.20 Verify total cost booked with supporting Work Order/Bills/Invoices and other documentation.			
5.21 Check that expenditure relating to the construction of the asset has been capitalised.			
5.22 Check that assets completed and brought into use have been transferred from Capital Work in Progress to respective asset account.			



	W/P Ref	Work completed initials and date	Remarks
<b>Charges and Commitments</b>			
5.23 Discuss with secretary/management committee to verify any encumbrances, commitments, charges or liens which may need disclosure; Check supporting documents.			
5.24 Verify capital commitments with bank letters, loan agreements and authorisations.			
5.25 Review invoices, orders and minutes for evidence of capital commitments.			
<b>Related expenditure and income</b>			
<b>Repairs and Maintenance</b>			
5.26 Consider the capitalisation policies to ensure that they are correct and recognise asset properly.			
5.27 Verify repairs and maintenance expenditure with supporting documentation to ensure the segregation of capital and revenue is correct.			
<b>Income</b>			
5.28 Scrutinise fixed assets and enquire about assets which are not producing revenue that would be expected to do so. (for e.g. godown not rented out and lying unoccupied)			
<b>Capitalisation of Interest</b>			
5.29 On borrowings for purchase of assets confirms that any interest paid is properly capitalised.			
5.30 Check that all capitalised interest has been identified.			
<b>6. Scrutiny</b>			
Scrutinise the general ledger and Asset Register and cashbook for unusual items.			
<b>7. Presentation and disclosure</b>			
Ensure that the assets are properly disclosed in the draft financial statements			





## ANNEXURE 11 AUDIT PROGRAMME – BORROWINGS

	W/P REF	Work completed initials and date	Remarks
<p><b>1. Lead schedule</b> Prepare a lead schedule with movements in the current year from previous year</p>			
<p><b>2. Accounting policies</b> Confirm that the accounting policies applied in recording borrowings comply with Generally Accepted Accounting Policies</p>			
<p><b>3. Testing of controls</b> Test the key controls to conclude on their effectiveness.</p>			
<p><b>4. Analytical procedures</b></p> <p>4.1 Review borrowings for reasonableness and consistency with previous year/s. Enquire into and obtain explanations for any unusual movements.</p> <p>4.2 Perform detailed analytical review such as:</p> <ul style="list-style-type: none"> <li>▪ Review the actual interest expense against the previous year's expenditure;</li> <li>▪ Obtain confirmation accounts from DCCB and other lenders and trace the same with borrowing control account in the General Ledger.</li> <li>▪ Calculate the imbalance year wise and ensure that it is properly explained and reported.</li> </ul>			
<p><b>5. Substantive procedures</b></p> <p>5.1 Prepare the list of borrowings and match it with the trial balance.</p> <p>5.2 Inspect MC minutes, loan agreements with lenders and other evidence, to ascertain whether all loans have been recorded.</p> <p>5.3 Verify disbursements and repayments during the year with the bank book, MC minutes, loan agreements and corresponding entries in the borrowing control account in the General Ledger.</p>			

	W/P REF	Work completed initials and date	Remarks
<p>5.4 Obtain and verify confirmation from lenders for the following:</p> <ul style="list-style-type: none"> <li>▪ Outstanding balance at the balance sheet date.</li> <li>▪ Repayments and interest paid during the period;</li> <li>▪ Interest accrued but not paid at the balance sheet date;</li> <li>▪ Particulars of security for the loan;</li> <li>▪ Terms of repayment;</li> <li>▪ Status of Compliance with loan agreements</li> </ul>			
5.5 Check compliance with conditions of loan agreements at the balance sheet date, e.g. covenants, repayments required.			
5.6 If a loan was repaid during the year, ensure a statement of satisfaction from the lender was obtained.			
5.7 Verify interest paid as per bank book with control account and loan agreements; also verify interest accrued, is in accordance with loan agreements.			
5.8 If TDS was paid on interest ensure the same was properly accounted for.			
5.9 Check the calculation of weighted average interest rate of borrowings for the current year and that of previous year and ensure that variations if any are suitably explained.			
<p><b>6. Ledger scrutiny</b> Scrutinize loan accounts, statutory records, minutes and other correspondence for unusual items and borrowings not disclosed.</p>			
<p><b>7. Presentation and disclosure</b> Ensure that disclosures are properly made in the financial statements and ensure that trade liabilities and borrowings are not mixed up.</p>			
<p><b>8. Additional audit tests</b> Consider whether additional tests are required to achieve the audit objectives.</p>			

## ANNEXURE 12 AUDIT PROGRAMME – INVENTORIES

	W/P REF	Work completed initials and date	Remarks
<b>1. Lead schedule</b> Prepare a lead schedule.			
<b>2. Accounting policies</b> Confirm that the accounting policies applied to Inventories comply with Generally Accepted Accounting Practices.			
<b>3. Testing of controls</b> Test the key controls for their effectiveness of operation throughout the period.			
<b>4. Substantive procedures</b>			
4.1. Physical attendance at inventory count <ul style="list-style-type: none"> <li>▪ Obtain counting instructions for all counts whether or not a visit is proposed to all locations.</li> <li>▪ Evaluate the counting instructions for all principal locations.</li> <li>▪ Consider the likely areas of concern (inventories where there have been significant changes, areas where controls are weak).</li> <li>▪ Decide on the principal locations to visit, and also involvement of PACS officials or other experts.</li> <li>▪ Prepare count sheets to carry out physical count.</li> </ul>			
4.2 Tests at the inventory count <ul style="list-style-type: none"> <li>▪ Count physical inventory and compare with the PACS records to ensure accuracy.</li> <li>▪ Agree count results with stock records and reconcile differences before leaving the PACS premises.</li> <li>▪ Check third party goods have been properly identified.</li> <li>▪ Prepare an inventory count report for each location visited and obtain count sheets of PACS officials for locations not visited.</li> <li>▪ Ensure inventories which appear to be excessive, obsolete or damaged have been properly identified and noted for consideration to be written down.</li> </ul>			

	W/P REF	Work completed initials and date	Remarks
<p>4.3 Cut off tests</p> <ul style="list-style-type: none"> <li>▪ Select items from the goods inwards and goods outwards documents and trace to inventory records (sample to include the last goods inwards, outwards and goods returned documents noted during the count) to ensure they are included in the correct period.</li> <li>▪ Select items from the inventory records either side of the balance sheet date and trace to relevant goods inwards and outwards records to ensure they are included in the correct period.</li> <li>▪ Check that the last dispatches, prior to the count, have been excluded from final inventory and included in sales.</li> </ul>			
<p>4.4 After the inventory count</p> <ul style="list-style-type: none"> <li>▪ Verify final count sheets with rough count sheets used at the count and ensure that all count records have been incorporated in the final inventory records.</li> <li>▪ Follow through any matters outstanding from count.</li> <li>▪ Verify if the book inventory records (if kept) have been adjusted to the amounts physically counted or measured, and that all significant differences have been investigated.</li> <li>▪ Agree value of final count sheets to the general ledger.</li> <li>▪ Verify the client records of goods held by third parties with replies from third parties.</li> <li>▪ Scrutinise inventory sheets for unusual items.</li> </ul>			
<p>4.5 Valuation</p> <ul style="list-style-type: none"> <li>▪ Ensure valuation policies have been consistently applied and are appropriate to the business and not in contravention with GAAP.</li> <li>▪ Verify material prices with invoices and price lists.</li> <li>▪ Check whether the following costs have been treated correctly: <ul style="list-style-type: none"> <li>- Transport costs and duties have been included.</li> <li>- Trade discounts have been excluded.</li> <li>- Selling and distribution overheads have been excluded.</li> </ul> </li> </ul>			

	W/P REF	Work completed initials and date	Remarks
<ul style="list-style-type: none"> <li>▪ If inventory includes agricultural produce at the point of harvest, whether or not subsequently processed, test the reasonableness of the fair value at the point of harvest.</li> <li>▪ Verify if inventory is stated at lower of cost and net realisable value by:               <ul style="list-style-type: none"> <li>- Confirming current selling prices are not below the carrying amounts;</li> <li>- Checking adequate provision has been made for all anticipated losses;</li> <li>- Confirming adequate provision has been made against items which have been identified as obsolete or surplus to requirements;</li> <li>- Confirming provision has been made for costs identified as irrecoverable and all abandoned projects;</li> <li>- Reviewing activity on slow-moving or old items to see whether provision is required; and</li> </ul> </li> </ul>			
<b>5. Scrutiny</b> <ul style="list-style-type: none"> <li>▪ Scrutinise inventory records for unusual items.</li> <li>▪ Scrutinise inventory/quantity reconciliations and investigate unusual discrepancies.</li> </ul>			







APPENDIX 1 **MODEL AUDIT REPORT**

REGISTRAR OF COOPERATIVE SOCIETIES/ AUDIT  
DIRECTORATE

GOVERNMENT OF.....

