

**TWELFTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC ACCOUNTS  
(2006-2008)**

**FORTY NINTH REPORT**

(Presented on 17th March, 2008)



SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2008

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**On**

**Paragraphs relating to Co-operation Department contained in the Reports  
of the Comptroller and Auditor General of India for the years  
ended 31st March 1998 No. 1 (RR) and 31st March 2003 (RR)**

288/2008.

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## INTRODUCTION

I, the Chairman, Committee on Public Accounts, having been authorised by the Committee to present this Report on their behalf, present the Forty Ninth Report on paragraphs relating to Co-operation Department contained in the Report of the Comptroller and Auditor General of India for the years ended 31st March 1998 No. 1 (R.R) and 31st March 2003 (R.R).

The Reports of the Comptroller and Auditor General of India for the years ended 31st March 1998 No. 1 (R.R) and 31st March 2003 (R.R) were laid on the Table of the House on 19th February 1999 and 28th June 2004.

The Committee considered and finalised this Report at the meeting held on 11th March, 2008.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General in the examination of the Audit Reports.

Thiruvananthapuram,  
17th March, 2008.

ARYADAN MUHAMMED,  
*Chairman,*  
*Committee on Public Accounts.*

## **REPORT**

### CO-OPERATION DEPARTMENT

#### AUDIT PARAGRAPH

#### **Introduction**

The Kerala Co-Operative Societies Act, 1969, was enacted with a view to providing for orderly development of the co-operative movement and to consolidate, amend, and unify the laws relating to co-operative societies in the State. The Act and the Kerala Co-operative Societies Rules, 1969 provide for promotion, registration, development, supervision, inspection and annual audit of co-operative societies. While annual audit is carried out by the audit wing of the Co-operation Department, other functions are performed by the administrative wing. The receipts of the department include audit fee for annual audit (unit audit) levied based on the working capital/value of sales and gross income subject to a maximum of Rs. 5,000 audit fee based on cost of special auditors appointed exclusively for the audit of one or more major institutions having working capital/annual sales exceeding Rs. 5 lakh, cost of inquiry/inspection, arbitration fee, liquidation charges, fee for appeal or revision, dividend on share capital subscribed directly or indirectly by Government, etc. A review of the accounts of the department for the years 1992-93 to 1996-97 conducted during October to December 1997 in the offices of the Registrar of Co-operative Societies, Joint Registrars and Deputy Registrars (Audit) of Thiruvananthapuram, Kollam, Kottayam, Kozhikode and Kannur and Assistant Registrar (General & Audit) of Thiruvananthapuram and Neyyattinkara revealed the following.

#### **Trend of revenue**

Audit fee, arbitration fee, and cost of audit which constituted 86 to 94 per cent of the total revenue (excluding grant) of the department during the years

1992-93 to 1996-97 as given below are the main sources of revenue of the department.

<i>Nature of receipt</i>	<i>1992-93</i>	<i>1993-94</i>	<i>1994-95</i>	<i>1995-96</i>	<i>1996-97</i>
	<i>(In lakh of rupees)</i>				
Audit fee	66.49	88.96	94.73	63.85	105.02
Grants from National Co-operative Development Corporation	18.89	23.85	365.53	126.58	66.06
Arbitration fee	215.93	195.51	228.18	215.75	326.12
Cost of audit calculated under Rule 156 of KSR Part I	337.37	400.18	568.08	717.42	698.87
Other receipts (Liquidation charges, appeal fee and other items)	45.53	43.80	45.16	156.42	66.10
Total	684.21	752.30	1301.68	1280.02	1262.17

#### **Arrears in audit**

Audit of most of the societies are conducted once in a year (unit audit). The Registrar of Co-operative Societies may also appoint staff exclusively for the audit of one (single concurrent) or more (group concurrent) major societies having working capital/annual sales exceeding Rs. 5 lakh.

During the Co-operative years 1996-97 (July 1996 to June 1997) out of 30,233 audits due, including 12,460 audits which were pending as on 1 July 1996, the department could complete only 16,688 audits i.e, 55 per cent leaving a balance of 13,545 audits as on 30 June 1997. The year-wise break up of arrears of audit under different category is given below :

<i>Category</i>	<i>1993-94</i>	<i>1994-95</i>	<i>1995-96</i>	<i>Total</i>
Unit audit	1721	2728	7365	11814
Single concurrent audit	23	47	145	215
Group concurrent audit	79	246	721	1046
Milk marketing society audit	127	115	228	470
Total	1950	3136	8459	13545

Arrears in audit increased steadily from 26 per cent in 1992-93 to 45 per cent in 1996-97, as given below against 10 per cent increase in the number of societies from 16,141 in 1992-93 to 17,773 in 1996-97.

<i>Arrears in audit as on</i>	<i>No. of audits</i>		<i>Percentage of pendency</i>
	<i>Due</i>	<i>Pending</i>	
30-6-1993	21335	5566	26
30-6-1994	21403	8861	41
30-6-1995	24034	10077	42
30-6-1996	26356	12460	47
30-6-1997	30233	13545	45

However, the arrears of audit shown as on 30 June 1997 in the books of the department did not include 26163 audits of 2451 societies the records of which were not available as they were either involved in long pending court cases or were in police custody.

#### **Arrears pending collection**

Demand, Collection and Balance Registers are intended to indicate the exact position of revenue due, collected and outstanding during a particular period and to serve as an instrument of internal control system.

However, the register maintained by the Registrar of Co-operative Societies did not depict the exact position in view of the following audit comments and hence did not serve the purpose.

The arrears pending collection by way of audit fee/cost of special auditors as at the end of March 1997 as worked out in the demand, collection and balance register was Rs. 142.74 lakh (Rs. 103.84 lakh as fee and Rs. 38.90 lakh as cost of special auditors) as shown below :

	<i>Amount (In lakh of rupees)</i>
Up to 9/1988	14.05
1988-94	25.20
1994-96	35.60
1996-97	67.89
Total	142.74

Scrutiny of the records revealed the following points :

(i) Primary data for the preparation of the demand, collection and balance register in the Office of the Registrar of Co-operative Societies are first sent by the Assistant Registrars concerned to the Joint Registrars who in turn consolidate them and forward to the Registrar's office. It was however noticed that the correctness of figures sent by the Assistant Registrars were not being verified by the Joint Registrars. As such the discrepancies in the figures remained undetected and unreconciled. The discrepancies noticed in the registers maintained in the offices covered by audit were as indicated below.

<i>District</i>	<i>Closing Balance as per records of Assistant Registrar</i>	<i>Closing Balance as per records of Joint Registrar</i>
	<i>(as on 30th September 1997)</i>	
	<i>Rs.</i>	<i>Rs.</i>
Kollam	19,83,246	18,56,808
Kottayam	5,96,067	3,41,248
Kozhikode	12,21,254	8,88,050
Thiruvananthapuram	50,97,284	27,60,828
Kannur	5,57,579	4,65,416

(ii) There were mistakes in carrying over closing balances in the register maintained in the Registrar's Office as shown below :

<i>Closing balance as on</i>	<i>Amount (In lakh of rupees)</i>	<i>Opening balance as on</i>	<i>Amount (In lakh of rupees)</i>
31st March 1992	117.92	1st April 1992	159.54
30th September 1992	153.05	1st October 1992	161.21

(iii) No collection has been recorded against the demands amounting to Rs. 230.05 lakh from the Kerala Co-operative Milk Marketing Federation for the half years ended 31st March 1989 to 31st March 1997.

### **Failure to take effective steps to realise the arrears**

According to the Registrar of Co-operative Societies the arrears of fees and cost of audit to be realised as on 31st March 1997 was Rs. 142.74 lakh, out of which Rs. 74.85 lakh related to period up to 31st March 1996. However, no effective steps were taken to realise the arrears. In special arrear collection drives launched by the department in November 1993 and February 1997, the achievement was very low. Against the target of 90 per cent set for realisation of arrears, the achievement of November 1993 drive was 18 percent and of 1997 drive was 33 per cent. Evaluation of programmes made by field officers was not properly monitored during 1997. Though five of the District Officers<sup>29</sup> did not send the progress report the same was also not insisted by the Registrar.

The Kerala Co-operative Societies Rules, 1969 provide that any sum due to Government from a society shall be recovered in the same manner as public revenue due on land. Out of Rs. 74.85 lakh due for collection as on 31st March 1996, as per the books of the department, Rs. 17 lakh alone was recommended as on 31st March 1997 for recovery under the Revenue Recovery Act. It was also noticed that no consolidated record was maintained in any of the offices audited to incorporate the details of the amount recommended for revenue recovery, the progress of collection, details of stay, if any, granted by appropriate authority, conditions, if any, thereof, instances of violation, etc. In the absence of the same in the offices test checked the correctness of the amount recommended for revenue recovery, its latest position, etc., could not be verified in audit.

The Act and the Rules do not contain any provision for the levy of any penalty or interest for belated payment of dues to the Government. Hence the Registrar of Co-operative Societies is not in a position to levy penalty/ interest on substantial amounts due from various societies. No action has so far been taken to rectify this lacuna in the Act and Rules which came into force during the year 1969.

### **Failure to recover the cost of audit in advance**

Government order issued in February 1987 prescribed that in the case of concurrent audit where cost of audit is calculated as per Rule 156 of the Kerala Service Rules, Part I, it should be realised 6 months in advance in the case of gazetted officers and 3 months in advance for non-gazetted officers. Hence, normally there can not be any arrears of cost to be collected from auditee organisations. But records for the years under review showed that cost

<sup>29</sup>Joint Registrars of Idduki, Kasaragod, Kozhikode, Palakkad and Thiruvananthapuram.

amounting to Rs. 109.52 lakh for the years 1992-93, 1993-94, 1995-96 and 1996-97 was in arrears as shown below :

<i>Year</i>	<i>Amount of arrears (In lakh of rupees)</i>
1992-93	42.19
1993-94	6.37
1995-96	22.55
1996-97	38.41
Total	109.52

#### **Short demand of cost of audit**

The average cost calculated under Rule 156 of the Kerala Service Rules, Part I, for the purpose of recovery of audit cost is subject to periodical enhancement consequent on the revision of pay, dearness allowance and other compensatory allowances to State Government employees. In nine offices, the enhancements in pay, dearness allowance sanctioned since 1st March 1992 and two instalments of interim relief granted from 1st December 1995 and 1st February 1997 were omitted to be demanded. This resulted in short realisation of audit cost of Rs. 10.92 lakh in 125 cases.

The above points were brought to the notice of the department between October and December 1997 and reported to Government in April 1998, their replies have not been received (October 1998).

[Audit Paragraph 9.1 to 9.1.7—contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 1998 No.1 (R.R.)].

Notes furnished by Government on the above audit paragraphs are included as Appendix. II.

From the audit review, it is evident that there are tremendous arrears in the audit of the Co-operative Societies carried out by the Co-operation Department. Its rate steadily increased from 26% in 1992-93 to 45% in 1996-1997, though there was only 10% increase in the number of Co-operative societies in the State. The details of 26163 audits of 2451 societies were not included in the books of the Department as the records of the societies were not available since they were either included in the long pending cases in court or were in police custody.

2. The Committee enquired whether the Department had thought of any measures to clear off the arrears in audit of the Co-operative societies in a time bound manner. The Secretary, Co-operation Department stated that an all out effort was being made by all concerned to clear the arrears in audit. As per the latest position it could be seen that there had been considerable decrease in the percentage of arrears. One of the reasons for the escalation in arrears of audit was the paucity of staff to do audit. There were no proportionate increase in staff corresponding to the increase in the number of co-operative societies. The witness clarified to a query of the Committee that the total number of societies where audit was pending were 22,664. For auditing only auditable societies were taken into account. The Societies which were defunct and where proper records were not maintained, were excluded from the pending audit list. The Committee desired to know the norms by which a society was determined as auditable or not. The Secretary, Co-operation Department stated that criteria for auditing of societies adopted by the Department was that the society should have framed specific rules. Audit and the accounts and records of the institution, should be maintained and made available for audit. Those societies, which do not fulfill these norms, would be treated as unsuitable societies. Those societies having any legal problem of liquidation process or under liquidation were excluded from audit. As per the latest figures the number of societies of which audit was pending for the last 5 years was 1723, 4 years was 2079, 3 years was 3443, 2 years was 5687 and one year was 9132 respectively.

