



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

ICAI/CCONPO/2016-2017/Rep-03

To

24th August, 2016

Commissioner for Cooperation
and Registrar of Cooperative Societies,
State of Maharashtra, Pune.

Respected Shri Chandrakant Dalvi Saheb,

Representations :

Reg. Manner of audit appointments and other audit related issues – Co-operative housing and Other Societies

Kind urgent attention required :

Issue No. 1 may please be taken up on top priority :

The Institute of Chartered Accountants of India (ICAI) is a statutory body established by the Chartered Accountants Act, 1949 for the regulation of the profession of Chartered Accountancy in India. During its more than 66 years of existence, ICAI has achieved recognition as a premier accounting body not only in the country but also globally for its contribution in the fields of education, professional development, maintenance of high accounting, auditing and ethical standards. ICAI now is the second largest accounting body in the world.

ICAI, being widely recognised as Partner in Nation Building, is called upon to interact with Government/ Regulators/ Statutory Authorities and provides technical advice and necessary inputs on matters of economic relevance and is truly adding value to



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the process of economic and social development in the country. More particularly in the matters of accounting and auditing various ministries of the Government of India consults the ICAI.

ICAI functions through various committees and one of them is the Committee for Co-operatives and NPO Sectors (CCONPO) at the ICAI. The objectives and functions of this committee include studying, analyzing, interpreting various laws concerning co-operatives and NPOs, studying various developments in the sectors, co-ordinating legal, administration, accounting and audit aspects.

We are writing this representation to your goodself to have your indulgence in resolving several issues in the empanelment process and other areas concerning audit of co-operative societies in the State of Maharashtra as detailed below:

It is our earnest request to attend to Issue No. 1 below on top most priority as the established law and procedure in respect of audit appointment as also role of auditor are in serious jeopardy and a cause of concern for the profession of audit.

1. Audit allotment by District Deputy Registrars (DDRs)

Issue:

The first proviso to section 81 (1a) of the MCS Act, 1960 as amended by MCS (Amendment) Act, 2013 provides that if the society has failed to intimate and file return regarding appointment of auditor as prescribed in section 75 (2A) read with section 79 (1B) within 30 days from the date of annual general body meeting, the Registrar may get the accounts audited by an auditor from the panel as approved to ensure that audit of all societies is done within the prescribed period.

This year the concerned DD Rs have used these powers in number of societies for



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the reasons including that most of the housing societies have not intimated the appointment done by them of the auditors to the office of the registrar. This has happened for many reasons like in some cases the societies have appointed the auditor in general body meeting but not intimated due to ignorance of the requirement of such intimation or due to their inability to get registered on the website of the Department. Therefore in such societies there are two auditors : one appointed by the society and one appointed by the DDR. Many of such societies are not co-operating with the DDR appointed auditors. The manner of appointment adopted by the DDRs' offices is also unheard and unseen in the history of audit. The DDRs have sent the list of 20 to 30 societies to the log in Id of the concerned CA in the webpage of the Department. There is no appointment letter. The concerned auditor may not be knowing of such appointment for sizeable time for the reason to visit the Department's concerned webpage. When he opens the webpage he also realises that in some societies the addresses are conspicuously incomplete or missing; that he is expected to approach the society without any formal appointment from the office of the DDR. Although not his formal duty, when out of spirit of co-operation when some of the auditors have approached the societies by writing a letter on their own, very few societies have co-operated and more societies have non co-operated in various manners including by refusing to accept the letter or acknowledging the letter, by sitting over the letter and not responding, by orally informing that they have already appointed auditors, the audit is already in process etc. To add to such embarrassing position, the DDRs have been communicating to the auditors that if the allotted audits are not completed and in time, then their empanelment may be removed. While the DDRs have sent through webpage the list of societies to be audited to the auditors, there is no communication by the DDRs' offices to the societies.

