

DIRECTORATE OF COOPERATIVE AUDIT: ODISHA: BHUBANESWAR.

Circular No.VI(I)62/99 230 /Audit-8 Dated: 7.1.17

Subject: Estimation of Bad & Doubtful debts/ assets of Cooperative Societies (Other than PACS and Cooperative banks) and provisioning thereof.

The criteria for estimating Bad and Doubtful debts/ assets of Cooperative institutions in the state (other than Cooperative banks and PACS) is at present being regulated by the procedure laid down years back in Circular No.226 dtd.02.01.1973 of RCS(O). Though instructions were issued in the aforesaid circular for estimation of Bad & Doubtful debts and other assets, the norms for provisioning of the amount of erosion in the value of assets were not prescribed. The situation, in the meantime, has undergone a drastic change. With a view to ensuring better financial status and transparency, the prudential norms on Asset Classification and provisioning thereof have been made applicable to all the Cooperative banks & PACS in the state since 1997 and 2009 respectively for finalisation of their annual accounts. But in the absence of specific norms on provisioning for impairment of assets of other type of Cooperative organisations, the actual financial health is not exhibited in the financial statements contained in the Audit reports of these institutions. The above facts urge to have a relook into this aspect to make the existing circular more streamlined in time with the changing scenario and for better evaluation of assets and providing the required amount for erosion in the value of assets. In order to make the financial statements of such Cooperative organisations present a true and fair picture of their working, the following criteria is fixed in this regard in accordance with the provisions of Rule-64 of OCS (Amendment) Rules, 1997.

Norms for estimation of Bad & Doubtful debts and provisioning.

- 1) All the defective, torn, mutilated and defaced notes or Chipped coins, which have lost their value as legal tender, should be treated as bad, if not recovered within one year.
- 2) a) Any amount involved in misappropriation and fraud should be considered bad.

- b) If such misappropriated amount is covered by insurance or security deposit of fidelity guarantee or attachment of property by awards are to be treated as Doubtful. If the amount is not realised for more than one year, the same is to be considered as bad.
- 3) All other time-barred recoverable should be treated as bad.
 - 4) The incidental expenses debited by the bankers, but not accounted for by the institution for any reason should be treated as bad.
 - 5) The shortfall between the market value and the book value of the securities should be treated as bad, irrespective of the depreciation reserve maintained for the purpose by the institution.
 - 6) The share invested in the losing concerns/ liquidated societies should be treated as bad.
 - 7) All saleable stocks including stocks lying unsold for more than two years should be treated as Doubtful. If the same remained unsold for more than 5 years, this should consider as bad.
 - 8) Damaged stocks should be treated as bad to the extent of damages.
 - 9) Shortages and deficiencies beyond the allowable limit found in excess of the security furnished to this effect should be treated as bad.
 - 10) Value of the missing and unserviceable articles of the dead stock should be treated as bad.
 - 11) Sundry account rolling in asset side being unrealised for more than two years should be treated as bad.
 - 12) Amounts involved in theft, burglary and similar cases and deficiencies caused by natural calamities should be treated as bad.
 - 13) **Loans and Advances.**
 - a) Loans and Advances which remained overdue upto 5 years are to be treated as Doubtful. Over dues exceeding 5 years should be considered bad.
 - b) Loans and advances outstanding against the Liquidated societies should be treated as Doubtful and provision be made according to the age of the loan under this category. If no Collection is effected for more than 5 years, it should be treated as bad.
 - c) All loans which are not realised within one year of starting of execution proceedings should be treated as bad.
 - d) Production loans given to industrial and other production societies should be treated as bad when the societies cease functioning or stop production.

- 14) All receivable interests which are overdue should be included in the estimation of erosion in the value of assets.

Provisioning.

- (A) The loans and advances may be classified into 3 categories and provisions may be made there against as indicated below.

Sl. No.	Category	Particulars	Provision (%)
01.	Non-overdue loan	Loans which have not become overdue	Nil
02.	Doubtful	a)Overdue upto 2 years – D1	10
		b)Overdues above 2 years but not exceeding 3 years – D2	20
		c)Above 3 years and upto 4 years-D3	30
		d)Above 4 years but not exceeding 5 years-D4	50
03.	Bad	Overdues exceeding 5 years	100
04.	Unsecured advances		100

For the purpose of loans and advances, if amount under principal is not realised by the due date fixed, it becomes overdue loan. In regard to secured portion, provision should be made on the above basis ranging from 10% to 100%, depending upon the period for which the asset has remained Doubtful or bad. All unsecured loans and advances irrespective of the category be provided with 100 percent.

It may be noted that the entire outstanding in the loan account be treated as Bad or Doubtful and not the defaulted instalment for provisioning purpose, in case of loans and advances.

(B) Interest Receivable

Out of the total interest receivable, the portion of interest which is overdue, is to be provided fully i.e. 100 percent.

In case of assets other than loans and advances, 50 percent provision against all Doubtful assets and 100 percent against the bad assets are to be made invariably.

Duties of the Cooperative institutions and Auditor.

The Cooperative institutions are to maintain Asset Classification of loans apart from preparing list of Bad and Doubtful assets by following the norms contained in this Circular and submit the same to the auditor at the end of each accounting year for scrutiny and examination of the same. The proforma for maintenance of Bad & Doubtful Register alongwith classification is given in statement-IV and V.

On the basis of books of accounts of the institutions, the auditor has to check the list of Bad and Doubtful assets and Asset Classification (Loans and Advances) Register as produced by the institution to ascertain the correctness of maintenance of the Registers. After arriving at the genuineness of Asset classification, the provisioning against the erosion in the value of assets has to be made as per norm prescribed in this circular. Further, statements on classification of loans and advances and other assets and provisioning thereof in the enclosed proforma alongwith list of Bad and Doubtful assets/ debts to be provided by the institution (Statement-I,II,III) have to be appended to the statutory audit report duly certified by the Chief Executive of the concerned institution and the Auditor.