3. The Committee asked whether the Department had any proposal to make the audit up to date. The witness replied that Department had given a proposal for increasing the staff strength in proportion to the number of societies. Even though the number of societies in the state had increased considerably there was no corresponding increase in the number of audit staff since 2000. Finance Department had not agreed to the proposal of post creation so far. Enquired as to the number of auditable societies, the witness stated that there were 21672 societies in total out of which only 17,688 were auditable.

4. The Committee wanted to know whether the system of audit had been modernised. The Secretary, Co-operation Department informed the Committee that though modernisation programme had been started in 1999-2000 the audit system had not been included under it. But the process of computerising the Co-operation Department was under way. The Societies in the State were also gradually being computerised. Hence a decision to change the old system of audit had to be taken. Since the Registrar of Co-operative Societies was not empowered to take such a decision, the decision to modernise the audit system in the Co-operative Sector had to be taken at the Government level. The

Committee pointed out that almost all the Societies in the credit sector had been computerised and hence it was easy to link them with the office of the Registrar of Co-operative Societies if the system is modernised.

5. The Committee enquired whether there was any pendency in the societies where concurrent auditors were deployed. To this the witness admitted that audit of about one year would be pending in these societies which was quite justifiable since audit would be started only after the usual annual accounting process is completed.

6. The witness added that if the audit was made up to date and current, then the Societies may show reluctance in appointing auditors on their expense. Besides, if pending audit was completed the Department would have to withdraw all the audit staff and that would cause much internal difficulty.

7. When the Committee asked whether the department had taken any effective steps to examine whether group audit system in societies, were completed within the stipulated time, the Registrar replied that Joint Registrars at district level would evaluate the monthly work of group auditing and send report to Departments. The Committee opined that the system of group audit in Co-operative institutions in the State was not functioning effectively. Hence the audit mechanism in the Co-operative Department should be modernised so as to make the process of audit more efficient and very fast.

8. The Committee observed that the State was experiencing difficulty in getting finance to many central schemes in the Co-operative Sector because of the non-submission of the audit report of the previous years spending on the schemes by the societies. Hence the Committee enquired whether the Department had initiated any steps to address this situation by imposing penalty or fine on the defaulting societies or for making necessary amendments in the relevant Rules. To this the witness, Registrar-in-Charge of Co-operative Societies submitted that there was no provision for imposing penalty or fine in the relevant Rules. The witness, Secretary, Co-operative Department stated that amendment in the relevant Rules would be a good suggestion. The Committee suggested that a special committee be appointed to study all aspects of audit of Co-operative Societies so that a comprehensive Audit Manual could be prepared. From the examination of Audit observation, the Committee could also find that in many cases, the delay in audit of Societies occurred due to the dearth of department auditors.

9. On examining the audit observation regarding the arrears pending collection in Co-operative Department the Committee enquired about the main source of Revenue of the Co-operative Department. The Witness, Registrar of

Co-operative Societies replied that the main sources of revenue of the Co-operative Department were the audit fee, audit cost, fee for arbitration cases, interest on loan and dividend. To a question, the Secretary, Co-operation Department informed the Committee that the main defaulters among the major apex co-operative institutions were KERAFED, Milk Marketing Federation, SC/ST Development Corporation etc. In the case of Marketing Federation, Government had converted an amount of Rs. 20 crores as equity and waived an amount of Rs. 7 crores towards penal interest. Then the Committee sought possibility of similar favourable action towards KERAFED also. The Secretary, informed that the proposal submitted by KERAFED had not been accepted by NCDC. If NCDC approve the proposal, Government would also consider the case of KERAFED. The Secretary, informed the Committee that these co-operative institutions were functioning in the social sector and whenever Government declares a moratorium on loans or stay on Revenue Recovery then the collection of loan amount could not be done and this in turn affects their repaying capacity. The Committee opined that considering the difficulties in collecting the pending arrears by the Co-operative institutions, the Government should conduct discussion with them and solve the matter so that the issue of pending arrears could be closed.

10. When asked about the present position of arrears in Audit fee and cost, the witness replied that current details regarding the arrears had not been received so far and assured the Committee that the same would be furnished to the Committee as soon as they were made up to date.

11. About this paragraph, the Secretary informed the Committee that total arrears towards the cost of Audit to be received from the various societies was Rs. 29.36 crore. To another question, the Committee was apprised that the credit societies had promptly remitted their audit fee.

12. The Secretary, stated that entire amount mentioned in the para had been collected and the Committee was satisfied with the Statement.

#### **Conclusions/Recommendations**

**13. The Committee comes to know that one of the reasons for the escalation in arrears of audit is due to the paucity of Staff and also finds there is no proportionate increase in staff corresponding to the increase in the number of Co-operative Societies.**

**14. The Committee is of opinion that the societies which are defunct should be rejuvenated and measures should be taken to clear the pending**

arrears. The Committee also recommends that if the paucity of Staff affected the entire process of work both the Department and the Government should find a reasonable remedy to clear the audit arrears in the Department.

15. The Committee finds that there is no corresponding increase in the number of audit staff even if the number of Societies are seen to have increased. Hence the Committee suggests that the department concerned convince the Finance Department and get the proposal agreed without delay.

16. The Committee observes that the process of computerisation in the Co-operation Department is under way and recommends that an early decision be taken to replace with new system in the audit wing of the Department to avoid lagging.

17. The Committee opines that if the system is modernised, it would be easy to link the societies with the office of Registrar of Co-operative Societies.

18. The Committee learns that the system of group audit in Co-operative institutions in the State is not functioning effectively. Hence the Committee recommends for the need of modernising the audit mechanism in the Co-operative Department in order to see the process of audit functioning in more effective manner. The Committee finds that making an amendment in the relevant Rules would be a necessity to ensure the effective functioning of the audit wing in the Co-operation Department. Hence the Committee suggests that a special Committee be constituted to study all aspects of audit of Co-operative Societies and a comprehensive Audit Manual be prepared.

19. Regarding the arrears of Audit fee and cost realisable from the various Co-operative Institutions, the Committee wants more details on the subject. The Committee urges the Department to furnish the current details of the arrears in the Audit fee and cost to be realised from the Co-operative Institutions.

AUDIT PARAGRAPH

#### **Review: Receipts from the Co-operative Department**

##### *Highlights*

- \* There was no follow up action to realise the arrears of Rs. 67.77 crore.
- \* The Department failed to maintain proper accounts of disbursements of Rs. 164.30 crore.
- \* There was no entry in any records of the Department for disbursement of Rs. 21.88 crore.

- \* The Department had to forego audit fee / cost of Rs. 30.55 crore due to not conducting audit.
- \* The Department failed to raise demand of interest / penal interest of Rs. 8.47 crore due on loans and share capital contribution.
- \* The Department failed to raise demand of guarantee commission of Rs. 6.32 crore due from a Bank.

### **Introduction**

The Kerala Co-operative Societies Act 1969, and the rules made thereunder provide for promotion, registration, development, supervision, inspection and annual audit of co-operative societies. Major receipts from the Co-operative Department are audit fee, arbitration fee, liquidation charges, fee for appeal or revision, interest/penal interest on loan, penal interest for delay on retirement of share capital, dividend on share capital and guarantee fee etc. As on 31st March 2002, there was one State Co-operative Bank, one State Co-operative Agricultural and Rural Development Bank, 14 District Co-operative Banks and eight apex societies in the State. There were 11927 registered societies out of which 2181 were defunct as on 31st March 2001.

### **Organisational set up**

The Department is headed by the Registrar of Co-operative Societies who is assisted by five Additional Registrars and three Joint Registrars at Headquarters. There are separate wings for the administration and the audit of Co-operative institutions under him. The Department is to recover audit fee, dividend, loans with interest thereon and retirement of share capital with penal interest etc. At the District level, there are two Joint Registrars, one to look after the administration of co-operative societies and the other to oversee the audit of accounts of the societies, while at the Taluk level there are two Assistant Registrars, one for administration and the other for audit. Under them there are Inspectors and Auditors for inspection, audit and other field duties.

### **Audit Objectives**

A review of the accounts of the Department for the years 1997-98 to 2001-2002 was conducted during the period from October 2002 to February 2003 in the offices of the Registrar of Co-operative Societies, \*six out of 14 District offices of the Joint Registrars (General) and the Joint Registrars (Audit) and the Assistant Registrar (General) and the Assistant Registrar (Audit), Thiruvananthapuram to ascertain whether—

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\* Alappuzha, Ernakulam, Kozhikode, Pathanamthitta, Thiruvananthapuram and Thrissur

- \* audit fees/audit cost, dividend, interest/penal interest on loan/ penal interest on share capital contribution etc., was demanded in accordance with the provisions in the Act/Rules and timely action was taken for their realisation.
- \* the accounts/registers were maintained properly,
- \* audit of the institutions/societies was being conducted regularly; and
- \* proper internal control mechanism existed for the implementation of the provisions in the Act/Rules.

### **Trend of revenue**

Audit fee, grant from National Co-operative Development Corporation (NCDC), arbitration fee, cost of audit and interest from Co-operative societies constituted the major source of income of the Department. The revenue receipts for five years from 1997-98 to 2001-02 were as under :

*(Rupees in crore)*

<i>Sl. No.</i>	<i>Category of receipts</i>	<i>Years</i>				
		1997-98	1998-99	1999-00	2000-01	2001-02
1	Audit Fees	1.06	1.20	1.46	2.27	2.12
2	Cost of Audit	7.92	9.69	14.47	13.10	10.86
3	Arbitration fees	3.34	4.20	5.20	5.53	5.24
4	Interest from Co-operative societies	7.22	3.91	3.97	2.46	2.42
5	Liquidation charges appeal fees and other receipts	0.88	0.67	1.05	1.43	1.33
6	Grants from NCDC	1.02	3.31	1.31	1.13	1.57
	Total	21.44	22.98	27.46	25.92	23.54

The total revenue declined by Rs. 2.38 crore in the year 2001-02 when compared with the receipt for the previous year.

Reasons for the reduction though called for (July 2003) from the Department have not been received as of date (October 2003).

**Budget estimates and actuals**

The budget estimates and the actuals during the period 1997-98 to 2001-02 were as under :

(Rupees in crore)

<b>Receipt Head of Account in the State Budget</b>									
Year	0425 Co-operation			0049 Interest-Receipts 195-Interest from Co-operative Societies			0050 Dividend and Profits 200 Dividends from other Investments (02) other Co-operatives		
	Budget Estimates	Actuals	Variation	Budget Estimates	Actuals	Variation	Budget Estimates	Actuals	Variation
1997-98	15.58	14.22	(-)1.36	3.16	7.22	(+)4.06	0.65	0.72	(+)0.07
1998-99	19.84	19.08	(-)0.76	4.03	3.91	(-)0.12	0.65	0.90	(+)0.25
1999-00	26.31	23.49	(-)2.82	4.58	3.97	(-)0.61	0.65	0.96	(+)0.31
2000-01	25.48	24.36	(-)1.12	5.83	2.46	(-)3.37	1.25	1.57	(+)0.32
2001-02	35.67	21.12	(-)15.55	4.08	2.42	(-)1.66	1.15	0.63	(-)0.52

There was a short fall of Rs. 14.55 crore (41 per cent) in actual receipt under Co-operative Receipts in the year 2001-02. Reason for variation though called for in February 2003 has not been furnished (October 2003).