MODEL AUDIT REPORT

FOR THE YEAR 20XX

OF

.....PACS/LAMPS

Audited by:



## DETAILS OF .....(NAME OF THE SOCIETY AUDITED)

1	Name of the society	
2	Full address of the society	
3	Regd. No. & Date	
4	Name of the administrative circle	
5	Society affiliation	
	Name of Financing Bank & its Branch	
	Name of the Central Society	
6	Name of the Block	
7	Area of operation	
8	Date of functioning	
9	Commercial Banks / Regional Rural Banks functioning under the area of operation of the society	
10	Year and period of audit	
11	Chronological number of audit	
12	Name & Address of the Secretary / Chief Executive and period of working	
	a) During the period under Audit	
	b) At the time of Audit	
13	Name of the President & Secretary/ Administrative Officer	
14	Name of the Custodian of records	
15	Authority of Audit	
16	Name & Designation of Auditor	
17	Place of Audit	
18	Date of Commencement and Completion of Audit and No of Audit Days.	

## THE MEMBERS OF .....SOCIETY

1. We have audited the attached Balance Sheet of .....(Name of the PACS) as at 31st March 20XX and the related *Receipts and Payments Account, Trading and Manufacturing Account and Profit & Loss Account* (delete that is not applicable) for the year ended on that date as annexed thereto. These financial statements are the responsibility of the Society's Management. Our responsibility is to express an opinion on those financial statements based on our audit.
2. We conducted our audit in accordance with the audit standards generally accepted in India and the applicable provisions of the Cooperative Societies Act, 19XX and the rules made there under. The audit standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the governance and administration of the Society, accounting principles used and estimates made by the management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We report that:
  - 3.1 We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
  - 3.2 In our opinion, proper books of accounts as required by law have been kept by the Society so far as it appears from our examination of those books.
  - 3.3 The Balance Sheet, *Receipts and Payments Account, Trading and Manufacturing Account and Profit & Loss Account* (delete that is not applicable) dealt with by this report are in agreement with the books of accounts.
  - 3.4 On the basis of "fit and proper" criteria as applicable to PACS and written representations taken on record by the Society from the members of Management Committee/members of the Board (delete that is not applicable) none of them is disqualified as on that date from being appointed as a member/director.
  - 3.5 In our opinion and to the best of our information and according to the explanations given to us the provision for non performing assets at .....(state the % to total advances)of the society as stated in the financial statements is fair and adequate.
  - 3.6 In our opinion and to the best of our information and according to the explanations given to us the said financial statements together with the notes on accounts thereon and attached thereto referred to in paragraph 3 above, give a true and fair view:
    - (a) In the case of the Balance Sheet, of the state of affairs of the Society as at 31<sup>st</sup> March, 20XX.
    - (b) In the case of the Receipts and Payments Accounts, of the receipts and payments relating to the transactions of the Society;
    - (c) In the case of Trading and Manufacturing Accounts, of the trading and manufacturing profit/loss (delete that is not applicable) for the year ended on that date.
    - (d) In the case of the Profit and Loss Account, of the profit/loss (delete that is not applicable) for the year ended on that date.

(Name and Signature of the DRCS/ ARCS issuing the Audit Report)

Place:

Date:

## BALANCE SHEET OF .....(NAME OF THE SOCIETY) AS AT 31<sup>ST</sup> MARCH 20XX

S. No.	Head of account	Schedule Ref	As at 31-3-20XX	As at 31-3-20XX
<b>CAPITAL &amp; LIABILITIES (SOURCES)</b>				
1	Own funds			
1.1	Share capital	1		
1.2	Reserves & funds	2		
1.3	Grants & subsidies	3		
2	Deposits and borrowings			
2.1	Deposits from members	4		
2.2	Borrowings from DCCB	5		
2.3	Borrowings from State Government	6		
2.4	Borrowings from others	7		
3	Current liabilities & provisions			
3.1	Liabilities	8		
3.2	Provisions	9		
	<b>Total of capital &amp; liabilities</b>			
<b>PROPERTIES &amp; ASSETS</b>				
4	Fixed Assets	10		
4.1	Gross value (Cost)			
4.2	Less: depreciation			
4.3	Net block			
4.4	Capital work in progress			
5	Investments	11		
6	Loans and advances to members			
6.1	Loans to members out of DCCB funds	12		
6.2	Other loans to members	13		
	<b>Gross loans and advances</b>			
6.3	Less: provision for NPAs	14		
6.4	Net Loans and advances to members			
7	Current assets and advances			
7.1	Closing Stock of Inventories	15		
7.2	Sundry debtors considered good			
7.3	Other assets	16		
7.4	Cash and bank balances	17		
8	Miscellaneous expenditure to the extent not written off			
	<b>Total of properties &amp; assets</b>			

As per our Audit Report Attached

For and on behalf of the Management Committee

(Name & Signature of the Auditor)

President/Secretary/Authorized Persons

Place:

Date:

## TRADING ACCOUNT OF ..... FOR THE YEAR ENDED MARCH 31 20XX

Debit			Credit		
Particulars	Current year	Previous year	Particulars	Current year	Previous year
Opening Stock of:			Sales of		
Fertilizers			Fertilizers		
PDS commodities			PDS commodities		
Others			Others		
Purchases of:			Commission		
Fertilizers			Other trade income		
PDS commodities			Closing Stocks		
Others			Fertilizer		
Trade Expenses			PDS commodities		
Transportation			Others		
Loading & unloading					
Godown rent					
Other expenses					
Gross profit to P/L A/c.			Gross loss to P / L A/c		
Gross total			Gross total		

As per our Audit Report Attached

For and on behalf of the Management Committee

(Name & Signature of the Auditor)

President/Secretary/Authorized Persons

Place:

Date:

## PROFIT & LOSS ACCOUNT OF .....FOR THE YEAR ENDED MARCH 31 20XX

Expenditure				Income			
Particulars	Sch Ref	Current year	Previous year	Particulars	Sch Ref	Current year	Previous year
Gross loss Tr. from trading A/c				Gross profit Tr. from trading A/c.			
Interest expended	20			Interest earned and accrued	18		
Establishment & other expenses	21			Other income	19		
Provision for NPAs	14						
Provision for OD interest receivable							
Provision for bad and doubtful debts							
Other provisions							
Net profit				Net loss			
Grand total				Grand total			

As per our Audit Report Attached

For and on behalf of the Management Committee

(Name & Signature of the Auditor)

President/Secretary/Authorized Persons

Place:

Date:

**(NAME OF THE SOCIETY)**

**SCHEDULES FORMING PART OF BALANCE SHEET & PROFIT & LOSS ACCOUNT**

**SCH-1 SHARE CAPITAL**

**A) AUTHORIZED SHARE CAPITAL**

S. No.	Class of share	As at 31-3-20XX			As at 31-3-20XX		
		Value per share	No. Of share	Amount	Value per share	No. Of share	amount
1	Individual						
2	Government						
3	Others						
	<b>Total</b>						

**B) PAID UP SHARE CAPITAL**

S. No.	Class of share	As at 31-3-20XX			As at 31-3-20XX		
		Value per share	No. Of share	Amount	Value per share	No. Of Share	Amount
1	Individual						
2	Government						
3	Others						
	<b>Total</b>						

**SCH-2 RESERVES & FUNDS**

S. No.	Type of Reserve	As at 31-3-20XX	As at 31-3-20XX
1	Reserve fund		
2	Capital Reserve		
3	Agriculture Credit Stabilization fund		
4	Dividend Equalization fund		
5	Building fund		
6	Common good fund		
7	Suspense (kept as reserve)		
8	Other Reserves (give details)		

### SCH-3 GRANTS AND SUBSIDIES RECEIVED

S. No.	Type of Grant/Subsidy	As at 31-3-20XX	As at 31-3-20XX
1	Building fund from State Govt		
2	Recapitalization Grant		
3	Managerial Subsidy		
4	Godown Subsidy		
5	Consumer Subsidy		
6	Subsidy for Members		
6.1	Crop Insurance subsidy		
6.2	Rehabilitation Grants		
6.3	Margin Money		
	<b>Total</b>		

### SCH-4 DEPOSITS FROM MEMBERS

S. No.	Types of Deposit	As at 31-3-20XX	As at 31-3-20XX
1	Saving Deposit		
2	Current Deposit		
3	Recurring Deposit		
4	Fixed Deposit		
5	Re-investment Deposit		
6	Other Deposits		
	<b>Total</b>		

### SCH-5 BORROWINGS FROM DCCB

S. No.	Type of loan	As at 31-3-20XX			As at 31-3-20XX		
		Amount borrowed	Amount repaid	Balance	Amount borrowed	Amount repaid	Balance
1	ST (SAO)						
2	MT/LT-Agri loan						
3	M T C loans						
4	RMTC loans						
5	Other loans						
6	NFS loans						
7	Loans against deposits						
8	C C loans (Procurement)						
9	CC Loans (PDS)						
10	CC Loans (Fertilizers)						
11	Others (give details)						
	<b>Total</b>						



### SCH-6 BORROWINGS FROM STATE GOVERNMENT

S. No.	Type of Loan	As at 31-3-20XX			As at 31-3-20XX		
		Amount borrowed	Amount repaid	Balance	Amount borrowed	Amount repaid	Balance
1							
2							
3							
4							
5							
6							
	Total						