This supersedes all circular issued in this regard previously.

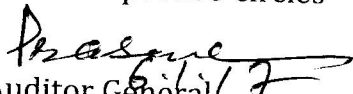

Auditor General

Cooperative Societies, Odisha.

Memo No. 231 /

Dated. 7.1.17 /

Copy forwarded to the Assistant A.G.C.S of Circles for information and necessary action. They are requested to discuss the contents of the Circular in the monthly staff meeting and circulate amongst all auditors of their respective circles for strict adherence.

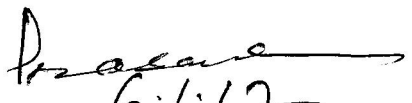

Auditor General

Cooperative Societies, Odisha.

Memo No. 232 /

Dated. 7.1.17 /

Copy forwarded to the R.C.S, Odisha/ Director of Textiles and Handloom, Odisha/ Director of A.H & V.S, Odisha/ Director of Fisheries, Odisha/ Director of Industries, Odisha/ Director of Agriculture and Food Production, Odisha for information and necessary action. They are requested to instruct their field functionaries to circulate the circular instructions to the Cooperative Institutions functioning under their local authority for compliance.

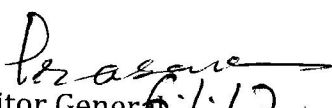

Auditor General

Cooperative Societies, Odisha.

Memo No. 233 /

Dated. 7.1.17 /

Copy forwarded to the Managing Directors of all Apex Coop. Institutions (Except OSCB) for information and necessary action.

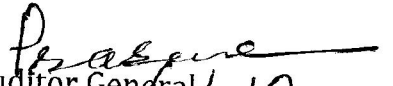

Auditor General

Cooperative Societies, Odisha.

Memo No. 234 /

Dated. 7.1.17 /

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


Auditor General 6/17
Cooperative Societies, Odisha.

1. Copy to Audit-1/ Audit-6/
All auditor of Apex Coop. Institutions including C.As/
Computer Cell.
2. Copy to G.F/ 10 S.C.

AKS.04.01.2017.

STATEMENT-II

PROVISIONS ON BAD & DOUBTFUL ASSETS (LOANS & ADVANCES) AS ON 31.03

Sl. No.	Particulars of Loan	Amount	Rate of provision in percentage	Provision Required to be made	Provision already made	Provision made during the year	Total provision made at the end of the year.
	(1)	(2)	(4)	(5)	(6)	(7)	(8)
1.	Total Loans & advances						
2.	Non overdue loans						
	a) Secured						
	b) Unsecured		100				
3.	A) Doubtful loans & advances (D1)						
	a) Secured		10				
	b) Unsecured		100				
	B) Doubtful (2 to 3 years) (D2)						
	a) Secured		20				
	b) Unsecured		100				
	C) D-3						
	a) Secured		30				
	b) Unsecured		100				
	D) D-4						
	a) Secured		50				
	b) Unsecured		100				
	E) Bad/Loss		100				

Grand Total:-

STATEMENT-I

Sl. No.	Type of Loans	Total loan outstanding as on 31.03.	Loans which are not overdue		Doubtful Overdue upto 2 years (Doubtful-1)		Overdues above 2 years but not exceeding 3 years (Doubtful-2)		Overdues above 3 years but upto 4 years (Doubtful-3)		Overdues above 4 years but not exceeding 5 years (Doubtful-4)		Bad Overdue exceeding 5 years.
			Secured (A)	Unsecured (B)	Secured (A)	Unsecured (B)	Secured (A)	Unsecured (B)	Secured (A)	Unsecured (B)	Secured (A)	Unsecured (B)	
(1)	(2)	(3)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(9)
			(4)		(5)		(6)		(7)		(8)		

N.B:- Total of Column-4 to 9 should be total of Column-3.

STATEMENT-III

BAD & DOUBTFUL ASSETS (OTHER THAN LOANS & ADVANCES) AND PROVISIONING THEIR AGAINST AS ON 31.03.

Sl. No.	Particulars	Amount	Out of which amount treated as Bad / Doubtful	Rate of provisions in percentage	Provision required to be made.	Provision already made	Provision made during the year	Total provision made at the end of the year
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
				Bad-100%				
				Doubtful-50%				

N.B:- 1) Bad and Doubtful assets be indicated separately.

2) Details of each type of assets be furnished and total amount given.

STATEMENT-IV

PROFORMA FOR BAD & DOUBTFUL REGISTER ALONGWITH CLASSIFICATIONS.

FOR LOAN & ADVANCES.

Sl. No.	Type of loan	Loan ledger folio	Name of the Loanee	Date of Finance	Amount of Financed	Principal Outstanding as on 31.03	Interest outstanding ason 31.03	Date of overdue

Non-overdue (i.e. standard)	Overdue upto two years	Overdue above 2 years but not exceeding 3 years	Overdue above 3 years but not exceeding 4 years	Overdue above 4 years but not exceeding 5 years	Overdue exceeding 5 years	Interest Overdue		
	Secured	Unsecured	Secured	Unsecured	Secured	Unsecured	Secured	Unsecured

STATEMENT-V

PROFORMA FOR BAD & DOUBTFUL REGISTER ALONGWITH CLASSIFICATION IN CASE OF ASSETS OTHER THAN LOAN.

Sl. No	Broad head of Assets	Sub-items	Balance ason 31.03	Under doubtful category	Under Bad Category