**Arrears of revenue**

Arrears of revenue pending collection as per the Demand Collection and Balance (DCB) statements of Registrar of Co-operative Societies under various categories as on the dates specified against them were as under :

(Rupees in crore)

Category of arrears	Period up to which DCB is prepared	Outstanding balance
(1)	(2)	(3)
a. Interest and penal interest on loan due from		
(i) apex societies	31st March 2002	54.75
(ii) other societies	31st December 2001	2.99
b. Penal interest on share capital over due from		
(i) apex societies	31st March 2002	1.05
(ii) other societies	31st December 2001	0.51

(1)	(2)	(3)
c. Audit fee	31st March 2002	1.65
d. Audit cost	31st March 2002	1.26
e. Dividend	31st December 2001	0.13
f. Guarantee Commission	31st March 2001	5.43
Total		67.77

- \* Arrears of Rs. 52.27 crore which constituted 77% of total arrears were due from Kerala State Co-operative Marketing Federation (Rs. 26.78 crore), Kera Karshaka Federation (Rs. 20.35 crore) and Kerala State Co-operative Consumer Federation ( Rs. 5.14 crore).
- \* The Year – wise details of arrears of revenue on account of interest and penal interest on loans, penal interest on overdue share capital, audit fee / cost etc., pending collection were not available with the Registrar of Co-operative Societies.
- \* Audit cost recoverable in advance for conducting concurrent audit is based on the average cost of officials deputed for the purpose at the rates fixed by Government from time to time. The Government had also reiterated in February 1987 that the cost of concurrent audit be realised in advance.

It was, however, observed that audit cost was not being realised in advance in accordance as it was clear from the above table that a sum of Rs. 1.26 crore was in arrears as on 31st March 2002.

#### **Failure of Special drives for collection of arrears**

The Registrar of Co-operative Societies launched a special drive on 1st March 2001 for 20 days to collect 100% arrears of Rs. 14.07 crore due to Government from Co-operative institutions towards audit fee and interest including penal interest as on 28th February 2001. It was, however, noticed that the Department could realise Rs. 1.47 crore, which was only 10% of the total arrears.

Again in December 2001, another special drive was launched to recover within one month at least 80 per cent of the arrears. However, the Department could collect only Rs. 1.41 crore out of total arrears of Rs. 27.64 crore as on 30th November 2001, which was five per cent of the total arrears.

The special drives launched by the Department to recover the arrears could not achieve the desired results.

#### **Non-maintenance of basic records by the Registrar**

The responsibility for watching recoveries of loans and other repayable financial assistance with interest, thereon rests with the disbursing officer. The disbursing officer has, therefore, to maintain loanee-wise/beneficiary-wise accounts of disbursements and recoveries.

\* The outstanding balance of loan and share capital contribution disbursed by the Registrar to the State Co-operative Bank, the apex societies and the District Co-operative Banks, amounted to Rs. 66.34 crore and Rs. 67.67 crore respectively as at the end of March 2001. However, loanee-wise/beneficiary-wise accounts of disbursements and repayments were not maintained by him. The Registrar, instead of preparing the DCB statement by himself, consolidated the DCB statements of the loanee/beneficiary institutions prepared by the concurrent auditors attached to such institutions.

\* Share capital contribution and loan assistance to District Co-operative Banks were envisaged under the Integrated Co-operative Development Project (ICDP) implemented in the State from 1988-89 onwards. As of 31st March 2001, the Registrar disbursed share capital contribution and loan assistance aggregating Rs. 30.29 crore to four\* District Co-operative Banks for which proper accounts were not maintained; beneficiary-wise DCB statements were not prepared and recoveries thereof not watched.

\* As per the information collected by audit, the following disbursements on account of share capital/loans were not accounted for by the Registrar though the recipients accounted for the receipts in their books.

*(Rupees in crore)*

<i>Sl. No.</i>	<i>Name of recipients of financial assistance</i>	<i>Nature of receipt</i>	<i>Period/date of disbursement</i>	<i>Amount</i>
(1)	(2)	(3)	(4)	(5)
1	Kerala State Co-operative Agricultural and Rural Development Bank, Thiruvananthapuram	Share capital contribution	31st March 1996 31st March 1997 31st March 1998 31st March 2000	1.00 1.00 2.00 2.00

\* Kottayam, Palakkad, Pathanamthitta and Thrissur

(1)	(2)	(3)	(4)	(5)
2	Federation of SC/ST Development Co-operative Society, Thiruvananthapuram	Share capital contribution	1982-83 to 1997-98	1.23
3	Kerala State Co-operative Bank, Thiruvananthapuram	Share capital contribution	24th August 1988 31st March 1998	1.20 2.00
4	District Co-operative Bank, Kottayam	Share capital contribution	Upto 1992-93	4.27
		Loan	Upto 1992-93	2.78
5	District Co-operative Bank, Palakkad	Share capital contribution	Upto 1992-93	2.66
		Loan	Upto 1992-93	1.07
6	Federation of SC/ST Development Co-operative Society, Thiruvananthapuram	Loan	1985-86 to 1997-98	0.67
			Total	21.88

The reasons for omissions though called for have not been furnished (July 2003) by the Department.

According to the Registrar, he disbursed the following amounts to the Federation of SC/ST Development Corporation Ltd. towards share capital contribution.

*(Rupees in lakh)*

<i>Sl.No.</i>	<i>Date of disbursement</i>	<i>Amount</i>
1	31st March 1998	33.95
2	23rd December 1998	20.00
3	January 1999	5.80
4	25th March 2000	30.00
5	31st March 2000	15.00
Total		104.75

However, these amounts were not accounted for in the books of accounts of the recipient resulting in non-repayment of instalments thereof with interest due to Government.

From the above it was evident that there existed no internal control mechanism to ensure that all disbursements made by the Registrar were properly accounted for in his accounts and the recoveries thereof watched.

#### **Pendency in audit**

The act provides for the audit of every society at least once every year by the auditors appointed specially and exclusively for the purpose. The audit is either unit audit which is conducted after the expiry of the accounting year and audit fee charged at the rate fixed by Government, or concurrent audit of society by charging audit cost of the staff deployed.

Number of audits fallen due for completion was 38,791 as on 31st March 2002. The age-wise break-up of arrears was as under :

<i>Period for which audit was pending</i>	<i>Number of audit pending</i>		<i>Total</i>
	<i>unit audit</i>	<i>concurrent audit</i>	
5 years	285	39	324
4 years	950	51	1001
3 years	2543	177	2720
2 years	5026	450	5476
1 year	10816	1047	11863
Current	15784	1623	17407
	35404	3387	38791

During the year 2001-02 the Department completed 11236 unit audits and 1528 concurrent audits, and realised audit fee worth Rs. 2.12 crore and audit cost worth Rs. 10.86 crore. The average fee/cost worked out to Rs. 1890 per unit audit and Rs. 70449 per concurrent audit. At this average rate the Department had forgone Rs. 30.55 crore during last five years due to not conducting of 38791 unit/concurrent audits.

### **Non-demands/short demand of interest/penal interest on loans**

According to the Rules for financial assistance to primary societies for various NCDC sponsored schemes, the assistance by way of share capital contribution and loan shall be released through the district co-operative bank which is the implementing agency. Responsibility for recovery of loan with interest according to the formula and time schedule fixed by NCDC vested with the bank. The bank should repay the amount to the Government as per the terms and conditions.

\* It was noticed that three district co-operative banks\*, short remitted interest of Rs. 3.30 crore on loan aggregating Rs. 8.37 crore disbursed to primary societies during the period from 1988-89 to 2001-02. The Registrar neither worked out the interest payable to Government by the banks nor ensured the correctness of the interest remitted by the banks.

On this being pointed out by audit, the Registrar stated in March 2003 that the District Co-operative Bank, Pathanamthitta remitted Rs. 1.10 crore in March 2003.

\* Government in March 1997 released loan of Rs. 0.97 crore at the interest rate of 16.75 per cent and penal (overdue) rate of interest of 19.25 per cent to the Kerala State Co-operative Rubber Marketing Federation for undertaking, marketing and distribution activities. The loan was repayable in 10 annual equal instalments after a moratorium period of one year. The federation had not remitted my amount towards principal. The interest of Rs. 0.85 crore due up to 31st March 2002 on the principal repayable was neither remitted by the federation nor demanded by the Registrar.

\* Under the Rules framed in January 1979 for loans by Government to Co-operative Marketing Societies for establishing processing units, the loan shall bear interest at the rate fixed by Government from time to time on the basis of the rates government has to pay to NCDC.

As per the information collected by audit, the Kerala State Rubber Marketing Federation received (between 1986-97 and 1996-97) from Government loan aggregating Rs. 7.17 crore with moratorium period ranging from one to five years for repayment, for establishing processing units. Interest due on the loan for the moratorium period up to 31st March 2002 worked out to Rs. 3.21 crore against Rs.0.35 crore reckoned by the Registrar resulting in short demand of interest of Rs. 2.86 crore.

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\*Kottayam, Palakkad and Pathanamthitta

The Department accepted in January 2003 the omission. However, no demand has been raised so far (October 2003).

- \* Loan of Rs.1.80 lakh bearing interest at the rate of 10 per cent and repayable in 12 annual instalments after a moratorium of three years was released to the North Malabar District Co-operative Supply and Marketing Society, Kozhikode in June 1983 and March 1984. The society repaid the loan in lump in August 2000. Interest of Rs. 3.02 lakh due up the date of repayment was neither remitted by the Society nor demanded by the Department.

On this being pointed out by Audit, the Department issued in November 2002 demand notice. Further report has not been received (October 2003).

- \* Loan of Rs. 12.29 lakh, with interest of 9.5 per cent and penal interest of 2.75 per cent for delay in payment, was outstanding out of earlier loans against Alappuzha District Co-operative Consumer Store as at the end of March 1988. Government while sanctioning re-vitalisation in September 1990 with moratorium of ten years, waived interest due up to the end of March 1988.

As per the revised schedule, repayment of principal along with interest was to be made in 10 equal annual instalments commencing from 31st March 1999. Interest and penal interest amounting to Rs. 16.55 lakh as of 31st March 2002 was neither demanded by the Department nor remitted by the Society.

The Department accepting the audit observation stated in January 2003 that action would be taken to collect the dues.

#### **Short-demand of penal interest on share capital retirement**

According to the Rules for the grant of share capital contribution to Apex and district marketing societies for implementing the scheme to provide margin money to co-operative societies for marketing fertilisers, agricultural inputs and other agricultural products, the share capital shall be retired completely in 10 equal annual instalments, the first instalment being payable on the sixth anniversary of the date on which the share contribution was made. Penal interest of 2.5 per cent shall be charged on belated repayments of share capital.

As per the DCB register of the Registrar for the year ended 31st March 2002, penal interest due from the apex societies on share capital investments of Government, aggregated Rs. 1.05 crore which included Rs. 0.04 crore due from Kera Karshaka Federation.

As per the information collected by audit, repayment of instalments of share capital contribution of Rs. 4.13 crore disbursed to Kera Karshaka Federation from Government during the period April 1990 to March 1995, was to commence from April 1996 onwards. The federation failed to retire the instalments of share capital contribution payable up to March 2002. Penal interest due from April 1996 to March 2002 on the defaulted instalments correctly worked out to Rs. 1.30 crore against Rs. 0.04 crore worked out and demanded by the Department. This resulted in short demand of penal interest of Rs. 1.26 crore.

#### **Non-demand of guarantee commission**

Government gives guarantee to loans, cash credit accommodation, over drafts and other working capital requirement of Public Sector undertakings and realises guarantee commission at the rate of 0.75 per cent on the outstanding balance of principal as at the end of each financial year and the interest due thereon, unless specifically exempted.