### SCH-7 BORROWINGS FROM OTHER ENTITIES

S. No.	Name of the agency and Type of loan	As at 31-3-20XX			As at 31-3-20XX		
		Amount borrowed	Amount repaid	Balance	Amount borrowed	Amount repaid	Balance
1							
2							
3							
4							
5							
6							
	Total						

### SCH-8 LIABILITIES

S. No.	Nature of Liability	As at 31-3-20XX	As at 31-3-20XX
1	Sundry creditors for		
	Goods and services		
	Capital goods/assets purchased		
	Expenses		
2	Interest accrued but not due		
	On deposits		
	On borrowings from DCCB		
	On other borrowings		
3	Unclaimed dividend		
4	Advances from parties/customers		
5	Statutory liabilities		
	Total		

## SCH-9 PROVISIONS

S. No.	Nature of liability	As at 31-3-20XX	As at 31-3-20XX
1	Provision for NPAs		
	Standard assets		
	Doubtful assets		
	Bad assets		
	Loss assets		
2	Provision for expenses		
	For salaries and wages		
	For expenses		
3	Other provisions		
	Reduction in investments value		
	Reduction in value of stocks		
	Provision for doubtful debts		
	Unreconciled accounts		
	Suspense account		
	Income tax		
	Total		

**SCH-10 FIXED ASSETS**

S. No.	Type of fixed asset	% of depreciation	Gross Block			Depreciation (state method of depreciation)			Net value at the end of the year (31-3-20XX)
			Opening balance of cost	Additions during the year	Transfers/sale during the year	Total as at 31-3-20XX	Opening balance	For the year	
1	Land								
2	Buildings								
3	Plant & Machinery								
4	Computers and software								
5	Library								
6	Vehicles								
7	Furniture & fixtures								
<b>Total</b>									
	Capital Work in progress								
<b>Total</b>									
	Previous year								



## SCH-11 INVESTMENTS

S. No.	Nature of investment	As at 31-3-20XX	As at 31-3-20XX
1	Govt & other trust securities		
2	Share with other Cooperatives		
3	FD/TDRs/RIPs with DCCB / SCB		
4	FD/TDRs with other Banks		
5	Postal securities (NSC / KVP/deposits)		
6	Investment of Staff Provident Fund		
7	Investment of reserve fund		
8	FDR/TDRs with other PACS/Agencies		
9	Other investments (SBDR fund)		
	<b>Total</b>		

## SCH-12 DCCB LOANS AND ADVANCES TO MEMBERS

S. No.	Category of Loan	Scheme of the loan	O.D. at the beginning of year	Demand during the year	Total demand	Collection during the year	Balance O.D. the close of the year	% of Collection	Advance collection
a)	Agriculture (Loan wise)								
b)	Non-Agriculture (Loan wise)								
	<b>Total</b>								

## SCH-13 OTHER LOANS AND ADVANCES TO MEMBERS

S. No.	Agency wise category of loan	Scheme of the loan	O.D. at the beginning of year	Demand during the year	Total demand	Collection during the year	Balance O.D. the close of the year	% of collection	Advance collection
a)	Agriculture (Loan wise)								
b)	Non-agricultural (loan wise)								
	<b>Total</b>								



### G. DETAILS OF NPA PROVISIONING

S. No.	Particulars of assets	Amount	Rate of provision required to made	Amount of provision required	Provision already made	Provision required to be made during the year
1	Total loans & other assets					
	Standard Assets					
	Total NPA					
1.1	Sub standard asset within 3 years					
	Secured					
	Un-secured					
1.2	Doubtful assets 3 to 4 years					
	Secured					
	Un-secured					
1.3	Doubtful assets 4 to 6 years					
	Secured					
	Un-secured					
1.4	Doubtful assets above 6 years					
	Secured					
	Un-secured					
1.5	Loss/bad assets					
	<b>Grand Total</b>					

## SCH-15 INVENTORIES

### A. TRADING GOODS

	Controlled (Rs.)	Non Controlled (Rs.)	Total (Rs.)
Opening Stock			
Purchases			
Sales			
Closing Stock			

### B. FERTILIZER BUSINESS DURING THE YEAR

S. No.	Name of the fertilizer	Opening stock	During the year			Closing stock at the end of the year
			Volume of purchase	Volume of sale	Shortage if any	
Total in Value						

### C. PROCESSING /MANUFACTURING

Raw material used		Processed Goods			Semi product/WIP		Closing stock at the end of the year
Name	Volume	Name	Volume	% of Raw material used	Name	% of Raw material used	
Total Value							

## SCH-16 OTHER ASSETS

S. No.	Details of account	As at 31-3-20XX (Rs)	As at 31-3-20XX (Rs)
1	Interest Receivable on Standard Loans		
+	OD Interest Receivable		
+	Interest Receivable on Investments		
	<b>Total</b>		
-	Less: Provision for OD interest on NPAs		
=	Net Interest receivable		
2	Prepaid Expenditure		
3	Advances to Staff of PACS		
4	Other Assets		
	<b>Total</b>		

## SCH-17 CASH AND BANK BALANCES

Details of account	As at 31-3-20XX (Rs)	As at 31-3-20XX (Rs)
Cash in hand		
Current A/c. With DCCB/SCB		
Current A/c with other Banks		
Saving A/c with DCCB/SCB		
Saving A/c with other Banks		
Deposit with DCCB/SCB		
Deposit with other banks		
<b>Total</b>		

## SCH-18 INTEREST EARNED

Particulars	As at 31-3-20XX (Rs)	As at 31-3-20XX (Rs)
Interest due and received on member Loans		
Interest due but not received on member loans (Overdue Interest)		
Interest due and received on investments		
Interest due but not received on Investments		
Interest due and received on balances with DCCB		
Interest due but not received on balances with DCCB		
Interest on balances with other banks		
Other Interest		

## SCH-19 OTHER INCOME

Particulars	As at 31-3-20XX (Rs)	As at 31-3-20XX (Rs)
Admission fees		
Dividend received		
Rental income		
Commission and Brokerage		
Interest Subvention		
Profit (Loss) on sale of Investments		
Profit (Loss) on revaluation of Investments		
Profit (Loss) on sale of assets		
Miscellaneous .Income		
<b>Total</b>		



## SCH-20 INTEREST EXPENDED

Particulars	As at 31-3-20XX (Rs)	As at 31-3-20XX (Rs)
Interest due and paid on deposits		
Interest due but not paid on deposits		
Interest due and paid on DCCB Borrowings		
Interest due but not paid on DCCB Borrowings		
Interest due and paid on Govt borrowings		
Interest due but not paid on Govt Borrowings		
Interest due and paid on other Borrowings		
Interest due but not paid on other Borrowings		
Other interest		
<b>Total</b>		

## SCH-21 ESTABLISHMENT AND OTHER EXPENSES

Particulars	As at 31-3-20XX (Rs)	As at 31-3-20XX (Rs)
Audit fees		
Conveyance to staff and others		
Commission on deposits mobilized		
Depreciation		
Directors fee and allowances including reimbursement if any		
Electricity		
Insurance premiums		
Legal and professional charges		
Postage, telephones, fax and couriers		
Printing & stationary		
Rent, rates, and taxes		
Repairs and maintenance		
Salaries and Allowances including contributions to PF, Gratuity etc		
Subscriptions & memberships		
Travelling and incidental		
Vehicle maintenance		
Other expenses		
<b>Total</b>		

## SCH-22 ACCOUNTING POLICIES, NOTES TO ACCOUNTS AND AUDIT OBSERVATIONS

### 22.1 SIGNIFICANT ACCOUNTING POLICIES

- a. Accounts are based on historical cost basis and prepared in accordance with the Generally Accepted Accounting Principles. As on the date of this report, the Accounting Standards as prescribed by the National Accounting Standards Board, do not apply to the .....(name of the Society).
- b. Fixed Assets are stated at their cost of acquisition as on the date of their installation. Depreciation on assets is provided at the rates as prescribed by the Income Tax Act, 1961/the .....Societies Act/as recommended by the Registrar of Cooperative Societies vide order no..... *(delete whichever is not applicable)*.
- c. Inventories are valued at weighted average cost/at cost/at net realizable value (delete whichever is not applicable).
- d. Loans to Members are stated at their book values. However, provision for non performing assets has been made in accordance with and at the rates recommended by the Registrar of Cooperative Societies vide its order no.....
- e. Investments and current assets are stated at their realizable value.
- f. Capital and liabilities are stated at their respective book values.

