

DIRECTORATE OF COOPERATIVE AUDIT:ODISHA:BHUBANESWAR

Letter No: 316206 VI(I)12/13 Audit-8

Date: 31/05/2018

To,

The Asst. Auditor General of Co-operative Societies of Circles.

Sub: *Detection of Fraud, Misappropriation and Other Irregularities in Audit of Cooperative institutions.*

Madam/Sir,

As reform measures have been implemented in the recent past to revitalize the STCC structure and financial assistance provided both by Government of India and Government of Odisha for their financial restructuring and maintenance of adequate capital to improve financial health, the Cooperative institutions belong to this structure have developed to a considerable extent during last few years. Due to expansion in business of these societies, flow of development funds, diversification of business activities etc., the scope of indulgement in financial and administrative irregularities by the society personnel has risen. It has been observed that embezzlement and misappropriation of public deposits as well as Government funds in certain Cooperative institutions are rampant. Instances have come to notice of this Directorate that fraud, misappropriation and misutilization of funds and other irregularities in violation of provisions of Act, Rule and Bye-laws and circular instructions of administrative authorities and regulators, have been committed year after year by the management and /or errant employees of such organizations.

The malfunctioning of the societies are attributable to lack of proper monitoring and supervision by the Departmental officers and field machineries of financing banks. In view of this, the role of audit becomes imperative to detect fraud, misappropriation and other managerial and financial irregularities so as to safeguard the public deposits and funds invested by Government in Cooperative institutions under various schemes. The Audit report should reveal all the facts of misappropriation and misutilization of funds, action of management and employees causing loss of assets of the cooperative institutions alongwith supporting documents for initiating legal action on the basis of audit findings to restore money to the societies concerned.

But it is observed that in most cases, the auditors are not conducting audit systematically and properly. It is also noted that some of the Asst. AGCS of Circles are not serious about their duties and responsibilities either. Though it has been mandated to conduct test audit of societies prior to issue of audit certificates as per circular instructions issued in Directorate of Cooperative Audit Circular No-905 dtd-18.02.2013 to sort out deficiencies and improve the quality of audit, the same is hardly adhered to. Wherever test audit is conducted, the same is done as a formality without going into details of the

transactions thoroughly. Huge fraud and misappropriation in cooperative institutions, detected through special audit is a pointer to that effect.

Large scale irregularities, misappropriation etc detected in Cuttack UCB, Bargarh CARD Bank, Bhanjanagar RCMS and in some PACS under Cuttack , Balasore Bhadrak, Angul, Sambalpur and Puri CCBs through Special audit carried out in the recent past substantiate that statutory audit in these cases is not conducted in proper manner. It is a matter of concern that when huge fraud, misappropriation and embezzlement of funds are coming to light in Special audit carried out subsequent to audit, how come the auditors failed to detect the same during the course of statutory audit of such Cooperative organizations. Such type of improper or perfunctory auditing and presentation of Audit reports by the auditors not only affects the credibility of this Directorate but also gives scope to others to point fingers towards it's functioning and efficiency, which put all in enormous amount of embarrassment.

Though it is a fact that Special audit is conducted on certain specific aspects on the basis of allegations, which provides wider scope to the auditor to investigate deep into a particular accounts/transactions by devoting sufficient mandays to unearth fraud, misappropriation etc., this does not mean that nothing will be detected in statutory audit, especially when there is occurrence of large scale irregularities, misappropriation and misutilisation of funds in the Cooperative institutions.

In view of the above unsatisfactory affairs, you are hereby re-impressed to issue instructions to the auditors under your administrative control to conduct audit of cooperative institutions in proper manner by following the provisions under OCS Act, Rules, Bye-laws and Circular instructions there on scrupulously. Test audit need be conducted regularly and selectively to ascertain the veracity of Audit report and to improve the quality of audit and efficiency of the auditors as well. Any auditor found lacking should be cautioned adequately. Moreover discussion on important circulars issued by Head office and problems faced by Auditors in conducting audit should be discussed in the monthly staff meeting.

The instructions contained in this letter should be adhered to meticulously without deviation.

Yours faithfully


Auditor General
Cooperative Societies
Odisha

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