On Government guarantee, the Kerala State Co-operative Agricultural and Rural Development Bank received Rs. 190 crore from NABARD between March 1994 and March 1997. The rate of interest fixed by NABARD ranged from 6.50 per cent to 9.50 per cent. Department neither calculated nor demanded the guarantee commission. However, the bank on its own made payment of guarantee commission of Rs. 1.51 crore during 1998-99. On reckoning interest at the lowest rate of 6.50 per cent, guarantee commission due as on 31st March 1998 worked out to Rs. 3.28 crore resulting in short remittance of Rs. 1.77 crore. Guarantee commission due from 1st April 1998 to 31st March 2002 worked out to Rs. 4.55 crore. The Department neither calculated nor demanded the guarantee commission of Rs. 6.32 crore due up to the end of March 2002.

#### **Internal control**

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules and Departmental instructions. They also help in prevention of loss of revenue and in the creation of reliable financial and management information system for prompt and efficient services and for adequate safeguards against evasion of duties. Internal audit is expected to provide an assurance regarding the adequacy and effectiveness of internal controls.

In the Co-operative Department, the internal control mechanism should normally ensure that the unit audit/concurrent audit of the Co-operative institutions is regularly conducted and interest/penal interest of loans and penal

interest of share capital contribution overdue for retirement is demanded and realised regularly.

The Department had not constituted an Internal Audit Wing (IAW). Hence there existed no institutional arrangement to systematically provide assurance on the adequacy and effectiveness of internal controls.

### **Recommendations**

Government may consider the following measures in public interest.

- \* Registrar of Co-operative Society should take effective steps to clear the arrears in audit within a time frame and conduct unit/concurrent audit regularly.
- \* Government may take effective steps to recover the arrears, if necessary by denying fresh loans/guarantee to the defaulters.
- \* A system may be put in place for the maintenance of proper accounts of loan and share capital contribution for preparation of its own DCB registers.
- \* A system may be evolved to raise demand of interest and penal interest on loans/retirable share capital contribution promptly from the beneficiaries. The Government may call for periodical returns from the department in this regard for effective monitoring.
- \* Direction may be issued for conduct of internal audit to ensure the compliance with various provisions in the Act/Rules for effective internal control.

The above defects were brought to the notice of Government in April 2003. Their reply has not so far been received (October 2003).

[Audit paragraph 7.5 to 7.5.15 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2003 (R.R.)]

Notes furnished by Government on the above audit paragraphs are included as Appendix – II.

20. The Secretary, Co-operation Department informed the Committee that during 2004-2005 Rs. 29.13 crore had been collected as revenue and steps for better collection had been initiated.

21. To a query regarding Para 7.5.5, the Secretary stated that the Budget estimates and actuals during the period 2001-2002 were Rs. 35.67 crore and Rs. 21.12 crore respectively. But a deficit of 41% from the Estimate of Revenue

Receipt had been noted in the audit paragraph. During the same period Government declared moratorium in the collection of interest and penal interest from Agricultural Sector. It affected the collection adversely. Because of the above reasons there was difference in the collection receipts. The Committee was informed that the balance amount to be collected was estimated to Rs. 87 lakh in addition to Rs. 29 crore.

22. Regarding this para the Secretary stated that since the Government had converted Rs. 20 crore as equity and waived Rs. 7 crores due as penal interest Marketing Federation had got a benefit of Rs. 27.28 crore. But in the case of Consumer Federation a separate package was under consideration for a favourable action.

23. Regarding audit para—Failure of special drives for collection of arrears – the witness informed the Committee that details and reply had not been received so far. He assured the Committee that its details along with the replies to audit para 7.5.1 to 7.5.15 would be furnished within a week.

24. The Secretary informed the Committee that the registers had been made up to date.

25. While discussing audit para 7.5.11, the Committee enquired whether the department had received the replies other than that of Kottayam and Palakkad District. The Secretary submitted that he got the reply belatedly and requested the Committee a week's time to furnish the details. The Committee took it as a serious matter and pointed out that the time-limit as per the Public Account Act had also elapsed and hence a final settlement to the issue be made urgently. The Secretary, Co-operation Department stated that for the past 8 months regular reviews were conducted and the department had been able to reduce the pendency gradually.

26. When asked about the internal audit wing in the Department, the Registrar-in-Charge of Co-operative Societies explained that there was no system of internal audit in the Department. Each individual institution had their own audit wing.

27. The Committee understood that the total turn over of the Co-operation Department was about Rs. 40,000 crores. From the evidence the Committee understood that it was accepted in principle that a separate Directorate of audit be established for watching the audit and accounts of the Co-operative institutions. But no further move to create the Directorate had been made so far. The Committee pointed out that this was a serious matter and that Government should take immediate steps to constitute a responsible system for the audit of the Co-operative societies.

**Conclusions/Recommendations**

28. The Committee finds that about 77% of the total arrears of revenue collection is due from the Institutions like Kerala State Marketing Federation, Kera Karshaka Federation and Kerala State Co-operative Consumer Federation. In the case of Marketing Federation Government had converted Rs. 20 crores as equity and waived Rs. 7 crore as penal interest. But in the case of Consumer Federation no such move has seemed taken. It is informed that a package was under consideration for favourable action to the Consumer Federation. The Committee suggest that the package under consideration for favourable action in the case of Consumer Federation be implemented at the earliest.

29. Dissatisfied by the reply regarding Para 7.5.11, the Committee views it so serious and comments it as breaching the time-limit as per the Public Accounts Act. Hence the Committee would like to see a final settlement to the issue.

30. The Committee understands that total turn over of the Co-operation Department is about Rs. 40,000 crores and also wishes to have a separate Directorate for monitoring the system. Hence the Committee strongly recommends that Government take immediate steps to constitute a viable system for the audit of the Co-operative Societies.

Thiruvananthapuram,  
17th March 2008.

ARYADAN MUHAMMED,  
*Chairman,*  
*Committee on Public Accounts.*

## APPENDIX I

**Summary of Main Conclusions/Recommendations**

<i>Sl.No.</i>	<i>Para No.</i>	<i>Department Concerned</i>	<i>Conclusions/Recommendations</i>
(1)	(2)	(3)	(4)
1	13	Co-operation Department	The Committee comes to know that one of the reasons for the escalation in arrears of audit is due to the paucity of Staff and also finds there is no proportionate increase in staff corresponding to the increase in the number of Co-operative Societies.
2	14	”	The Committee is of opinion that the societies which are defunct should be rejuvenated and measures should be taken to clear the pending arrears. The Committee also recommends that if the paucity of Staff affected the entire process of work both the Department and the Government should find a reasonable remedy to clear the audit arrears in the Department.
3	15	”	The Committee finds that there is no corresponding increase in the number of audit staff even if the number of Societies are seen to have increased. Hence the Committee suggests that the department concerned convince the Finance Department and get the proposal agreed without delay.
4	16	„	The Committee observes that the process of computerisation in the Co-operation Department is under way and recommends that an early decision be taken to replace with new system in the audit wing of the Department to avoid lagging.

(1)	(2)	(3)	(4)
5	17	Co-operation Department	The Committee opines that if the system is modernised, it would be easy to link the societies with the office of Registrar of Co-operative Societies.
6	18	„	The Committee learns that the system of group audit in Co-operative institutions in the State is not functioning effectively. Hence the Committee recommends for the need of modernising the audit mechanism in the Co-operative Department in order to see the process of audit functioning in more effective manner. The Committee finds that making an amendment in the relevant Rules would be a necessity to ensure the effective functioning of the audit wing in the Co-operation Department. Hence the Committee suggests that a special Committee be constituted to study all aspects of audit of Co-operative Societies and a comprehensive Audit Manual be prepared.
7	19	„	Regarding the arrears of Audit fee and cost realisable from the various Co-operative Institutions, the Committee wants more details on the subject. The Committee urges the Department to furnish the current details of the arrears in the Audit fee and cost to be realised from the Co-operative Institutions.
8	28	„	The Committee finds that about 77% of the total arrears of revenue collection is due from the Institutions like Kerala State Marketing Federation, Kera Karshaka Federation and Kerala State Co-operative Consumer Federation. In the case of Marketing Federation

(1)	(2)	(3)	(4)
			Government had converted Rs. 20 crores as equity and waived Rs. 7 crore as penal interest. But in the case of Consumer Federation no such move has seemed taken. It is informed that a package was under consideration for favourable action to the Consumer Federation. The Committee suggest that the package under consideration for favourable action in the case of Consumer Federation be implemented at the earliest.
9	29	Co-operation Department	Dissatisfied by the reply regarding Para 7.5.11, the Committee views it so serious and comments it as breaching the time limit as per the Public Accounts Act. Hence the Committee would like to see a final settlement to the issue.
10	30	„	The Committee understands that total turn over of the Co-operation Department is about Rs. 40,000 crores and also wishes to have a separate Directorate for monitoring the system. Hence the Committee strongly recommends that Government take immediate steps to constitute a viable system for the audit of the Co-operative Societies.

APPENDIX II

ACTION TAKEN STATEMENT IN RESPECT OF AUDIT PARA 9.1 RELATING TO CO-OPERATION DEPARTMENT CONTAINED IN THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL FOR THE YEAR ENDED 31ST MARCH 1998 No. 1 (REVENUE RECEIPTS), GOVERNMENT OF KERALA

<i>Sl. No.</i>	<i>Para No. of the Report</i>	<i>Particulars of Audit Para</i>	<i>Details of action taken</i>
(1)	(2)	(3)	(4)

CHAPTER-9

9.1 Receipts of Co-operation Department : *Other non-tax receipts*

9.1.1 Introduction :

The Kerala Co-operative Societies Act, 1969 was enacted with a view to providing for orderly development of the Co-operative movement and to consolidate, amend and unify the laws relating to co-operative societies in the State. The Act and the Kerala Co-operative Societies Rules, 1969 provide for promotion, registration, development, supervision, inspection and annual audit of co-operative societies. While annual audit is carried out by the audit wing of the Co-operation Department, other functions are performed by the administrative

9.1.1 Introduction :

No remark is offered on this Audit para except the fact that the rate of audit fee has been revised with effect from 19-5-1999 as shown below by amending sub-rule 4 of Rule 65 of Kerala Co-operative Societies Rules 1969 as per Gazette Notification dated 19-5-1999.

“(4). The audit fee for the purpose of sub-rule (i), shall be calculated at the rate of 40 paise for every one hundred rupees or part thereof on the working capital, the value of

(1)	(2)	(3)	(4)
	<p>Wing. The receipts of the department include audit fee for annual audit (unit audit) levied based on the working capital value of sales and gross income subject to a maximum of Rs. 5,000 audit fee based on cost of special auditors appointed exclusively for the audit of the one or more major institutions having working capital/annual sales exceeding Rs. 5 lakhs, cost of inquiry/inspections, arbitration fee, liquidation charges, fee for appeal or revision, dividend on share capital subscribed directly or indirectly by Government, etc. A review of the accounts of the department for the years 1992-93 to 1996-97 conducted during October to December 1997 in the offices of the Registrar of Co-operative Societies, Joint Registrars and Deputy Registrars, (Audit) of Thiruvananthapuram, Kollam, Kottayam, Kozhikode and Kannur and Assistant Registrars (General) and (Audit) of Thiruvananthapuram and Neyyattinkara revealed the following :</p>	<p>sales or the gross income, as the case may be, provided that the maximum audit fees payable by a society shall not exceed Rs. 10,000”.</p>	
9.1.2	<p>Trend of Revenue :</p> <p>Audit fee, arbitration fee, and cost of audit which constituted 86 to 94 per cent of the total revenue (excluding grant) of the department during</p>	<p>Trend of Revenue :</p> <p>No remark is offered as the Department agrees with the audit observations.</p>	

the years 1992-93 to 1996-97 as given below are the main sources of revenue of the department.