### 22.2 NOTES ON ACCOUNTS

- a. Loans given by DCCB are secured by.....(state the nature of security...) and the security documents are held by .....(state who holds the documents i.e. DCCB or the PACS). Loans given by other agencies are secured by.....(state the nature of security) and the security documents are held by.....(state who holds the documents)
- b. Imbalances between DCCB and .....(name of the Society) as on 31-3-20XX amounted to Rs..... This imbalance arose due to : (state the reasons for the imbalances).
- c. During the year legal action was initiated in .....(given number of cases) having a total value of Rs.....for recovery of overdue loans from Members. In .....(given number of cases), decree was finalized for recovery/write off.
- d. Reconciliation of sub ledger and GL controls accounts was done in all except the following cases.....(give un-reconciled ledger balances). There were no differences noticed on such reconciliation. (There were differences on such reconciliation and the same have been explained/unexplained.) *Delete whichever is not applicable.*

### 22.3 AUDIT DEFECTS/DEFICIENCIES NOTED BY THE AUDITORS

S. No.	Audit Area	Defects/deficiencies as noted during the course of audit	Manner of disposal of defects/deficiencies
1	Compliance with previous year's audit report and pending issues, if any.		
2	Accounting records and registers maintained and examined.		
3	Membership Position (both male & female)	.	
4	Compliance with byelaws on the constitution of board/management of the PACS	.	
5	Board meetings held during the period under audit: convening of meetings as per provisions of byelaws; presence of quorum; any resolutions that deviate from the provisions of Byelaws/Societies Act; action taken on board resolutions		
6	Meetings of sub-committee, if any: convening of meetings as per provisions of byelaws; presence of quorum; any resolutions that deviate from the provisions of byelaws/Societies Act; action taken on board resolutions.		
7	Supersession of board if any and the relevant order no and date issued by RCS		
8	Details of competent authority if appointed on supersession of board		
9	Has any board member lost his/her qualification		
10	Staff position and irregularities, if any in appointments.		
11	Share capital	(Observation of maintenance of share capital register, reconciliation of share capital amount along with irregularities noticed in course of audit).	
12	Grants and subsidies received and utilized.		
13	Growth in the business of the society and its loans and advances		
14	Borrowings from DCCB/other financing agencies		
15	Interest on borrowings from DCCB and others		
16	maintenance of liquidity with reference to last year		
17	Investments by PACS		
18	Non performing assets and provision	.	
19	Irregularities in credit appraisal sanctions and credit monitoring		

S. No.	Audit Area	Defects/deficiencies as noted during the course of audit	Manner of disposal of defects/deficiencies
20	Deficiencies in internal controls		
21	Physical verification of Inventories		
22	Physical verification of borrowers and assets		
23	Budget and actual expenditure of PACS- variances and irregularities in approvals		
24	Ledger balancing		
25	Accounting errors and defects noticed in audit		
26	Provisions for interest payable and interest receivable		
27	Suspense accounts, if any and their settlement		
28	Cost of management		

## 22.4 AUDITORS' COMMENTS ON THE OVERALL WORKING OF THE SOCIETY

(Auditors should amongst others cover the following minimum details in this section:

- a. weaknesses observed in the governance of the society;
- b. non quantitative aspects of the working of the society, for example the nature of business, new business lines added, business discontinued, achievements of objectives of the PACS, shortfalls and areas of improvement, comparison with peers both in terms of membership and business activities etc.;
- c. quantitative aspects of PACS working like the achievement of budgets, loans disbursed and recovered, growth in deposits and loan portfolio, growth in other businesses, growth in turnover and profits or losses, dividend paying ability and whether dividends can be paid, etc.,
- d. audit Classification and audit compliances.

As per our Audit Report Attached

(Name & Signature of the Auditor)

For and on behalf of the Management Committee

(Secretary/President/Authorized Persons)

Place:

Date:

## APPENDIX 2 ANNUAL REPORT

### REGISTRAR OF COOPERATIVE SOCIETIES/ AUDIT DIRECTORATE

GOVERNMENT OF.....

ANNUAL REPORT

OF

.....PACS/LAMPS

(Other Information To Be Given With Auditor's Report)

Audited By:



## PART – A - SUMMARISED INFORMATION OF PACS

1	Name of the society	
2	Full address of the society	
3	Regd. No. & Date	
4	Name of the administrative circle	
5	Society affiliation	
	Name of financing bank & its branch	
	Name of the central society	
6	Name of the block	
7	Area of operation	
8	Date of functioning	
9	Commercial Banks/regional rural banks functioning under the area of operation of the society	
10	Year and period of audit	
11	Chronological number of audit	
12	Name & Address of the Secretary/chief executive and period of working	
	a) During the period under audit	
	b) At the time of audit	
13	Name of the President & Board of Directors/MIC/Administrator	
	a) During the year of Audit	
	b) At the time of Audit	
14	Name of the Custodian of records	
	a) During the year of audit	
	b) At the time of audit	
15	Authority of Audit	
16	Name & designation of auditor	
	a) Present	
	b) Last year.	
17	Place of Audit	
18	Days devoted for audit	
	a) Date of commencement of audit	
	b) Date of completion of audit	
	c) Total days devoted for audit	
19	Physical verification on the date of commencement of audit	
	i) Cash	
	ii) Bank deposits	
	iii) Securities if any.	
	iv) Postage	
	v) Others (Specify) TDRs etc.	
20	Insurance and its period of coverage	
	i) Cash	
	ii) Building & machinery	
	iii) Stocks	
	vi) Vehicles	
	v) DIGCC	

## **PART – B**

**OPERATIONS OF ..... FOR THE YEAR.....**

**1. AIMS AND OBJECTIVES ALONG WITH ACTIVITIES OF THE SOCIETY**

**2. BYE LAWS WITH UP TO DATE AMENDMENTS IF ANY**

**3. REVIEW OF BUSINESS OPERATIONS AND FINANCIAL  
PERFORMANCE OF PACS FOR THE YEAR .....**



## 4. MEMBERSHIP STATUS FOR THE YEAR (BOTH MALE & FEMALE)

### 4.1 DETAILS OF MEMBERS

Class of Mem-bers	Member position at the beginning of the year				Member enrolled during the year				Membership ceased during the year				Membership position at the end of the year											
	S.T		S.C		Gen		Total		S.T		S.C		Gen		Total		S.T		S.C		Gen		Total	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
'A' Class																								
'B' Class																								
'C' Class																								
Total																								

### 4.2 COMPARATIVE FIGURES OF MEMBERSHIP FOR LAST THREE YEARS

Year	Total membership		Loanee members		KCC Loanee members		Non KCC Loanee mem-bers		Remarks

### 4.3 MEMBERSHIP POSITION

i)	Small Farmers	
ii)	Marginal Farmers	
iii)	Big Farmers	



## 5. MANAGEMENT

### 5.1 MEMBERS OF THE MANAGEMENT COMMITTEE FOR THE YEAR

S. No.	Name of the member	Elected/nominated Board of Govt.	Designation	Date of assumption	Period of functioning

### 5.2 DETAILS OF MANAGEMENT COMMITTEE MEETINGS HELD DURING THE PERIOD UNDER AUDIT.

S. No.	Date of board meeting	No. of members attended	No. of Resolutions passed

### 5.3 DETAILS IMPORTANT RESOLUTIONS PASSED BY THE MC

S. No.	Date of board meeting	Subject matter of resolution	No of members attended the meeting

### 5.4 DETAILS OF SUB-COMMITTEES FORMED BY THE MC

## 6. DETAILS OF ANNUAL GENERAL BODY MEETING HELD

- date of general body meeting and members present;
- whether AGB was convened as per the provisions of Act and observance of quorum;
- no. of resolution passed;
- important resolutions passed by AGB;
- auditors views on the resolutions taken in the AGB;
- audit observations in the final audit report of C.S;
- appointment of staff and approval of Budget;
- any irregularities in holding AGB.

## 7. STAFF POSITION

### 7.1 PARTICULARS ON SANCTIONED STAFF STRENGTH

S. No.	Category of employee	Sanctioned strength	Name of the authority & sanctioned Order	Approved scale of pay	Present strength	Vacancy

### 7.2 PRESENT STAFF POSITION (INCLUDING DEPUTATION STAFF)

S. No.	Name of the employee	Designation	Order No. & Date of appointment	Educational qualification	Scale of pay	Present salary	Security deposit

## 8. SHARE CAPITAL

### 8.1 AUTHORIZED SHARE CAPITAL

Class of share	Value per share (Rs)	No. of share	Amount (Rs)
Individual			
Government			
Others			
Total			

## 8.2 PAID UP SHARE CAPITAL

Class of share	Value per share (Rs)	No. of share	Amount (Rs)
<b>Total</b>			

## 9. WORKING FUND

Rs.

Total Assets as per balance sheet as on .....	
Less:	
a. Contra items Prov. For un-reconciled account	
b. Fixed Assets	
c. Accumulated loss	
d. Misc expenditure to the extent not written off	
<b>Working fund</b>	

Year	Working fund	Working fund	Working fund

## 10. RESERVE FUNDS

Rs.

	Current year	Previous year
Reserve fund		
Capital Reserve		
Agriculture credit stabilization fund		
Dividend equalization FUND		
Building fund		
Common good fund		
Others (please specify)		

## 11. FINANCIAL ASSISTANCES IN SHAPE OF SUBSIDY/SHARE CAPITAL ASSISTANCES/GRANT/RECAPITALIZATION ASSISTANCES FROM GOVT/FINANCING BANK/OTHER AGENCIES ETC. .

