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**DIRECTORATE OF COOPERATIVE AUDIT, ODISHA, BHUBANESWAR**

Circular No.: 3558 / VI (I)-1/05- Audit 8

Date: 18.6.2013

**Sub: Procedure for writing off of bad assets**

Since the provisions under Rules-65 of the OCS Rules 1965 provides for directions to be issued for writing off of bad assets of cooperative societies, a detailed guideline containing procedure for processing the write off proposal and its administrative approval was prescribed in this Directorate Circular No. 7992/ 02.07.2001. The said Circular was applicable to all types of Cooperative Societies in the State.

It was observed by RBI that many State Cooperative Banks and District Central Cooperative Banks had invested in the shares of other cooperative societies/institutions and could not secure retirement of shares as stipulated by the RBI, due to either non existence of such provisions with the recipient society or the concerned society has become defunct resulting in the Bank's non-compliance to the provisions of Section 19 of the Banking Regulation Act 1949 (AACS). Since Section-19 of the BR Act 1949 (AACS) stipulates that no Cooperative Bank shall hold shares in any other cooperative society except to such extent and subject to such conditions as the Reserve Bank may specify in that behalf, the investment in shares of other cooperative societies by the SCB and other DCCBs violates the statutory provisions. As per the extant instructions of the RBI, a cooperative bank should offer to make its contribution to the shares of a cooperative society only if the Byelaws of the recipient society provide for the retirement of share capital contributed by it. The retirement of the share capital contributed by a bank to the shares of any society should be completed in 10 equal annual instalments commencing from the cooperative year immediately following the year in which the concern commences business or production. Further, a cooperative bank should not, except with the permission of the Reserve Bank, contribute to the share capital of a society if it is situated outside its area of operation.

In Odisha, the OSCB and as many as 13 DCCBs out of 17 DCCBs have invested in Shares of other Cooperative Societies violating the provisions of BR Act 1949, which turned bad as these organisations have become defunct, moribund or put under liquidation. With a view to overcome the situation, it has been directed by RBI to write off the bad investments as per the provisions prescribed in this regard by respective State Cooperative Societies Acts.


The matter was discussed in the meeting on writing off of shares invested by the OSCB and DCCBs in liquidated/ defunct Cooperative Societies held on 26.03.2013 under the Chairmanship of the Commissioner cum Secretary, Cooperation Department wherein it was decided that the Cooperative Banks may be allowed to write off such bad assets with certain conditions and the Circular instructions issued in Circular No. 7992/ 02.07.2001 of Directorate of Cooperative Audit may be revised accordingly.

Keeping the above aspects in view, and in pursuance of the decisions of the meeting held on 26.03.2013, it is now decided to revise the procedure for writing off of shares invested by Cooperative Banks in other Cooperative institutions. However, a Bank must obtain the approval from AGCS, Odisha by referring the write off proposal to his office. The procedure for write off is as under;

- a) The amount of share to be written off must be identified as NPA (Loss) and cent percent provision made in the Balance Sheet.
- b) A Certificate to be furnished by the Chief Executive of the institution stating that the amount is treated as irrecoverable despite all possible steps taken to recover the same.

- c) The proposal for writing off the shares invested in Societies where Net Worth has become negative resulting in the complete erosion of the Share Capital of the Societies concerned, should be accompanied with the Resolution of the Committee of Management followed by approval of General Body to the extent that the amount is irrecoverable and it is fully covered by provisioning as per Income Recognition and Asset Classification (IRAC) norms.
- d) The amount written off shall be treated as loss in the year of account in which such write off is effected and the value of the written off assets is to be adjusted from the provisioning amount made in the Balance Sheet against such assets. After writing off, if the Bank gets back its share from the Society where it has been invested then the same will be treated as income in the year of account in which the amount is accounted for.
- e) All other terms & conditions and the accounting procedure as prescribed in this Directorate Circular No.7992/ 02.07.2001 for writing off of bad assets also holds good in this case.

The aforesaid procedures are applicable to OSCB and DCCBs in the State. The instructions issued in this Directorate Circular No. 7992/ 02.07.2001 stands modified to this extent and this Circular shall have immediate effect.

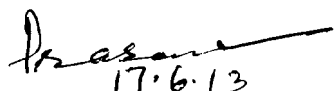
  
 Auditor General of  
 Cooperative Societies

Memo No.: 3559 (18)

Odisha  
 Date: 18.6.2013

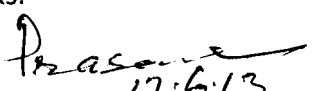
Copy forwarded to the Managing Director, OSCB/ Secretaries of all CCBs for information and necessary action. They are requested to write off the share invested in cooperative Societies, if any, by following the procedure laid down in the Circular scrupulously under intimation to this Directorate and local administrative authorities of this Directorate.

Memo No.: 3560 (16)

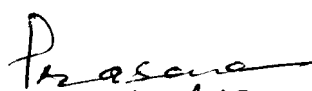
  
 17.6.13  
 Joint AGCS  
 Odisha  
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Copy forwarded to the Assistant AGCS of Circles for information and necessary action. They are requested to circulate the modified norm on writing off of bad assets by Cooperative Banks, i.e., share invested in Cooperative Societies amongst the Auditors/ Concurrent Auditors under their control for their guidance and examination during audit of Cooperative Banks.

Memo No.: 3561

  
 17.6.13  
 Joint AGCS  
 Odisha  
 Date: 18.6.2013

Copy submitted to the Commissioner cum Secretary to Government, Cooperation Department for favour of kind information and necessary action with reference to Memo No. 83(5)/ 04.04.2013 of Managing Director, OSCB, Bhubaneswar.

  
 17.6.13  
 Joint AGCS  
 Odisha