<i>Nature of receipt</i>	<i>1992-93</i>	<i>1993-94</i>	<i>1994-95</i>	<i>1995-96</i>	<i>1996-97</i>
	<i>(In lakhs of Rupees)</i>				
Audit Fee	66.49	88.96	94.73	63.85	105.02
Grants from National Development Corporation	18.89	23.85	365.53	126.58	66.06
Arbitration fee	215.93	195.51	228.18	215.75	326.12
Cost of audit calculated under Rule 156 of Part I, KSR	337.37	400.18	568.08	717.42	698.87
Other receipts (Liquidation charges, Appeal fee and other items)	45.53	43.80	45.16	156.42	66.10
<b>Total</b>	<b>684.21</b>	<b>752.30</b>	<b>1301.68</b>	<b>1280.02</b>	<b>1262.17</b>

9.1.3 Arrears in audit :

Audit of most of the Societies are conducted once in a year (unit audit). The Registrar of Co-

9.1.3 Arrears in audit :

*Ist Para* :—No remark is observed since the Department agrees with the audit observations.

(1)	(2)	(3)	(4)
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operative Societies may also appoint staff exclusively for the audit of one (single concurrent) or more (group concurrent) major societies having working capital/annual sales exceeding Rs. 5 lakhs.

During the Co-operative year 1996-97 (July 1996 to June 1997) out of 30,233 audits due, including 12,460 audits which were pending as on 1st July 1996, the department could complete only 16,688 audits ie., 55 per cent leaving a balance of 13,545 audits as on 30th June 1997. The year-wise break-up arrears of audit under different category is given below :

Category	1993-94	1994-95	1995-96	Total
Unit Audit	1721	2728	7365	11814
Single Concurrent audit	23	47	145	215
Group Concurrent audit	79	246	721	1046
Milk Marketing Society audit	127	115	228	470
Total	1950	3136	8459	13545

*2nd Para* :—Out of the pendency of 13545 audits as on 30-6-1997 in this para, 13,075 audits have been cleared till 30-9-1999 and the balance as on 30-9-1999 is only 470 audits as given below :

Category	Year 1993-94			
	Pendency as on 30-9-1999	Clearance till 30-6-1999	Percentage of Clearance	Balance as on 30-9-1999
Unit Audit	1721	1721	100%	..
Single Concurrent audit	23	23	100%	..
Group Concurrent audit	79	79	100%	..
Milk Marketing Society audit	127	127	100%	..
Total	1950	1950	100%	..

Arrears in audit increased steadily from 26 per cent in 1992-93 to 45 per cent in 1996-97, as given below against 10 per cent increase in the number of societies from 16,141 in 1992-93 to 17,773 in 1996-97.

<i>Arrears in audit as on</i>	<i>No. of audits</i>		<i>Percentage of pendency</i>
	<i>Due</i>	<i>Pending</i>	
30-6-1993	21,335	5,566	26
30-6-1994	21,403	8,861	41
30-6-1995	24,034	10,077	42
30-6-1996	26,356	12,460	47
30-6-1997	30,233	13,545	45

However, the arrears of audit shown as on 30th June 1997 in the books of the department did not include 26,163 audits of 2,451 societies the records of which were not available as they were either involved in long pending court cases or were in Police custody.

<i>Year 1994-95</i>				
(1)	(2)	(3)	(4)	(5)
Unit Audit	2728	2643	97%	85
Single Concurrent Audit	47	32	68%	15
Group Concurrent Audit	246	222	90%	24
Milk Marketing Society Audit	115	115	100%	..
<b>Total</b>	<b>3136</b>	<b>3012</b>	<b>96%</b>	<b>124</b>

<i>Year 1995-96</i>				
Unit Audit	7365	7090	96%	275
Single Concurrent Audit	145	126	87%	19
Group Concurrent Audit	721	669	93%	52
Milk Marketing Society Audit	228	228	100%	..
<b>Total</b>	<b>8459</b>	<b>8113</b>	<b>96%</b>	<b>346</b>

(1)	(2)	(3)	(4)	
<i>Grand Total of the Above Three Years</i>				
Unit Audit	11814	11454	97%	360
Single Concurrent Audit	215	181	84%	34
Group Concurrent Audit	1046	970	93%	76
Milk Marketing Society Audit	470	470	100%	..
Total	13545	13075	97%	470

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*3rd Para* :—The reasons for the increase from 26 per cent in 1992-93 to 45 per cent in 1996-97 are given below :

Out of the total auditable societies the No. of societies in Unit Audit is 13433 during the year 1996-97. There were only 450 Auditors for auditing the above societies (376 Unit and 74 Arrear Clearance Auditors). This staff strength was fixed years before. But the number of societies in unit increased year after year. For eg.,

the total number of auditable societies in Unit during the year 1994-95 was 12871, which was increased to 13051 during 1995-96 and to 13433 during 1996-97. Apart from this the volume of transactions in the societies have increased substantially. Consequently on the increase in the volume of transactions and opening of branches the work of the auditors was also increased. Now at an average there are 40-45 societies in unit including RNA societies. The number of societies has to be limited to 25-30 in each unit. Then only the audit of societies in Unit can be made current. For this additional posts of auditors are required. The large number of societies and increased volume of transactions and limited number of unit auditors for a long period were the main reason for the increase in arrears in audit in 1996-97. Apart from this the occurring of vancancies have also acted as a reason for the arrears in audit.

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The societies having heavy arrear of audit for many years have been transferred to Concurrent Audit in Single or Group. Now there is only an arrears of 1896 audits (as on 30-9-1999) for the year 1996-97. This arrears will be cleared at the earliest.

(1) (2)

(3)

(4)

*4th Para* :—The arrears of audit of societies under R.N.A. (Records Not Available)-Category were not included in the figures of total arrears in audit as the arrears of this category of societies could be conducted only as and when the records were made available for audit. Most of these societies were defunct without even an office. However, the Auditors of this Department are being instructed to conduct the audit of societies under R.N.A. category also.

9.1.4 Arrears pending collection :

Demand, Collection and Balance Registers are intended to indicate the exact position of revenue due, collected and outstanding during a particular period and to serve as an instrument of internal control system.

However, the register maintained by the Registrar of Co-operative societies did not depict the exact position in view of the following audit comments and hence did not serve the purpose.

9.1.4 Arrears pending collection :

*Para 1,2 and 3* :—Replies to these paras have been included in the replies to Point Nos. (i), (ii) and (iii) of para 4.

Point No. (i) of para—4 :—At present the Demand, Collection and Balance Statement of audit fees and cost of audit/cost of staff is being prepared in the Office of the Registrar of Co-operative societies after detecting and reconciling the discrepancies crept in the Demand, Collection and Balance

The arrears pending collection by way of audit fee/cost of special auditors as at the end of March 1997 as worked out in the demand, collection and balance register was Rs. 142.74 lakh (Rs. 103.84 lakh as fee and Rs. 38.90 lakh as cost of special auditors) as shown below :

	<i>Amount</i> <i>(In lakh of rupees)</i>
Upto 9/1988	14.05
1988-94	25.20
1994-96	35.60
1996-97	67.89
Total	142.74

Scrutiny of the records revealed the following points :

(i) Primary data for the preparation of the demand collection and balance register in the Office of the Registrar of Co-operative societies are first sent by the Assistant Registrars concerned to the Joint Registrars who in turn consolidate them and forward to the Registrar's Office. It was

Statements received from the Joint Registrar of Co-operative societies (General) and Audit. The Joint Registrars have been properly directed to avoid the recurrence of discrepancies in their Demand, Collection and balance Statements.

The Joint Registrars of Co-operative societies, Kollam, Kottayam, Kozhikode, Thriuvananthapuram and Kannur have been directed to rectify the discrepancies observed by Audit in respect of their Demand, Collection and Balance Statements.

*Point No.(ii) of Para—4* :—The mistake in carrying over closing balances in the register of the Office of the Registrar of Co-operative societies is being rectified and the work in this regard will be completed soon on receipt of full required information from the Joint Registrars of Co-operative societies.

*Point No.(iii) of Para—4* :—The arrears of Rs. 230.05 lakhs observed by Audit as due from the Kerala Co-operative Milk Marketing Federation for the Half years ended 31st March 1989 to 31st March 1997 has since been demanded and collected.

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however noticed that the correctness of figures sent by the Assistant Registrars were not being verified by the Joint Registrars. As such the discrepancies in the figures remained undetected and unreconciled. The discrepancies noticed in the registers maintained in the offices covered by audit were as indicated below :

The total demand towards cost of audit payable to Government by the Kerala State Co-operative Milk Marketing Federation for the Half years ended 31st March 1989 to 31st March 1997 was Rs. 336.94 lakhs and the same has been fully collected.

<i>District</i>	<i>Closing Balance as per records of Assistant Registrar</i>	<i>Closing Balance as per records of Joint Registrar</i>
	<i>(as on 30th September 1997)</i>	
	<i>Rs.</i>	<i>Rs.</i>
Kollam	19,83,246	18,56,808
Kottayam	5,96,067	3,41,248
Kozhikode	12,21,254	8,88,050
Thiruvananthapuram	50,97,284	27,60,828
Kannur	5,57,579	4,65,416

(ii) There were mistake in carrying over closing balances in the register maintained in the Registrar's Office as shown below :

<i>Closing balance as on</i>	<i>Amount (In lakhs of Rupees)</i>	<i>Opening balance as on</i>	<i>Amount (In lakh of Rupees)</i>
31st March 1992	117.92	1st April 1992	159.54
30th September 1992	153.05	1st October 1992	161.21

(iii) No collection has been recorded against the demands amounting to Rs. 230.05 lakhs from the Kerala Co-operative Milk Marketing Federation for the half years ended 31st March 1989 to 31st March 1997.

9.1.5 Failure to take effect steps to realise the arrears :

According to the Registrar of Co-operative societies the arrears of fees and cost of audit to be realised as on 31st March 1997 was Rs. 142.74 lakhs out of which Rs. 74.85 lakhs related to period upto 31st March 1996. However, no effective steps were taken to realise the arrears. In special arrear collection drives launched by the department in November 1993 and February 1997, the achievement

9.1.5 Failure to take effective steps realise the arrears :

*Para (1)* :—Effective steps are being taken from Department for the realisation of audit fees and cost of auditors/cost of staff. Two special collection drives for the collection of all items of arrears due to Government were launched by the Department in November 1993 and February-March 1997 as observed in audit, Again two

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was very low. Against the target of 90 per cent set for realisation of arrears the achievement of November 1993 drive was 18 per cent and of 1997 drive was 33 per cent. Evaluation of programmes made by field officers was not properly monitored during 1997. Though five of the District Officers did not send the progress report the same was also not insisted by the Registrar.

The Kerala Co-operative Societies Rules, 1969, provide that any sum due to Government from a society shall be recovered in the same manner as public revenue due on land. Out of Rs. 74.85 lakhs due for collection as on 31st March 1996, as per the books of the department, Rs. 17 lakhs alone was recommended as on 31st March 1997 for recovery under the Revenue Recovery Act. It was also noticed that no consolidated records was maintained in any of the offices audited to incorporate the details of the amount recommended for revenue recovery, the progress of collection, details of stay, if any, granted by appropriate authority, conditions, if any, thereof, instances of violation, etc. In the absence of the same in the offices test checked the correctness of the amount

other special collection drive were launched by the Department in June-July 1998 and May-June 1999. The target fixed for the collection of arrears of audit fees and cost of auditors/cost of staff was 90 per cent and 100 per cent respectively. But the target could not be achieved.