Name of the agency from whom received	Purpose of receipt	Amount received (Rs)		Amount utilized (Rs)		Year end balance (Rs)
		Previous Year	Current Year	Previous Year	Current Year	

## 12. FUNDS UTILIZED IN THE BUSINESS (COMPARATIVE 2 YEARS FIGURE)

Rs

	Details of funds	Current year	Previous year
<b>A</b>	<b>Source of funds</b>		
1.	Members share		
2.	Govt. share		
3.	Reserve Fund		
4.	Other funds including R.A.		
5.	Loan from CCB		
6.	Loan from Govt.		
7.	Other loans		
8.	Deposits.		
	<b>Total</b>		
<b>B</b>	<b>Utilization of funds</b>	<b>Current year</b>	<b>Previous year</b>
1.	Investments		
2.	Loans & advances to members		
3.	Repayment of loans to DCCB and others		
4.	Working capital		
	<b>Total utilization</b>		
	<b>Difference =(A-B)</b>		

## 13. BUSINESS OF THE SOCIETY

### 13.1 COLLECTION OF DEPOSIT

Types of Deposit	As on the balance sheet date –current year (Rs)	As on the balance sheet date – previous year (Rs)
Saving deposit		
Current deposit		
Recurring deposit		
Fixed deposit		
Re-investment deposit		
Other deposits (Ps specify)		
<b>Total</b>		

### 13.2 BORROWINGS FROM DCCB/OTHER FINANCING AGENCY

Name of the financing agency	Scheme in which borrowing is availed	Amount borrowed (Rs)	Amount repaid (Rs)	Amount outstanding as at the close of the year (Rs)	Rate of interest

### 13.3 CASH AND BANK BALANCE, MAINTENANCE OF LIQUIDITY WITH REFERENCE TO LAST YEAR

Details of account	As on the balance sheet date –current year (Rs)	As on the balance sheet date – previous year (Rs)
Cash in hand		
Current A/c. With DCCB / SCB		
Current A/c with other Banks		
Saving A/c with DCCB / SCB		
Saving A/c with other Banks		
Fixed deposit with DCCB / SCB		
Fixed deposit with other banks		
Other Deposits (NSC with post office)		
<b>Total</b>		

### 13.4 DETAILS OF INVESTMENT

Nature of Investment	As on the balance sheet date –current year (Rs)	As on the balance sheet date – previous year (Rs)
Share with other cooperatives		
Investment with DCCB / SCB		
Investments with other Banks		
Postal securities (NSC/KVP)		
Investment of Staff Provident Fund		
Investment of reserve fund		
Other Investments (SBDR fund)		
<b>Total</b>		

### 13.5 DETAILS OF FIXED ASSETS

	Purchase value (Rs)	Book value (Rs)
Land		
Buildings		
Plant & Machinery		
Computers and Software		
Furniture & Fixtures		
Vehicles		
<b>Total</b>		

### 13.6 LOANS AND ADVANCES TO MEMBERS

Type of Loan/s	Sanctioned during the current year (Rs)	Sanctioned during the previous year (Rs)	Total Outstanding as on the date of balance sheet for current year (Rs)
<b>Total</b>			

### 13.7 DCCB LOANS

	Current year (Rs)	Previous year (Rs)	Total outstanding as on the date of balance sheet (Rs)
Demand			
Collection			
Balance			
<b>Total</b>			

### 13.8 ABSTRACT OF NON PERFORMING ASSETS

		Amount (Rs)	Required percent- age for provision	Provision re- quired	Provision made (Rs)
1.	Standard assets				
2.	Sub-standard assets (1 to 3 year)				
3.	Doubtful assets				
	D1 – (3 to 4 years)				
	i) Secured				
	ii) Un-secured				
	D2 – (4 – 6 years)				
	i) Secured				
	ii) Un-secured				
	D3 – (above 6 years)				
	i) Secured				
	ii) Un-secured				
4.	Loss/bad assets (-) Excess Balance				
	<b>Total</b>				

### 13.9 LEGAL ACTION TAKEN FOR RECOVERY OF LOANS

#### 13.9.1 CASES PENDING WITH LEGAL FORUMS

Particulars	Dispute stage		E.P. stage	
	No.	Amount	No.	Amount
Pending at the beginning of the year				
Cases filed during the year				
<b>Total</b>				
Cases finalized during the year				
Cases pending for finalization				

#### 13.9.2 CASE PENDING FOR E.P. AT SOCIETY LEVEL

Particulars	No.	Amount
Decree at the beginning of the year pending for EP		
Decrees received during the year		
<b>Total</b>		
After mutual recovery decree disposed		
After E.P. decrees disposed		

## 13.10 CONSUMER BUSINESS

### 13.10.1 CONSUMER BUSINESS - TRADING STOCKS VALUE

	Controlled (Rs)	Non Controlled (Rs)	Total (Rs)
Opening Stock			
Purchases			
Sales			
Closing stock			

- Value of Stock Verified -
- Value of differences if any (book balance-physical balance)

### 13.10.2 CONSUMER BUSINESS - FERTILIZER BUSINESS DURING THE YEAR

S. No.	Name of the fertilizer	Opening stock	During the year			Closing stock at the end of the year
			Volume of purchase	Volume of sale	Shortage if any	
Total Value for all types (Rs)						

### 13.10.3 CONSUMER BUSINESS - PROCESSING/MANUFACTURING

Raw material used		Processed goods			Semi product/WIP	
Name	Volume	Name	Volume	% of Raw material used	Name	% of Raw material used
Total value (Rs)		Total Value (Rs)			Total Value (Rs)	

## 14. BUDGET AND ACTUAL EXPENDITURE

S. No.	Particulars of income/ expenditure	Budget (Rs)	Actual (Rs)	Less (Rs)	Excess (Rs)	% of variance
Total						





## 19. DETAILS OF PENDING COMPLIANCE/RECTIFICATION ON AUDIT OBSERVATIONS OF PREVIOUS YEARS.

## 20. DEFECTS AND IRREGULARITIES OBSERVED DURING THE AUDIT FOR THE CURRENT YEAR.

## 21. AUDIT CLASSIFICATION

S. No.	Particulars	Full marks	Marks secured
1	Statutory & administrative compliances	10	
2	Effective internal controls and efficient MIS	15	
3	capital structure and adequacy	10	
4	Profit earning capacity	5	
5	Liquidity, credit and financial stability	40	
6	Productivity and general business parameters	20	

## 22. AUDIT REPORT – AS ENCLOSED

For and on behalf of .....Society

Subject to our Audit Report as attached

Secretary/President/Name of the Auditor/s  
Other Authorized Personnel

Place:

Date:

## APPENDIX 3 MODEL MANAGEMENT LETTER

### (RECOMMENDED MANAGEMENT REPRESENTATION LETTER TO BE OBTAINED FROM THE PACS MANAGEMENT)

To  
(Name and Address of the Auditors)

Dear Sirs,

**Sub: Audit for the year ended March 31, 20XX**

This letter is provided to you in connection with the audit of the financial statements of ..... (state the name of PACS) for the year ended March 31 20XX. We acknowledge our responsibility for preparation of financial statements in accordance with the applicable provisions of the Cooperative Societies Act and rules made thereunder and the generally accepted accounting policies and practices. We confirm that the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) do not apply to our Society. *(Alternatively if they apply please state so)*

We confirm the following representations:

#### 1. BUSINESS OF THE SOCIETY

During the year the Society has engaged itself in the following business activities:

(LIST OUT THE BUSINESS ACTIVITIES)

#### 2. INTERNAL CHECKS AND CONTROLS

In our opinion and to the best of our belief, the Society has implemented necessary internal checks and controls to ensure risks are minimized or otherwise well managed in its operations and accounting functions and preparation of financial statements are free of misstatements.

#### 3. ACCOUNTING POLICIES

The financial statements are prepared on accrual basis except as stated otherwise in the financial statements. The accounting policies which are material in nature comply with the Generally Accepted Accounting Policies and are consistent with those adopted in the financial statements for the previous year. There are no changes in the accounting policies followed during the current year. *(Alternatively, if there are changes, specify those changes).*

#### 4. ASSETS

- 4.1. The assets belonging to the Society have been properly accounted for; Cash balances, fixed assets, and stocks have been physically verified by the designated personnel of the Society during the year/ at the end of the year (strike out whichever is not applicable) and tallied with the amount stated in the balance sheet. The Society, to the best of our knowledge and belief, holds proper title to all its assets and that the assets are not encumbered in any way. (if there are encumbrances on assets state them here)
- 4.2. Cash, other securities and stocks have been adequately insured. (Alternatively if not insured state so)

- 4.3. Balances with DCCB and other banks have been confirmed and agree with the balances shown in the Balance Sheet.
- 4.4. All loans and advances stated in the Balance Sheet are fully recoverable and good except to those extent stated in the statements relating to the classification of loans and provisioning for NPAs; all loans have been classified and provisioning made for NPAs in accordance with the norms prescribed by the Registrar of Cooperative Societies and/or NABARD.
- 4.5. In our opinion and to the best of our knowledge, assets as stated in the Balance Sheet as at .....of the Society have been correctly stated and truly represent their cost/realizable value as the case may be.

## 5. LIABILITIES

- 5.1. All known liabilities have been correctly accounted and liabilities accrued but not discharged have been duly provided for in the accounts. These liabilities are existing and represent true obligations of the Society as on the date of the Balance Sheet.
- 5.2. All known claims on the Society and the losses have been provided for.
- 5.3. Interest accrued but not paid on deposits has been properly provided in the books of accounts.

