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DIRECTORATE OF COOPERATIVE AUDIT: ODISHA: BHUBANESWAR.

Circular No. VI (1)12/2013 7182 / Audit-8 Dated. 13.11.13

Verification of cash balances and securities of the Cooperative Society is mandatory and part and parcel of the duties and responsibilities of auditors under provisions of Section 62(2) of OCS Act, 1962. Hence, the commencement of audit starts with verification of liquid assets like cash balance and bank balance on the date of commencement of audit with reference to Book balance and documents of the society(s). The main objective of conducting such verification is to ascertain whether the cash balance is in conformity with the balance shown in the Cash/ Day book of the concerned organisation. If cash balance as per verification is found less than the cash balance shown in the cash book/ day book, the shortage is to be treated as erosion caused on account of fraud or misappropriation.

Further, it is observed from audit report of a number of Cooperative Societies that cash shortage/ deficiencies are shown in the assets side of the Balance sheet as "Cash mistake recoverable". But doubts have arisen from some quarters regarding treatment of such "Cash Mistake" as misappropriation or not. It is, therefore, clarified as under.

The cash mistake may be of clerical error or intentional. Cash mistakes committed due to error of omission or commission and errors of principle etc. are mainly of clerical nature or technical error, which can be amended or rectified on the same day on closure of the business or on the next day. But the cash mistakes committed by officials of an organisation and not accounted on the following day are intentional errors to make fraud, embezzlement, misappropriation and the shortage of cash is to be treated as deficiencies of assets. Such type of intentional errors seriously affects the financial health of the organisation. The following methods are mainly employed for misappropriation of cash.

1. Cash receipts from sales, collections etc. may be misappropriated either by not recording them in the books of accounts at all or by passing false entry in the books.
2. Cash receipts not recorded at all in the Cash/Day book.
3. By omitting to record collections like collection of loan, installments etc.
4. By tampering of records, undercasting the receipt side of cash book or short carrying over.
5. Overcasting the payment side of cash book or over carrying of the totals from one page to another.

It is hereby directed that if the cash mistake is rectified or the amount of shortage is deposited by the concerned officials immediately or on the day following the date of occurrence of such mistake, it will be treated as clerical or technical errors. But the cash mistake which is not rectified or the shortage of cash is

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not replenished immediately but deposited after a short period of time, it will be treated as temporary misappropriation. If the shortage of cash is not replenished the same is no doubt intentional and treated as misappropriation of cash.

However, in order to obviate such ambiguity, it is hereby instructed to dispense with the term cash mistake henceforth while showing recovery against the persons responsible for committing such mistakes thereby causing shortage of cash in the audit reports of the societies. As shortage or deficiencies of cash by any means is treated as fraud, embezzlement or misappropriation, the same should be shown as "Misappropriation of cash recoverable" from the concerned official(s) of the organisation in the financial statements and detailed justification or facts to this effect be narrated with date of occurrence etc. in the body of the reports in the statement of recoveries showing name & designation in full.

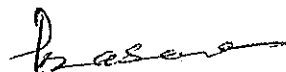

Auditor General

Cooperative Societies, Odisha.

Memo No. 7183(76)

Dated. 13.11.13

Copy to all Assistant A.G.C.S of Circles for information and necessary action. They are requested to circulate the concept and view point of the Circular instructions amongst the auditor under their circle for their guidance in audit of Cooperative Societies.



Additional Auditor General of
Cooperative Societies, Odisha.

Dated. 13.11.12

Memo No. 7184(7)

Copy forwarded to the R.C.S (O)/ Director of Textiles & Handlooms, Odisha/ Director of A.H & V.S, Odisha/ Director of Fisheries, Odisha/ Director of Handicraft & Cottage Industries, Odisha/ Director of Industries, Odisha/ Director of Agriculture & Food Productions, Odisha for information and necessary action. They are requested to instruct their field functionaries to circulate the circular instruction to the Cooperative Institutions functioning under their local authority.


Additional Auditor General of
Cooperative Societies, Odisha.

Dated. 13.11.13

Memo No. 7185(53)

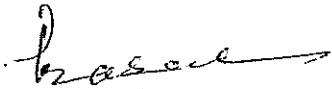
Copy forwarded to the Managing Directors of all Apex Cooperative Institutions/ Secretaries of all CCBs/UCBs for information and necessary action.


Additional Auditor General of
Cooperative Societies, Odisha.

Memo No. 7186(24)

Dated. 13.11.13

Copy to all auditors of central audit, Directorate of Cooperative Audit,
Odisha, Bhubaneswar for information and guidance.


Additional Auditor (Genl) of
Cooperative Societies, Odisha.

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