The arrears of audit fees and cost of auditors/cost of staff pending collection as on 31-3-1997 was Rs. 142.74 lakhs as observed in audit (vide Audit para 9.1.4. Arrears pending collection above) as given below :

<i>Period</i>	<i>Amount pending collection (Rupees in lakhs)</i>
Upto 9/1988	14.05
1988-94	25.20
1994-96	35.60
1996-97	67.89
Total	142.74

Out of the above arrears of Rs. 142.74 lakhs, Rs. 103.84 lakhs was pending collection towards

recommended for revenue recovery, its latest position etc., could not be verified in audit.

audit fees and Rs. 38.90 lakhs towards cost of auditors/cost of staff. The progress of collection of this arrears as on.

Audit fee - 23.10

Audit cost - 31.47

The arrears pending collection as on 31-3-1999 is as below :

<i>Period</i>	<i>Amount (pending collection)</i>		
	<i>Audit fee</i>	<i>Cost</i>	<i>Total</i>
Upto 30-9-1990	12.59	1.66	14.25
Upto 31-3-1996	44.75	2.00	46.75
Upto 31-3-1999	23.40	3.77	27.17
Total	80.74	7.43	88.17

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*Para—2* :—Recovery proceedings under the Revenue Recovery Act can be initiated against the defaultee societies only as a last resort and only after exhausting all other possible actions. All the Joint Registrars of Co-operative Societies

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(General) and (Audit) are being instructed by the Registrar of Co-operative societies to furnish the full details of arrears which are already advised for recovery under Revenue Recovery Act and maintain in their offices the up-to-date details of the progress of Revenue Recovery Proceedings of each case.

*Para—3* :—The absence of enabling provision in the Act and Rules (in Kerala Co-operative Societies Act and Rules, 1969) for the levy of any penalty or interest for belated payment of audit fees and cost of auditors, cost of staff may not be treated as lacuna in the Act and Rules in view of multi-farious socio-economic development activities and functions performed by the auditee Co-operative societies.

The Act and Rules do not contain any provision for the levy of any penalty or interest for belated payment of dues to the Government. Hence the Registrar of Co-operative societies is not in a position to levy penalty interest on substantial amounts due from various societies. No action has so far been taken to rectify the lacuna in the Act and Rules which came into force during the year 1969.

9.1.6 Failure to recover the cost of audit in advance :

Government order issued in January 1987 prescribed that in the case of Concurrent Audit where cost of audit is calculated as per Rule 156 of the Kerala Service Rules, Part I, it should be realised 6 months in advance in the case of gazetted officers and 3 months in advance for non-gazetted officers. Hence, normally there cannot be any arrears of cost to be collected from auditee organisations. But records for the years under review showed that cost amounting the Rs. 109.52 lakhs for the years 1992-93, 1993-94, 1995-96 and 1996-97 in arrears as shown below :

<i>Year</i>	<i>Amount of arrears (In lakh of rupees)</i>
1992-93	42.19
1993-94	6.37
1995-96	22.55
1996-97	38.41
<b>Total</b>	<b>109.52</b>

9.1.6 Failure to recover the cost of audit in advance :

As per the existing rule in force vide G.O.(MS)No.5/87/Co-op : dated 6-2-1987, the cost of six months of above Assistant Registrar of Co-operative societies and the cost of 3 months of the post of Auditors/Inspectors of Co-operative societies posted under Rule 156, Part I Kerala Service Rules, should be remitted to Government account in advance by the Institutions concerned. Hence, normally there can not be any arrears of cost of auditors/cost of staff. Remittance of cost in advance as prescribed in G.O. dated 6-2-1987 has been made as pre-condition and strictly insisted on while sanctioning new posts as well as sanctioning extension of the period of existing posts under Rule 156, Part I, Kerala Service Rules. The apex Co-operative Institutions, District Co-operative Banks, Credit societies etc., are normally prompt in the matter of remittance of cost of auditors/ cost of staff. There can be arrears of cost of auditors in respect of a few societies as special cases as detailed below :

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The worsening of the financial position of a few auditee societies, especially peculiar type of societies like South Wayanad Girijan Joint Farming Co-operative societies, CAPEX, SPEC, QETCOS, Wayanad District Co-operative Hospital society etc., during the period of sanctioned post of K.S.R.Auditors existed was the main reasons for the accumulation of arrears of cost of audit in the past. It would not be proper to withdraw the post of K.S.R. Auditors while the audit of accounts of the institutions concerned is in progress simply because the auditors institutions are not prompt in the matter of remittance of cost of auditors due the their financial crisis.

9.1.7 Short demand of cost of audit :

The average cost calculated as per Rule 156 of the Kerala Service Rules, Part I of the purpose of recovery of audit cost is subject to periodical enhancement consequent on the revision of pay, dearness allowance and other compensatory allowances to State Government employees. In nine offices, the enhancements in pay, dearness allowance sanctioned since 1st March 1992 and two instalments of interim relief granted from 1st December 1995 and 1st February 1997 were omitted to be demanded. This resulted in short realisation of audit cost of Rs. 10.92 lakhs in 125 cases.

The above points were brought to the notice of the department between October and December 1997 and reported to Government in April 1998, their replies have not been received (October 1998).

9.1.7 Short demand of cost of audit :

The short demand of cost of auditors/cost of staff of Rs. 10.92 observed by Audit was in respect of the following District Officers :

<i>Name of Office</i>	<i>Amount of short demand (Rs. in lakhs)</i>
Joint Registrar (General) Thiruvananthapuram	1.09
Joint Registrar (Audit), Thiruvananthapuram	0.10
Joint Registrar (General), Kollam	0.42
Joint Registrar (Audit), Kollam	0.38
Joint Registrar (General), Kottayam	0.28
Joint Registrar (Audit), Kottayam	5.28
Joint Registrar (General), Kozhikode	0.97
Joint Registrar (General), Kannur	0.03
Joint Registrar (Audit), Kannur	0.31
Total	10.92

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The above Joint Registrars have been directed from the office of the Registrar of Co-operative Societies in May 1998 to recover the short demand costs of Auditors/cost of staff observed by Audit from the Co-operative Institutions concerned. The Joint Registrars (General) and (Audit), Kannur have already recovered the short demand in respect of them. Final replies from the other Joint Registrars are awaited. Follow-up in the matter is being pursued from the office of the Registrar of Co-operative Societies.

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR  
THE YEAR ENDED 31-3-2003 (REVENUE RECEIPTS) NO. 2

I	(a) Department	Co-operation	
	(b) Subject/Title of Review/Paragraph	-Report of the Comptroller and Auditor General of India for the year ended 31-3-2003 (RR)	
	(c) Paragraph No.	7.5.1, 7.5.2, 7.5.3, 7.5.4, 7.5.5, 7.5.6, 7.5.7, 7.5.8, 7.5.9, 7.5.10, 7.5.11, 7.5.12, 7.5.13, 7.5.14, 7.5.15	
	(d) Report No. and Year	No. 2, 31-3-2003	
II	(a) Date of Receipt of Draft Paragraph/ Review in the Department	15-7-2004	
	(b) Date of Department's Reply	28-1-2005	
III	Gist of Paragraph/ Review	7.5.1 7.5.2 7.5.3 7.5.4 7.5.5 7.5.6 7.5.7 7.5.8 7.5.9 7.5.10 7.5.11	Introduction Organisational set up Audit Objectives Trend of Revenue Budget estimates and actuals. Arrears of revenue Failure of special drives for collection of arrears Non-maintenance of basic records by the Registrar Pendency in audit. Non-demand/short demand of interest/ penal interest on loans

7.5.12	Short demand of penal interest on share capital Retirement.
7.5.13	Non-demand of guarantee commission.
7.5.14	Internal control.
7.5.15	Recommendations.

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|----|--|-----------------|
| IV | (a) Does the Department agree with the facts and figures included in paragraph.                                    | Yes.            |
|    | (b) If not, please indicate the areas of disagreement and also attach copies of relevant documents in support.     | Not Applicable. |
| V  | (a) Does the Department agree with the Audit conclusions   | Yes.            |
|    | (b) If not, please indicate the areas of disagreement and also attach copies of relevant documents where necessary | Not Applicable. |

*Para 7.5.4 Trend of Revenue*

*(Rs. in crore)*

<i>Sl. No.</i>	<i>Category of Receipts</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-00</i>	<i>2000-01</i>	<i>2001-02</i>
1	Audit fees	1.06	1.20	1.46	2.27	2.12
2	Cost of audit	7.92	9.69	14.47	13.10	10.86
3	Arbitration fees	3.34	4.20	5.20	5.53	5.24
4	Interest from co-operative societies	7.22	3.91	3.97	2.46	2.42
5	Liquidation charges	0.88	0.67	1.05	1.43	1.33
6	Grants from NCDC	1.02	3.31	1.31	1.13	
	Total	21.44	22.98	27.46	25.92	23.54

The total revenue declined by Rs. 2.38 crore in the year 2001-02 when compared with the receipt for the previous year.

Reason for the reduction though called for (July 2003) from the Department have not been received as of date (October 2003).

**Action Taken**

For the Department of Co-operation Audit fee, Grant from NCDC, Arbitration fee, Cost of audit and Interest from Co-operative societies constituted the major sources of income of the Department.

Collection of audit fee during the year 2001-02 was 2.12 crore. When compared to 2000-01 the amount collected short by Rs. 15 lakh. This is because of the non-remittance of audit fees by Coir, Industries and Fisheries departments. However the collection of audit fees increased in the year 2002-03 to Rs. 243 crore.

In the case of Audit cost, collection in the year 2001-02 was Rs. 10.86 crore whereas in the 2000-01 the collection was Rs.13.10 crore compared to Rs. 13.10 crore in 2000-01. That is Rs. 2.14 crore declined during the year 2001-02. Unit audit of Co-operative institution could not be done promptly due to lack of sufficient number of Auditors to conduct the audit in time. However collection of audit cost increased during the period 2002-03 to Rs. 13.82 crore. In the case of

Arbitration fee, the same trend is shown during the year 2001-02. Drought in the farming sector, Moratorium declared by the Government on the revenue recovery from farmers etc. are some of the important reasons behind this. But the collection of Arbitration fee improved during the period of 2002-03 to Rs. 6.30 crore as against 5.24 crore in the year 2001-02. Liquidation charges, appeal fees and other receipts are declined by Rs. 10 lakh during the year 2001-02 because of above mentioned reasons. Revitalisation of defunct societies was another reason for the non collection of liquidation charges.

Para 7.5.1, 7.5.2, 7.5.3 and 7.5.15 are relating to general information which require no follow up actions on the Department.

The Action Taken Statement in respect of other audit paras 7.5.5 and 7.5.8 relating to this department of Co-operation is furnished below.

*Para 7.5.5 Budget Estimates and Actuals*

The budget estimates and the actuals during the period 1997-98 to 2001-02 were as under :

<i>Receipt head of account in the State Budget</i>									
<i>Year</i>	<i>0425 Co-operation</i>			<i>0049 Interest-Receipts, 195-Interest from Co-operatives</i>			<i>0050 Dividend and Profits, 200 Dividends from other Investments (02) other Co-operatives</i>		
	<i>Budget Estimates</i>	<i>Actuals</i>	<i>Variation</i>	<i>Budget Estimates</i>	<i>Actuals</i>	<i>Variation</i>	<i>Budget Estimates</i>	<i>Actuals</i>	<i>Variation</i>
1997-98	15.58	14.22	(-)1.36	3.16	7.22	(+)4.06	0.65	0.72	(+)0.07
1998-99	19.84	19.08	(-)0.76	4.03	3.91	(-)0.12	0.65	0.90	(+)0.25
1999-00	26.31	23.49	(-)2.82	4.58	3.97	(-)0.61	0.65	0.96	(+)0.31
2000-01	25.48	24.36	(-)1.12	5.83	2.46	(-)3.37	1.25	1.57	(+)0.32
2001-02	35.67	21.12	(-)14.55	4.08	2.42	(-)1.66	1.15	0.63	(-)0.52

There was a short fall of Rs. 14.55 crore (41 per cent) in actual receipt under Co-operative Receipts in the year 2001-02. Reason for variation though called for February 2003 has not been furnished (October 2003).