## 6. CONTINGENT LIABILITIES

There are no liabilities which are of contingent in nature except to the extent stated below. All of these liabilities are stated disclosed in the financial statements under "Notes on Accounts".  
(Give here a list of all contingent liabilities)

## 7. INCOME

Income is recognized as stated below:

- 7.1. Interest from loans and advances is recognized on accrual basis and has been correctly applied and accounted in the books of accounts. In addition provision for overdue interest is adequate and fair.
- 7.2. Interest and other income from Non Performing assets is recognized as per norms prescribed by the RCS/NABARD and on actual realization.
- 7.3. Income from sales is recognized upon the delivery of goods and rising of invoice and its delivery notes.
- 7.4. Commission/Brokerage, on PDS and other commodities sold by the Society on behalf of government and other agencies, is recognized as and when received.

## 8. EXPENDITURE

Expenditure is recognized as stated below:

- 8.1. Revenue expenditure is recognized on accrual basis except expenditure on items like property tax, insurance and legal and professional expenses. (state all such expenditure that is not recognized on accrual basis)
- 8.2. Interest on deposits is recognized on accrual basis except interest on overdue deposits.

- 8.3. Expenditure of personal nature has not been debited to the Profit & Loss account.
- 8.4. Expenditure of capital nature (capital expenditure) has not been debited to the Profit & Loss account.

### 9. AUDIT COMPLIANCES

All defects/deficiencies as pointed out by the auditors upto and including the audit of accounts for the year ended March 31 20XX (Previous Year) have been fully attended to and there are no pending compliances relating to the previous years.

OR

The following audit defects/deficiencies relating to previous years have not been attended to by the Society. *(Give a list of pending compliances and the reasons for the same)*

### 10. BALANCING OF BOOKS

As the society has fully computerized its accounting operations the subsidiary records are fully and automatically balanced with the relevant control accounts.

OR

As the books of accounts are manually maintained, balancing of books has been done as on the date of Balance Sheet and the differences are correctly adjusted/reconciled and after adjustment/reconciliation the sub ledger match with the relevant control accounts.

### 11. INSPECTION OF THE SOCIETY BY THE RCS

We confirm that the Society was inspected by the RCS/its authorized personnel during the month of ..... 20XX, and all the defects/deficiencies pointed out by such inspectors have been duly complied with. *(OR state any pending compliances arising from such inspections or if there was no such inspection the same should be stated)*

### 12. INSPECTION OF THE SOCIETY BY THE AFFILIATED DCCB

We confirm that the Society was inspected by the .....CCB/ its authorized personnel during the month/s of ..... 20XX, and all the defects/deficiencies pointed out by such inspectors have been duly complied with. *(OR state any pending compliances arising from such inspections OR if no such inspections are carried out state the same)*

### 13. INCOME TAX AND TAX AUDIT IN TERMS OF SEC 44 AB OF THE INCOME TAX ACT, 1961

We are advised by .....that the Society is not liable to pay income tax on its net income/profits under the .....(state the provisions of the Income Tax Act).

OR

The Society has paid the Income tax as necessary on its taxable income as computed with reference to the applicable provisions of the Income Tax Act, 1961 as amended from time to time.

The accounts of the Society have been/will be audited by .....as required in terms of Sec 44 AB of the Income Tax Act, 1961.



OR

The accounts of the Society are not required to be audited in terms of Sec 44 AB of the Income Tax Act, 1961 as the .....(*give reasons*)

#### 14. REGULATORY, ADMINISTRATIVE, MANAGEMENT AND FINANCIAL COMPLIANCES

Except as stated below, the Society has complied with all necessary provisions relating to its administration, management and financial activities as prescribed in various provisions of the Societies Act and the Rules made there under:

(List out all Statutory, Byelaws and Financial Irregularities/non compliances as seen by the Management of PACS)

Thanking you,

Yours faithfully

For .....

Secretary/Authorized Officer of PACS

## APPENDIX 4 APPLICABILITY OF ACCOUNTING STANDARDS

### BACKGROUND

The application of the Accounting Standards to commercial entities is well captured in the “Preface to the Statements of Accounting Standards” published by ICAI and the following extract is helpful in this connection:

This makes it obligatory for every company, unless exempted otherwise, to follow the Accounting Standards in preparation of its General Purpose Financial Statements namely the balance sheet, the profit & loss account and the cash flow statement and other schedules/statements that form part of the general purpose financial statements. In this connection the following extract from the.

*“Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards apply in respect of any enterprise (whether organized in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to enterprises only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise are considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature”.*

### SCOPE OF ACCOUNTING STANDARDS

As stated in the “Preface to the Statements of Accounting Standards” published by ICAI, Accounting Standards do not override the local regulations which govern the preparation and publication of general purpose financial statements. It is therefore the “Parent” Act of an entity and/or the Regulator of the entity that may prescribe/recommend the application of the Accounting Standards. For example the Accounting Standards 1 to 7 and 9 to 29 as recommended by the Institute of Chartered Accountants of India (ICAI) have been prescribed by the Central Government and notified through Companies (Accounting Standards) Rules 2006; Reserve Bank of India has prescribed certain guidelines for the Commercial Banks to follow the Accounting Standards as recommended by ICAI; Insurance Regulatory and Development Authority (IRDA) has prescribed the application of the Accounting Standards to Insurance Companies. However, the Cooperative Societies Act (Central as well State Acts) does not prescribe/recommend such application. It is therefore possible to opine that the AS do not mandatorily apply to Cooperative Institutions including PACS.

### COMPLIANCE WITH ACCOUNTING STANDARDS

The responsibility of compliance with accounting standards is cast upon the management of the entity. It is the duty of the chartered accountants, being the members of the ICAI, to examine and comment whether respective accounting standard/s were applied in the preparation of financial statements subject to their audit. This implies that if the financial statements are not audited by chartered accountants, then the application of accounting standards cannot be ensured unless the governing Act prescribes such application.

If PACS or its auditors take a stand that the AS are applicable to PACS, then the following additional clarification issued by ICAI in respect of non corporate entities vide the **Annexure III** of its announcement “Harmonization of various differences between the accounting standards issued by the ICAI and the accounting standards notified by the Central Government” is relevant:

## APPLICABILITY OF ACCOUNTING STANDARDS TO NON-CORPORATE ENTITIES (AS ON 1.4.2008)

### (I) ACCOUNTING STANDARDS APPLICABLE TO ALL NON-CORPORATE ENTITIES IN THEIR ENTIRETY (LEVEL I, LEVEL II AND LEVEL III)

- AS 1 Disclosures of Accounting Policies
- AS 2 Valuation of Inventories
- AS 4 Contingencies and Events Occurring After the Balance Sheet Date
- AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
- AS 6 Depreciation Accounting
- AS 7 Construction Contracts (revised 2002)
- AS 9 Revenue Recognition
- AS 10 Accounting for Fixed Assets
- AS 11 The Effects of Changes in Foreign Exchange Rates (revised 2003)
- AS 12 Accounting for Government Grants
- AS 14 Accounting for Amalgamations
- AS 16 Borrowing Costs
- AS 22 Accounting for Taxes on Income
- AS 26 Intangible Assets

### (II) EXEMPTIONS OR RELAXATIONS FOR NON-CORPORATE ENTITIES FALLING IN LEVEL II AND LEVEL III (SMES)

- (A) *Accounting standards not applicable to non-corporate entities falling in Level II in their entirety:*
  - a. AS 3 Cash Flow Statements
  - b. AS 17 Segment Reporting
- (B) *Accounting standards not applicable to non-corporate entities falling in Level III in their entirety*
  - a. AS 3 Cash Flow Statements
  - b. AS 17 Segment Reporting
  - c. AS 24 Discontinuing Operations
- (C) *Accounting standards not applicable to all non-corporate entities since the relevant Regulators require compliance with them only by certain Level I entities*
  - a. AS 21, Consolidated Financial Statements
  - b. AS 23, Accounting for Investments in Associates in Consolidated Financial Statements
  - c. AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements)



**(D) Accounting standards in respect of which relaxations from certain requirements have been given to non-corporate Entities falling in Level II and Level III (SMEs)**

**(i) Accounting standard (AS) 15, employee benefits (revised 2005)**

- 1) Level II and Level III Non-corporate entities whose average number of persons employed during the year is 50 or more are exempted from the applicability of the following paragraphs:
  - (a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);
  - (b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;
  - (c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities should actuarially determine and provide for the accrued liability in respect of defined benefit plans by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard. Such entities should disclose actuarial assumptions as per paragraph 120(l) of the standard; and
  - (d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. However, such entities should actuarially determine and provide for the accrued liability in respect of other long-term employee benefits by using the Projected Unit Credit Method and the discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard.
- 2) Level II and Level III Non-corporate entities whose average number of persons employed during the year is less than 50 are exempted from the applicability of the following paragraphs:
  - (a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);
  - (b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;
  - (c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and
  - (d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based

on the assumption that such benefits are payable to all employees at the end of the accounting year.

*(ii) AS 19, Leases*

Paragraphs 22 (c) (e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures are not applicable to non corporate entities falling in Level II .

Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); and 46 (b), (d) and (e) relating to disclosures are not applicable to Level III entities.

