(9) 283

DIRECTORATE OF COOPERATIVE AUDIT: ODISHA: BHUBANESWAR.

Circular No. VI (1)41/2009 8463 /Audit-8 Dated. 19.11.2011

Subject: Declaration of Dividend by Primary Agricultural Credit Cooperative Societies (PACS)

At present, the PACS are regulated by the provisions laid down in the section 56 (2) (a) of the OCS Act, 1962 for payment of dividends to its members, which stipulates that

"Payment of dividends to their members on their paid up share capital at a rate not exceeding 12% of such share capital".

Consequent upon the amendments made in the OCS Act as envisaged in the Revival Package for STCCS, PACS have been given autonomy in their financial and internal administrative matters. Keeping in view the changing scenario, the matter was reviewed by NABARD and it is felt that specific prudential and objective criteria be evolved and applied, for declaring dividend by PACS in the state. As per provisions of OCS (Amendment) Act, 1962 and the requirements of covenant 9.4 of the MOU signed by the state Government with NABARD and Government of India, the following guidelines for the PACS on declaring dividends have been prescribed by NABARD (H.O) vide their Circular No. 182/DCRR-06/11 dt.16.09.2011.

A. <u>PACS eligible to declare dividends.</u>

i. The PACS should have complied with the statutory reserve requirement, if any prescribed by RBI, NABARD/State Government.

ii. The dividend should be declared out of net profit and after making full provision and making appropriation of profit towards statutory and other reserves, provisions etc. as required under the Cooperative Societies Act/Rules.

iii. The PACS should be working under profit consecutively for 2 years to be eligible to declare the dividend.

iv. The PACS, with accumulated losses, may not declare any dividend from out of current profit.

v. The PACS should have made full provisions in compliance with guidelines on prudential norms issued by NABARD against their impaired assets as well as towards other statutory liabilities like staff retirement benefits etc., as per payment of Gratuity/PF/Bonus Act (wherever applicable) etc.

vi. The PACS should not have defaulted to the higher financing agencies in repayment.

vii. The PACS should have minimum CRAR of 7% as on 31st March of the respective year, that may be increased to 9% and to 12% as on 31.03.2013 and 31.03.2015 respectively.

B. **Quantum of Dividend payable by PACS.**

PACS which comply with the above eligibility criteria may be permitted to declare dividend subject to the following:-

i. **The dividend payout ratio should not exceed 20%.**
Dividend payout ratio is calculated as a percentage of 'dividend payable in a year' to net profit during the year. The dividend payout ratio should not exceed 20% till the PACS reach CRAR of 12%. However, once the PACS reach the level of CRAR of 12%, there will be no ceiling on dividend payout Ratio.

ii. The proposed dividend should be payable out of the current year's profit only and previous earnings should not be considered, barring from dividend equalization fund.

iii. In case the profit for the relevant period includes any extraordinary profits/income, the payout ratio shall be computed after excluding such extraordinary items for reckoning compliance with the prudential ratio ceiling of 20%.

iv. The accounts statements pertaining to the financial year for which the PACS is declaring the dividend should be free of any qualifications by the statutory auditors, which may have an adverse bearing on the profit during the year. In case of any qualification to that effect, the net profit should be suitably adjusted while computing the dividend payout ratio.

As per above stipulations, the PACS who have earned profit consecutively for 2 years and have no accumulated losses are eligible to ~~declared~~ declare dividend out of net profit within the ceiling fixed for the purpose after making full provision and making appropriation of profit towards statutory and other reserves, provisions etc., as required under the Cooperative Societies Act/Rules and by complying with the other eligibility criteria. But as provided in the Revival Package for STCCS, the PACS are to bring their share in

2855

recapitalisation. The PACS are in no way permitted to declare dividend till their share in recapitalisation is recouped through profit earned by them or by any other means. Hence, the PACS should bring their in recapitalisation first and may declared dividend if they earned profit consecutively for 2 years following the year in which the share is fully adjusted, complying with eligibility criteria mentioned in the circular.

The above circular instructions should be adhered to by all concerned meticulously. The guidelines as suggested above be made applicable for the accounting year ended 31st March 2011 and onwards.

18/11/11

Auditor General
Cooperative Societies, Odisha.

Memo No. 8464 (16) / Dated. 19.11.2011 /

Copy forwarded to the Assistant A.G.C.S of Circles for information and necessary action. They are requested to circulate this circular instruction among all auditors under their administrative control for their guidance.

Prasanna
18.11.11
Joint Auditor General of
Cooperative Societies, Odisha.

Memo No. 8465 (2) / Dated. 19.11.11. /

Copy forwarded to the Registrar of Cooperative Societies, Odisha/M.D, OSCB for information and necessary action.

Prasanna
18.11.11
Joint Auditor General of
Cooperative Societies, Odisha.

Memo No. 8466 (17) / Dated. 19.11.11. /

Copy forwarded to the Secretaries of CCBs for information and necessary action. They are requested to transmit a copy of the circular to all PACS under jurisdiction for necessary implementation at their level.

Prasanna
18.11.11
Joint Auditor General of
Cooperative Societies, Odisha.

266

Memo No. 8467 / Dated. 19.11.11 /

Copy forwarded to the A.G.M, NABARD (R.O), Bhubaneswar for information and necessary action.

Prasanna
18.11.11

Joint Auditor General of
Cooperative Societies, Odisha.

Memo No. 8468 / Dated. 19.11.11 /

Copy submitted to the Commissioner-Cum-Secretary to Government of Odisha, Cooperation Department, Bhubaneswar for favour of kind information.

Prasanna
18.11.11

Joint Auditor General of
Cooperative Societies, Odisha.

Copy to Guard File
10 Spare Copies

AKS.