### Action Taken

The budget estimates and actuals during the period 2001-02 are Rs. 35.67 crore and 21.12 crore respectively. During this period department expected to collect more revenue by way of Interest, Penal Interest, Arbitration Fees, Liquidation charges etc. During this period the Government enhanced audit fee of all Co-operative institutions as per G.O.(P) No. 60/2002/Co-op. dated 10-10-2002. With an expectation to collect huge amount of Audit fee through this enhancement. During the same period Government declared moratorium in the collection of Interest, Penal interest from the agricultural sector. It affected the collection adversely not only in interest and penal interest but also arbitration fee liquidation charges etc. Because of these, reasons collection under receipt head declined in the year 2001-02. But in the coming years, the variation between estimate and actuals reduced. The skeleton figures are given below :

<i>Years</i>	<i>Estimates</i>	<i>Actual</i>	<i>Variations</i>
2001-02	35.67	21.12	( -14.55)
2002-03	35.86	24.48	(-11.38)
2003-04	26.85	23.55	(-3.30)

According to the assessment of manpower made by the 11th Finance Commission, Co-operative Department is an income generating department and also a serving department ; Based on this, the department have formulated certain suggestions and furnished to Government for approval for making the departments more income generating department. The suggestions furnished by the Registrar of Co-operative Societies were admitted by the Government vide letter No. 6299/PS/01/Co-op. dated 14-3-2002 ; Co-op. dated 19-9-2003 and 30-1-2004. In view of the constant fluctuations in the collections of revenue by way of Non-Tax items and Loans and Advances, the department intends to constitute a monitoring cell for taking effective steps in making the demand promptly and its collection.

#### *Para 7.5.6 Arrears of Revenue*

Arrears of revenue pending collection as per the Demand collection and

Balance (DCB) statements of Registrar of Co-operative Societies under various categories as on the dates specified against them were as under :

<i>Category of arrears</i>	<i>Period up to which DCB is prepared</i>	<i>Outstanding balance</i>
A. Interest and penal interest on loan due from		
(i) apex societies	31st March 2002	54.75
(ii) other societies	31st December 2001	2.99
B. Penal interest on share capital over due from		
(i) apex societies	31st March 2002	1.05
(ii) other societies	31st December 2001	0.51
C. Audit fee	31st March 2002	1.65
D. Audit cost	31st March 2001	1.26
E. Dividend	31st December 2001	0.13
F. Guarantee Commission	31st March	5.43
	Total	67.77

Arrears of Rs. 52.27 crore which constituted 77 per cent of total arrears were due from Kerala State Co-operative Marketing Federation (Rs. 26.78 crore), Kera Karshaka Federation (Rs. 20.35 crore) and Kerala State Co-operative Consumer Federation (Rs. 5.14 crore).

The year wise details of arrears of revenue on account of interest and penal interest on loan, penal interest on overdue share capital, audit fee/cost etc. pending collection were not available with the Registrar of Co-operative Societies.

Audit cost recoverable in advance for conducting concurrent audit is based on the average cost officials deputed for the purpose at the rates fixed by

Government from time to time. The Government had also reiterated in February 1987 that the cost of concurrent audit be realized in advance.

It is however observed that audit cost was not being realized in advance as it was clear from the above table that a sum of Rs. 1.26 crore was in arrears as on 31-3-2002.

#### **Action Taken**

[Para 7.5.6 relating to Kerala State Co-operative Consumers Federation (Consumerfed)]

Arrears of Revenue pending collection of interest and penal interest on loan due from Apex Institutions are calculated as Rs. 54.75 crores. Out of which Rs. 52.27 crores which constitutes 77% of total arrears, were due from the Kerala State Co-operative Marketing Federation.

In the case of Kerala State Co-operative Consumer Federation, demand notices were issued on 26-10-2004 and 31-10-2004. But no amount was remitted till date. The details of accounts have not so far been received from the Federation.

Registers with year-wise details of arrears of revenue account of interest and penal interest on loans, penal interest on overdue share capital, audit cost/ Fees pending collections etc. are maintained in the office of the Registrar of Co-operative Societies.

During the year 2002-03 collection of Audit fees and Audit cost have increased substantially. As such the percentage of collection of audit fees and audit cost are 79.29% and 99.93%, respectively. This increase has resulted huge liability to the institutions concerned which effected the remitting/collection of arrears of audit fees.

**Action Taken***Para 7.5.6 related to Marketing Federation*

Arrears of Revenue pending collection of interest and penal interest on loans due from Apex institutions are calculated as Rs. 54.75 crores out of which Rs. 52.27 crores which constitutes 77% of total arrears, were due from the Kerala State Co-operative Marketing Federation.

The Marketing Federation has remitted the dues up to the period of 31-3-2004 an amount of Rs. 775 lakhs in the case of loan for the period up to 31-3-2004 and Rs. 1279.44 lakhs in the case of interest and 304.38 lakhs as penal interest were remitted.

Registers with year-wise details of arrears of Revenue account of interest and penal interest on loan, penal interest on overdue share capital, Audit cost/ fees pending collections etc. are maintained in the office of the Registrar of Co-operative Societies.

During the year 2002-03, collection of audit fees and audit cost have increased substantially. As such the percentage of collection of Audit fees and Audit costs become 79.29% and 99.93% respectively. This increase has resulted huge liability to the Institutions concerned which affected the remitting/ Collection of arrear audit fees.

*Para 7.5.8 Non-maintenance of Basic Records by the Registrar*

The responsibility for watching recoveries of loans and other repayable financial assistance with interest thereon rests with the Joint Registrar who as the disbursing officer has, therefore, to maintain loanee-wise/beneficiary-wise accounts of disbursement and recoveries.

The outstanding balance of loans and share capital contribution disbursed by the Registrar to the Service Co-operative Bank, apex societies and the District Co-operative Banks, amounted to Rs. 66.34 crore and Rs. 67.67 crore respectively as at the end of March 2001. However, loanee-wise/accounts of disbursements and repayments were not maintained by him. The Registrar, instead of preparing the DCB statement by him, consolidated the DCB statements of the loanee/beneficiary institutions prepared by the concurrent auditors attached to such institutions.

Share capital contribution and assistance to District Co-operative Banks were envisaged under the Integrated Co-operative Development Project (ICDP) implemented in the State from 1988-89 onwards. As of 31st March 2001, the Registrar disbursed share capital contribution and loan assistance aggregating

Rs. 30.29 crore to four District Co-operative Banks for which proper accounts were not maintained ; beneficiary-wise DCB statement were not prepared and recoveries thereof not watched.

As per the information collected by audit, the following disbursements on account of share capital/loans were not accounted for by the Registrar through the recipients accounted for the receipts in their books.

<i>Sl. No.</i>	<i>Name and recipients of financial assistance</i>	<i>Nature of receipt</i>	<i>Period dates of disbursement</i>	<i>Amount</i>
1	Kerala State Co-operative Agricultural and Rural Development Bank, Thiruvananthapuram	Share capital contribution	31st March 1996 31st March 1997 31st March 1998 31st March 2000	1.00 1.00 2.00 2.00
2	Federation of SC/ST Development Co-operative Society, Thiruvananthapuram	Share capital contribution	1982-83 to 1997-98	1.23
3	Kerala State Co-operative Bank, Thiruvananthapuram	Share capital contribution	24th August 1988	1.20
4	District Co-operative Bank, Kottayam	Share capital contribution	Upto 1992-93	2.00 4.27
5	District Co-operative Bank, Palakkad	Share capital contribution	Upto 1992-93	2.78 2.66
6	Federation of SC/ST Development Co-operative Society, Thiruvananthapuram	Share capital contribution	1985-86 to 1997-98	1.07 0.67
			Total	21.88

The reasons for omission though called for have not been furnished (July 2003) by the Department.

#### **Action Taken**

The responsibility for watching recoveries of loans and other repayable financial assistance is vested with the disbursing officer. In response to the above observations I am to inform that all entries with regard to the Government

share capital contribution to the Kerala State Co-operative Bank amounting to Rs. 3.20 crore have been identified and registered in the expenditure Register. Steps have been taken to up date the entries regarding to loan/share upto 1992-93 of Kottayam and Palakkad District Co-operative Bank. The details after 1992-93 of Kottayam and Palakkad District Co-operative Bank, have already been entered in the expenditure Register.

In the ICDP Scheme, assistance sanctioned by Registrar of Co-operative Societies to beneficiary societies is released to them first by District Co-operative Bank's concerned (Here DCB's are the Project implementing Agency) and reimbursement will be claimed subsequently from the State Government. Hence actually the agreements between beneficiary society and the District Co-operative Bank. As per the rules governing ICDP assistance, District Co-operative Bank is responsible for proper and timely utilization of the funds sanctioned to beneficiaries. So District Co-operative Bank is supposed to maintain the beneficiary-wise Demand Collection Balance Statement and they are keeping it and repayment is being watched properly by them. In the office of the Registrar of Co-operative Societies, all basic records related to ICDP Scheme viz., record for the release of the amount to District Co-operative Bank. Repayment from District Co-operative Bank details relating to sanction of assistance to beneficiary societies etc., are being maintained properly. Moreover at present District Co-operative Bank's are submitting statements to the Registrar of Co-operative Societies.

The share capital assistance sanctioned to Kerala State Co-operative Agriculture and Rural Development Bank Ltd. under LTO fund during 1995-96, 1996-97, 1997-98 and 1999-2000 has been posted in the concerned register.

The share capital assistance sanctioned to the Federation of SC/ST Development Co-operative Society, Thiruvananthapuram from 1982-83 to 1997-98 for Rs. 1.23 crore and loan register from 1985-86 to 1997-98 for Rs. 67 lakh are now entered in the concerned register.

STATEMENT OF ACTION ON PARAGRAPH INCLUDED IN THE REPORT OF  
COMPTROLLER AND AUDITOR GENERAL OF INDIA

I	(a) Department	Co-operation
	(b) Subject/Title of Review/Paragraph	Report of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (No. 2 Revenue Receipts)- “Non Maintenance of Registers”
	(c) Paragraph No.	7.5.9
	(d) Report No. and Year	31-3-2003 (No. 2 RR)
II	(a) Date of Receipt of the Draft Paragraph/ Review in the Department	15-7-2004
	(b) Date of Department’s Reply	28-1-2005
III	Gist of Paragraph/ Review	Non Maintenance of Registers : The amounts disbursed to the Federation of SC/ST Development Co-operatives Ltd. towards Share Capital Contribution were not accounted in the book of accounts of the recipient. This resulted in non-payment of instalments and consequent loss of interest to Government. Hence proper internal control mechanism shall be arranged.
IV	(a) Does the Department agree with the facts and figures included in paragraph ?	Yes.
	(b) If not, please indicate the areas of disagreement and also attach copies of relevant documents in support	Not Applicable.

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| V  | (a) | Does the Department agree with the Audit conclusions ?   | Yes.  |
|    | (b) | If not, please indicate specific areas of disagreement with reasons for this agreement and also attach copies of relevant document where necessary | Not Applicable.   |
| VI |     | <i>Remedial action taken</i>   |   |
|    | (1) | Improvement in system and procedure including internal control   | Direction was issued to the Federation to maintain book of accounts as suggested by the Audit. As such the Federation is now maintaining the same with proper entries. The office of Registrar of Co-operative Societies also keep required registers and thus proper internal control mechanism has been effected. |
|    | (2) | Recovery of overpayment pointed out by Audit   | N.A.  |
|    | (3) | Recovery of under assessment, short levy of other dues   | N.A.  |
|    | (4) | Modification in the schemes and programmes including financing pattern   | N.A.  |
|    | (5) | Review of similar cases/complete scheme/project in the light of findings of sample check by audit  | N.A.  |

*Para 7.5.10 Pendency in Audit*

The Act provides for the audit of every society at least once in every year by the auditors appointed specially and exclusively for the purpose. The audit is either unit audit which is conducted after the expiry of the accounting year and audit fee charged at the rate fixed by Government or concurrent audit of society by charging audit cost of the staff deployed.