*(iii) AS 20, Earnings per share*

Diluted earnings per share (both including and excluding extraordinary items) is not required to be disclosed by non-corporate entities falling in Level II and Level III and information required by paragraph 48(ii) of AS 20 is not required to be disclosed by Level III entities if this standard is applicable to these entities.

*(iv) AS 28, Impairment of assets*

Non-corporate entities falling in Level II and Level III are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if a non-corporate entity falling in Level II or Level III chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard.

*(v) AS 29, Provisions, contingent liabilities and contingent assets*

Paragraphs 66 and 67 relating to disclosures are not applicable to noncorporate entities falling in Level II and Level III.

*(vi) AS 25, Interim Financial Reporting* does not require a non-corporate entity to present interim financial report. It is applicable only if a noncorporate entity is required or elects to prepare and present an interim financial report. Only certain Level I non-corporate entities are required by the concerned regulators to present interim financial results, e.g., quarterly financial results required by the SEBI. Therefore, the recognition and measurement requirements contained in this Standard are applicable to those Level I non-corporate entities for preparation of interim financial results.

## APPENDIX 5 NABARD CIRCULAR ON ASSET CLASSIFICATION

### *Prudential Norms on Asset Classification, Provisioning and Income Recognition for PACS*



23 July 2009

The Registrar of Cooperative Societies

(25 implementing States)

Dear Sir

*Prudential Norms on Asset Classification,  
Provisioning and Income Recognition for  
Primary Agricultural Credit Societies (PACS) - Guidelines*

1. As you are aware, under the Government of India package for revival of the Short Term Cooperative Credit Structure (STCCS), the Primary Agricultural Credit Societies (PACS) have been recapitalised to achieve a minimum capital adequacy ratio of 7%. The recapitalization assistance was assessed applying prudential norms for asset classification, provisioning requirement, income recognition and capital adequacy.
2. Hitherto, prudential norms on asset classification, provisioning and income recognition were not made applicable to PACS for finalisation of their annual accounts. However, as a part of the ongoing reforms process as envisaged in the memorandum of understanding executed by the State Government with Government of India and NABARD, prudential norms need to be introduced in the PACS. Towards this end, NABARD in consultation with the RBI has prepared the guidelines (copy enclosed) on prudential norms keeping in view the preparedness of PACS, training inputs received and most importantly, to make the financial statements of PACS present a true and fair picture of their working. The guidelines may be issued to PACS for adoption in the State from 01 April 2009.
3. A separate communication will follow on capital adequacy norms for PACS.

A copy of the letter issued to PACS on application of guidelines may be endorsed to our concerned RO.

Yours faithfully

Sd/-

**(G. C. Panigrahi)**  
**Chief General Manager**

## *Prudential Norms on Asset Classification, Provisioning and Income Recognition for Primary Agricultural Credit Societies (PACS) - Guidelines*

### (1) LOANS AND ADVANCES

Loans and advances may be classified as NPA (non-performing asset) where:

- a. The installment of principal or interest thereon remains overdue for two crop seasons (short duration crops) and one crop season (long duration crops) in the case of agricultural advances, both short term and long term. The purposes for which this norm is applicable is given in the Annexure.
- b. Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of non-agricultural loans and loans for allied activities.
- c. The account remains out of order for a period of more than 90 days, in respect of an overdraft/ cash credit.
- d. In all other cases, 90 days overdue criteria to be applicable.

An account may be treated as 'out of order', if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases, where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days or credits are not enough to cover the interest debited during the same period, these accounts may be treated as 'out of order'.

In respect of a borrower having more than one facility, all the facilities granted by PACS to the borrower has to be treated as NPA and not the particular facility or part thereof which has become NPA.

Wherever due to natural calamities conversion of the short-term production loan into a term loan or re-scheduling of the repayment period is allowed, the converted/rescheduled loan as well as fresh loan granted has to be treated as current dues and need not be classified as NPA.

In the case of all other rescheduled loans, the accounts which have been subjected to restructuring etc., whether in respect of principal installment or interest amount, will be eligible to be upgraded to the standard category only after 1 year of satisfactory performance in regard to repayment of installment/ interest. Advances against term deposits, NSCs, IVPs, KVPs and life insurance policies need not be treated as NPAs, but advances against gold and other ornaments to be treated as NPAs based on the period of overdue and purpose for which loan was disbursed i.e. whether for agriculture or non-agriculture.

In the case of staff loans, such loans is to be classified as NPA only when there is a default in repayment of installment of principal or payment of interest on the respective due dates.

The loans and advances may be classified into 4 categories and provisions may be made there against as indicated below:-

Category	Particulars	Provision
Standard	Loans which have not become NPA- agricultural & nonagricultural	No provision
Sub-standard	Overdues for a period not exceeding 3 years	5
Doubtful	Overdues above 3 years, and upto 4 years- D1	10
	Overdues over 4 years but not exceeding 6 years- D2	15
	Overdues exceeding 6 years- D3	50
	Unsecured advances	100
Loss	Identified by the PACS/auditor	100

Overdue loans where decrees or execution petitions have been time-barred or documents are lost or no other legal proof is available, where the members and their sureties are declared insolvent or have died leaving no tangible assets, where the members have left the area of operation of the society leaving no property and their sureties have also no means to pay the dues, where the loan is fictitious or when gross misutilisation is noticed and amounts which cannot be recovered due to non-availability of securities or where the realisable value of the security is less than 10% of the outstanding in the borrowal account may be treated as loss assets.

In the case of loans outstanding under the back-end subsidy schemes, provision may be made only on net of subsidy basis.

It may be noted that the entire outstanding in the loan account be treated as NPA, not the defaulted installment, in case of term loans.

In the case of assets other than loans and advances, the provisioning norm may be as under:-

**(2) CASH ON HAND :-** The shortage in cash, if any, observed on verification either by the society officials or by the auditor or by any regulatory/ supervisory authority may be provided for. If the society is holding any soiled notes or mutilated notes as on 31 March of the year, provisions may be made for the value of such notes held.

**(3) BALANCES WITH BANKS :-** The General Ledger/ Subsidiary Ledger may be reconciled on a periodical basis with the pass book or certificate/ statement of account issued by the bank. Provision may be made in respect of the entries not reconciled and outstanding for more than one year.

**(4) INVESTMENTS :-** The investments of a PACS is normally in fixed deposits with higher financing agency and other banks and shares in the Central Cooperative Bank and other cooperative institutions. There may be some PACS which are having investments in government and other approved securities or fixed deposits with Post Offices and/or other institutions. In the case of fixed deposit with DCCB and other banks or with Post Office/ Govt Treasury, no provision is required to be made if the society is having the fixed deposit receipts or other documents to show having such deposits. In the case of fixed deposits with other institutions, no provision may be made if the interest is received regularly or the institution is functioning properly. If not, the realisability of the amount may be assessed and provision may be made for the unrealisable portion. The value of fixed deposits with institutions which are under liquidation/ winding up procedure may be treated as loss assets and full provision may be made. The value of fixed deposits which are not collected/ received within 6 months from the date of maturity can generally be treated as doubtful of recovery and provision may be made to the full extent. In case of shares in cooperatives or other institutions, other than shares of the CCB to which the PACS is affiliated if the income/dividend is being received regularly, no provision needs to be made. In case, not received regularly, i.e. during the previous 3 years, provision may be made against the investment as the difference between the book value and the breakup value. The breakup value may be calculated as the net worth of the institution divided by the total number of shares of the institution multiplied by the number of shares held by the society in the institution. If the financial statements of the cooperative institutions in which shares are held, are not available for the previous 3 years, provision may be made for the full amount. If the institution in which the PACS has invested money is defunct or under liquidation, the entire investment in such institution may be treated as loss assets and full provision may be made. The government and other trustee securities, if held, may be valued at book value. When securities are purchased at a price higher than the face value, the difference between the purchase value and the face value may be depreciated in equal proportion every year over the remaining maturity period of the security.

**(5) FIXED ASSETS :-** Yearly depreciation may be provided to each of the fixed assets till the value of the Fixed Asset reaches Re.1/-. The rate of depreciation may be decided by the society, based on the normal life of the asset, if not prescribed by the State Cooperative Societies' Act/ Rules or By-law of the society. In the case of land, no depreciation required, if freehold land and in case of leasehold land, amount in proportion to expiry of the lease period may be provided.

**(6) SUNDRY DEBTORS AND OTHER RECEIVABLES/ SECURITY DEPOSITS WITH STATE GOVT. DEPARTMENTS :-** In the case of amount receivable from government and government departments, if the amount is not received within 1 year from the date of claiming, it can naturally be assumed that there are some problems in realisation of the amount. Therefore, for such amount 10% provision may be made if not received within 1 year, 50% provision if not received within 2 years and 100% provision for more than 3 years. In case of security deposits with utility agencies, no provision need be made. In respect of frauds and embezzlements etc., full provision may be made from the date of detection of frauds. In the case of all other amounts to be received /recovered, full provision may be made if not realised within 3 years.