Number of audits fallen due for completion was 38,791 as on 31st March 2002. The age wise break-up of arrears was as under.

<i>Period for which audit was pending</i>	<i>Number of audit pending</i>		<i>Total</i>
	<i>Unit audit</i>	<i>Concurrent audit</i>	
5 years	285	39	324
4 years	950	51	1001
3 years	2543	177	2720
2 years	5026	450	5476
1 year	10816	1047	11863
current	15784	1623	17407
Total	35404	3387	38791

During the year 2001-02 the department completed 11236 unit audits and 1528 concurrent audits and realized audit fee worth Rs. 2.12 crore and audit cost worth Rs. 10.86 crore. The average fee/cost worked out to Rs. 1890 per unit audit and Rs. 70449 per concurrent audit. At this average rate the Department had forgone Rs. 30.55 crore during last five years due to Not conducting of 38791 unit/concurrent audits.

**Action Taken**

In response to the contention in Para 7.5.10 of the Comptroller and Auditor General of India Report 2003, it is submitted that the laxity as attributed is not because of inefficiency or lack of deployment. The occurrence of pendency is due to multiplicity of causes, among which the paucity of staff is major reason. The department is not equipped with sufficient number of auditors in proportion

to the increasing number of working societies. Moreover the volume of transactions of almost all societies has exorbitantly increased. Whereas the department could not grow to the optimum size, so as to cover the arear work of audit. It is estimated that there are 1400 Auditors working in the state. The number of Primary Agricultural credit societies alone comes to 1519 in number. The number of other types of societies is innumerable. All possible efforts are being made and review done periodically to increase the productivity and output of auditors. So the audit pendency can only be eradicated by putting the man power to an optimum level both quantitively and in numbers. In the view of the position the objection raised in conducting of unit Audit may be dropped.

STATEMENT OF ACTION TAKEN ON PARAGRAPH INCLUDED IN THE  
REPORT OF COMPTROLLER AND AUDITOR GENERAL OF INDIA

I	(a) Department	Co-operation
	(b) Subject/Title of Review/Paragraph	Non demand/short demand of interest/ Penal interest on loans
	(c) Paragraph No.	7.5.11
	(d) Report No. and Year	No. 2 (RR), 31st March, 2003
II	(a) Date of Receipt of Draft Paragraph/ Review in the Department	15-7-2004
	(b) Date of Department's Reply	28-1-2005
III	Gist of Paragraph/ Review	<p>(A) Three District Co-operative Banks short remitted interest of Rs. 3.30 crore on loan aggregating Rs. 8.37 crore disbursed to primary societies during the period from 1988-89 to 2001-02, the Registrar neither, worked out the interest payable to Government by the banks nor ensured the correctness of the interest remitted by the bank.</p> <p>(B) Government in March 1997 released loan of Rs. 0.97 crore at the interest rate of Rs. 16.75 per cent and penal (overdue) rate of interest of 19.25 per cent to the Kerala State Co-operative Rubber Marketing Federation for undertaking marketing and distribution activities the loan was repayable in 10 equal annual instalments after a moratorium period of one year. The federation had not remitted any amount toward principal.</p>

The interest of Rs. 0.85 crore due upto 31st March 2002 on the principal repayable was neither remitted by the federation nor demanded by the Registrar.

- (C) The Kerala State Rubber Marketing Federation received (between 1986-87 and 1996-97) from Government loan aggregating Rs. 7.17 crore with moratorium period ranging from one to five years for repayment, for establishing processing units. Interest due on the loan for the moratorium period upto 31st March 2002 worked out to Rs. 3.21 crore against Rs. 0.35 crore reckoned by the Registrar resulting in short demand of interest of Rs. 2.86 crore.
- (D) Loan Rs. 1.80 lakh bearing interest at the rate of 10 per cent and repayable in 12 annual instalments after moratorium of three years was released to the North Malabar District Co-operative Supply and Marketing Society, Kozhikode in June 1983 and March 1984. The Society repaid the loan in lump in August 2000. Interest of Rs. 3.02 lakh due upto the date of repayment was neither remitted by the society nor demanded by the Department.
- (E) Loan of Rs. 12.29 lakh, with interest, of 9.5 percent and penal interest of 2.75 per cent for delay in payment was outstanding out of earlier loans against Alappuzha District Co-operative consumer

Store as at the end of March 1988. Government while sanctioning revitalisation in September 1990 with moratorium of ten years, waived interest due upto the end of March 1988.

As per the revised schedule, repayment of principal along with interest was to be made in 10 equal annual instalments commencing from 31st March 1999. Interest and penal interest amounting to Rs. 16.55 lakh as of 31st March 2002 was neither demanded by the Department nor remitted by the Society.

- IV (a) Does the Department agree with the facts and figures included in the paragraph ? Yes.
- (b) If not, please indicate the areas of disagreement and also attach copies of relevant documents in support Not Applicable.
- V (a) Does the Department agree with the audit conclusions ? Yes.
- (b) If not, please indicate specific areas of disagreement with reasons for disagreement and also attach copies of relevant documents where necessary. Not Applicable.

VI *Remedial action taken*

- (1) Improvement in system and procedure including internal controls.
- (2) Recovery of overpayment pointed out by Audit
- (3) Recovery of under assessment, short levy of other dues

Financial Assistance to primary societies for various NCDC sponsored schemes shall be released through the District, Co-operative Banks, which is the implementing agency of these schemes. As per the rules governing ICDP assistance, District Co-operative Banks are responsible for proper and timely utilization of the funds sanctioned to beneficiaries. So District Co-operative Bank is supposed to maintain the beneficiary wise Demand Collection Balance Statements and they are keeping it and repayment is being watched. In the office of the Registrar of Co-operative Societies have all basic records related to ICDP schemes and timely demand notices are issued to concerned beneficiary banks whenever it is needed.

An amount of Rs. 0.97 crore sanctioned to Kerala State Co-operative Rubber Marketing Federation is Margin Money assistance. Federation pointed out that the amount was released by the Government in August 1998. So the installments due only in 1991. But strict instructions along with demand notice are issued to Kerala State Co-operative Rubber Marketing Federation to remit the Principal and interest from the year 1997 onwards as instructed by the Accountant General.

Kerala State Co-operative Rubber Marketing Federation received Rs. 7.17 crore as loan from Government in between the periods of 1986-87 to 1996-97 for establishing processing units. There is a short demand of interest of Rs. 2.86 crore. Federation is requested to remit the entire interest due on loan including the short demand of Rs. 2.86 crore as per letter, No. 49191/02 dated 16-11-2003.

As pointed out by the Accountant General, North Malabar District Co-operative Supply and Marketing Society took loan of Rs. 1.80 lakhs in between June 1983 and March 1994. The Society repaid the Principal in lump sum in August 2000. The society is liable to pay the interest of Rs. 3.02 lakhs. Demand notices were issued to the society through the Joint Registrar (General), Kozhikode along with strict instruction to remit the interest amount due at the earliest.

An amount of Rs. 16.55 lakhs was due from Alappuzha District Co-operative Wholesale Consumer store from 31-3-2002 onwards. This amount is still due from the store. (Strict instruction are given to the Joint Registrar (General), Alappuzha to take necessary actions. For collecting the amount. The Joint Registrar (General), Alappuzha reported that the society is not functioning now. Revenue recovery proceedings have been initiated in this regard.

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| (4) Modification in the schemes and programmes including financing pattern                             | N.A. |
| (5) Review of similar cases/ complete scheme/project in the light of findings of sample check by audit | N.A. |

STATEMENT OF ACTION TAKEN ON PARAGRAPH INCLUDED IN THE  
REPORT OF COMPTROLLER AND AUDITOR GENERAL OF INDIA

I	(a) Department	Co-operation
	(b) Subject/Title of Review/Paragraph	Report of the Comptroller and Auditor General of India 31st March, 2003 (No. 2 Revenue Receipts)-“short demand of penal interests on share capital retirement”
	(c) Paragraph No.	7.5.12
	(d) Report No. and Year	No. 2 (RR), 31st March, 2003
II	(a) Date of Receipt of Draft Paragraph/ Review in the Department	15-7-2004
	(b) Date of Department's Reply	28-1-2005
III	Gist of Paragraph/ Review	Short demand of penal interest on share capital retirement. An amount of Rs. 4.13 Crore was issued to Kerala Karshaka Federation as Share Capital contribution during April, 1990 to March 1995. The Federation failed to retire the instalments payable upto March, 2002. Penal interest for this period is correctly worked out to Rs. 1.30 Crore against Rs. 0.40 Crore worked out and demanded by Department. This resulted a short demand of penal interest of Rs. 1.26 Crore.
IV	(a) Does the Department agree with the facts and figures included in paragraph ?	Yes.
	(b) If not, please indicate the areas of disagreement and also attach copies of relevant documents in support	Not Applicable.

- V (a) Does the Department agree with the Audit conclusions ? Yes.
- (b) If not, please indicate specific areas of disagreement with reasons for disagreement and also attach copies of relevant documents where necessary Not Applicable.
- VI *Remedial action taken*
- (1) Improvement in system and procedure including internal control The defaulted instalment has now been, correctly worked out to Rs. 1.30 crore. Hence, based on this, demand notice has been issued to Kerala Karshaka Federation.
- (2) Recovery of overpayment pointed out by Audit N.A.
- (3) Recovery of under assessment, short levy of other dues Demand notice has been issued to the Federation to the amount pointed out by Audit.
- (4) Modification in the schemes and programmes including financing pattern N.A.
- (5) Review of similar cases/complete scheme/project in the light of findings of sample check by audit N.A.

STATEMENT OF ACTION TAKEN ON PARAGRAPH INCLUDED IN THE  
REPORT OF COMPTROLLER AND AUDITOR GENERAL OF INDIA

I	(a) Department	Co-operation
	(b) Subject/Title of Review/Paragraph	Internal Control
	(c) Paragraph No.	7.5.14
	(d) Report No. and Year	No. 2 (RR), 31st March, 2003
II	(a) Date of Receipt of Draft Paragraph/ Review in the Department	15-7-2004
	(b) Date of Department's Reply	28-1-2005
III	Gist of Paragraph/ Review	Co-operation Department had not constituted an Internal Audit Wing (IAW). Hence there existed no institutional arrangement to systematically provide assurance on the adequacy and effectiveness of Internal Controls.
IV	(a) Does the Department agree with the facts and figures included in paragraph ?	(a) No
	(b) If not, please indicate the areas of disagreement and also attach copies of relevant documents in support	(b) In Co-operation Department there is an Inspection Wing for conducting inspection at the sub officers, regularly. There is also a vigilance wing for conducting surprise inspections.
V	(a) Does the Department agree with the Audit conclusions ?	(a) No

- (b) If not, please indicate the specific areas of disagreement with reason for disagreement and also attach copies of relevant documents where necessary
- (b) In view of replies at item [IV(b)]

VI *Remedial action taken*

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|---|----------------|
| (1) Improvement in system and procedure including internal controls                                   | Not applicable |
| (2) Recovery of overpayment pointed out by Audit  | Not applicable |
| (3) Recovery of under assessment, short levy of other dues  | N.A.           |
| (4) Modification in the schemes and programmes including financing pattern                            | N.A.           |
| (5) Review of similar cases/complete scheme/project in the light of findings of sample check by audit | N.A.           |
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