**(7) NON-CREDIT BUSINESS:-** PACS undertake business like sale of fertiliser, PDS items, clothes, etc. As on 31 March every year a physical verification of each of the items may be made and if any shortage of stock, degraded stock and unsaleable stock is found provision may be made. For shortage of stock, full provision may be made. Any item which remains unsold after the expiry period indicated, may be treated as unsaleable and full provision made there against. The items having no expiry period may be treated as unsaleable if remaining unsold for more than 3 years and full provision made. In the case of certain items like cloth, the value depreciates by the passage of time and therefore such items may be valued based on age. The cloths in stock upto 1 year may be valued at purchase price, between one year and 2 years may be valued at 80%, between two years and 3 years at 50% and above 3 years at nil and provision for diminution in value may be made accordingly.

#### **(8) INCOME RECOGNITION:**

Most of the State Cooperative Societies' Acts/ Rules/ Audit Manuals provide for taking unrealised income to P&L A/c and making corresponding matching provision for overdue interest. Keeping this in view, the following recommendations are made:

- a. Interest accrued/ receivable on loans & advances:- The amount of interest accrued but not actually realised including the overdue interest as on 31 March each year may be taken to P&L A/c. Provision may be made for the interest overdue. In the case of NPA loans, if in the previous years the interest/ part of the interest not actually collected was taken to P&L A/c. without creation of provision, the interest so taken to P&L A/c. may be provided for.
- b. Interest on investments :- The interest on fixed deposits, government securities etc., which has accrued but not received may be taken to P&L A/C and provision may be made for the overdue interest. In the case of investments like shares etc., the income/dividend amount receivable may not be known. In such cases, the income/ dividend as and when received need to be reckoned. If interest/ income was taken to P&L A/C in the past and if the investment is treated as doubtful/ unrealisable, provision may be made for the income taken to P & L A/C in the previous years.
- c. Fee, commission, etc :- The other income like fees, commission etc., in respect of the loans etc., may be treated as income only when the account is standard. Further, in the case of fees, commission etc., taken to P&L A/C in the previous years without actual receipt, on non-receipt of the same/the loan becoming NPA, adequate provision may be made for such income.



## (9) TIME FRAME FOR IMPLEMENTING THE PRUDENTIAL NORMS;

The PACS are located at village level spread across the length and breadth of the country. The staff and Board members of PACS need extensive training and time to assimilate the new concepts involved in the prudential norms. Hence, the prudential norms suggested may be made applicable from 1 April 2009.

## ANNEXURE

### DIRECT FINANCE TO FARMERS FOR AGRICULTURAL PURPOSES

- a. I :Short- Term loans for raising crops i.e. for crop loans. In addition, advances upto Rs. 1.00 lakh to farmers against pledge/ hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 6 months, where the farmers were given crop loans for raising the produce, provided the borrowers draw credit from one bank.
- b. II :Medium and long term loans (provided directly to farmers for financing production and development needs).

#### I. PURCHASE OF AGRICULTURAL IMPLEMENTS AND MACHINERY

- a. Purchase of agricultural implements - Iron ploughs, harrows, hose, land-levellers, bundformers, hand tools, sprayers, dusters, hay-press, sugarcane crushers, thresher machines, etc.
- b. Purchase of farm machinery - Tractors, trailers, power tillers, tractor accessories, viz., disc ploughs, etc.
- c. Purchase of trucks, mini-trucks, jeeps, pick-up vans, bullock carts and other transport equipment etc., to assist the transport of agricultural inputs and farm products.
- d. Transport of agricultural inputs and farm products.
- e. Purchase of plough animals.

#### II. DEVELOPMENT OF IRRIGATION POTENTIAL THROUGH

- a. Construction of shallow and deep tube wells, tanks etc., and purchase of drilling units.
- b. Constructing, deepening, clearing of surface wells, boring of wells, electrification of wells, purchase of oil engines and installation of electric motor and pumps.
- c. Purchase and installation of turbine pumps, construction of field channels (open as well as underground), etc.
- d. Construction of lift irrigation project.
- e. Installation of sprinkler irrigation system.
- f. Purchase of generator sets for energisation of pump sets used for agricultural purposes.

#### III. RECLAMATION AND LAND DEVELOPMENT SCHEMES

Bunding of farm lands, leveling of land, terracing, conversion of dry paddy into wet irrigable paddy lands, wasteland development, development of farm drainage, reclamation of soil lands and prevention of salinisation, reclamation of ravine lands, purchase of bulldozers, etc.



#### **IV. CONSTRUCTION OF FARM BUILDINGS AND STRUCTURES, ETC.**

Bullock sheds, implement sheds, tractor and truck sheds, farm stores, etc.

#### **V. CONSTRUCTION AND RUNNING OF STORAGE FACILITIES**

Construction and running of warehouses, godowns, silos and loans granted to farmers for establishing cold storages used for storing own produce.

#### **VI. PRODUCTION AND PROCESSING OF HYBRID SEEDS FOR CROPS**

#### **VII. PAYMENT OF IRRIGATION CHARGES, ETC.**

Charges for hired water from wells and tube wells, canal water charges, maintenance and upkeep of oil engines and electric motors, payment of labour charges, electricity charges, marketing charges, service charges to Customs Service Units, payment of development cess, etc.

### **III OTHER TYPE OF DIRECT FINANCE TO FARMERS**

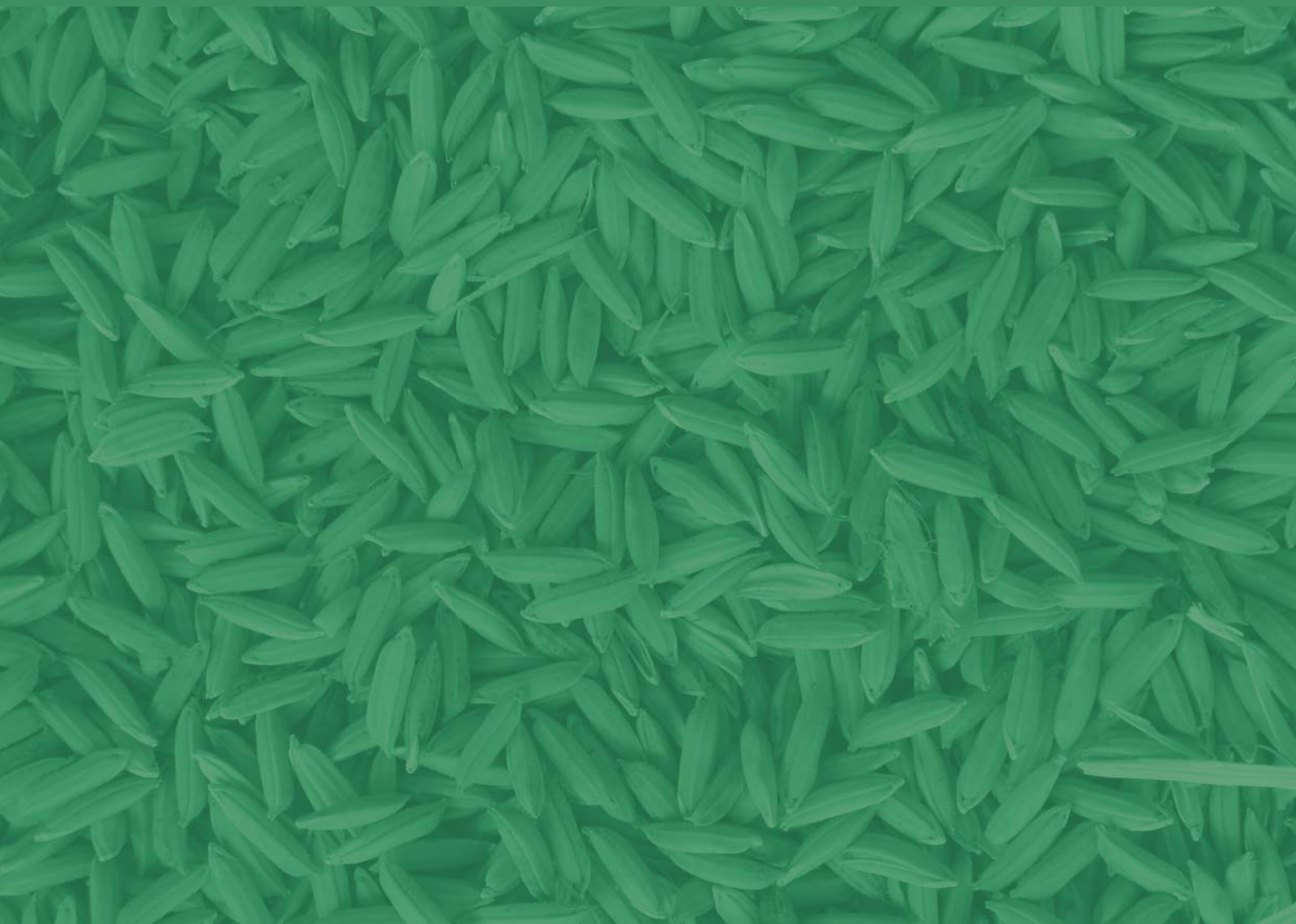
#### **SHORT-TERM LOANS**

To traditional/ non-traditional plantations and horticulture.

#### **MEDIUM AND LONG-TERM LOANS**

Development loans to all plantations, horticulture, forestry and wasteland.





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