Representation :

It is an accepted position under all concerned laws and related procedures that the



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duty to get the accounts audited is that of the auditee concern. Therefore, it is absolutely necessary that about the audit appointments, the appointment letter from the office of the DDR should be addressed to the concerned society and copy thereof should be marked to the concerned appointed auditor. The concerned society should also be informed about the requirement to get the accounts audited by the prescribed timeline to avoid penal action upon them by the Department. For quality of audit to be maintained and enhanced, which we are sure, is of prime concern to your Department also, it is absolutely necessary that the dignity of the auditor is maintained and if possible be enhanced in view of the more onerous assignment in co-operative field wherein the audit fees are comparatively lower and the reporting requirements are covering accounting and auditing aspects as also various compliances with the provisions of the Act, Rules, Notifications, Circulars, bye laws etc. and includes verification and reporting on various administrative aspects also. The CA auditor being a professionally qualified person, his role should be confined to conducting audit assignment in accordance with the provisions of concerned laws and rules made there under, bye-laws of the society, various notifications and circulars issued by the department from time to time and by implementing auditing and assurances standards pronounced by the ICAI. The CA auditor should not be burdened of the duties which are not of the auditor. However, it is learnt that considering the time constraint of the Department, many of the CA auditors are taking over the extra duty to communicate to the auditee societies also in order to maintain the spirit of co-operation. At the same time, it may kindly be appreciated that there will be a substantial difference between the impact by the DDR's letter to the society vis-à-vis the auditor's letter to the society about audit communication and the co-operation from the societies would be forthcoming if the audit appointment is communicated by the DDRs to the societies. In law as well as on equity, duty to get accounts audited cannot be cast upon the auditor. Even if the auditor out of spirit of co-operation performs the task of communicating to the society about his appointment, and he has communicated either by registered A/D



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post or by courier or by hand delivery, then thereafter it is the duty of the co-operative society to co-operate with the auditors to get the accounts audited expeditiously. In case there is unreasonable delay in respect of any audit and if facts of the case suggest that the delay is attributable to concerned CA auditor and the delay is unreasonable, then the Department may kindly inform ICAI being a Regulator of the CAs. In any case if some action is contemplated by the Department itself, it should be a minimum necessity that before initiating any action, the department must follow the principles of natural justice by serving a notice of reasonable time upon the concerned auditor and allowing the CA auditor an opportunity of being heard. We strongly represent that in such cases it would be highly appreciated if the ICAI committee representatives are also involved. In case of incomplete address or for non-cooperation of the society or for any other reason to be recorded, the concerned CA must have the entitlement to decline a particular audit. He should, however, inform the Department all his such declines so that the Department is enabled to appoint another panel auditor and/or take appropriate actions against the concerned societies.

Further the societies need to be educated about the various compliances and the support and cooperation which they have to extend to the auditors.

Further very important to mention that to retain and enhance quality in any field and more particularly in any profession, it is very essential that the professional is treated with dignity.

2. Empanelment Process

Issue :

We understand that presently the Panel of auditors comprising chartered accountants and other eligible auditors is revised every three years and a proposal



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to upgrade it at the interval of every 2 years is already under active consideration of the appropriate authorities.

Representation :

We place on record, our sincere appreciation of the decision to make the revision of the Panel at the end of two years and considering our several suggestions on the subject matter. However, in this regard, we would like to place on record our considered view that the empanelment should be an ongoing process. The ICAI places on record its appreciation of the Department of Co-operation having taken substantial steps to computerise the processes. It would be appreciated that the processes should completely dispense with the requirement of human interface.

In the context of empanelment, we also would like to offer our services for the preparation of the panel for the Co-operative Department. In this context it is pertinent to mention here that the ICAI has been entrusted by the RBI since decades to prepare such panel nationwide including for every region for the PSU banks branch audits. Such Panel is prepared by the ICAI every year and in respect of thousands of bank branches. Based on its experience, the RBI has been continuing to trust the ICAI. The ICAI being a Regulator by the Act of Parliament, its officials are responsible like government officers. The entire process is computerised. The empanelment is done through Internet and is fully rule based.

Similarly, the Panel for Comptroller and Auditor General of India is also compiled by the involvement of the ICAI.

If the task is entrusted to the ICAI, then every year, on or before the decided date, the ICAI would provide the revised Panel every year based on the criteria devised by the Department.



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This will also set free the administrative machinery of the Department from the said task which can then be gainfully deployed on some other tasks.

It is learnt that compared to number of co-operative audits, the number of auditors are less. Once the empanelment is done by the ICAI, more number of applications from the CAs will be attracted.

In such representation, we at the ICAI are not seeking any powers of allotment. What we are saying that the ICAI will prepare the Panel on the criteria determined by the Department and officially conveyed to the ICAI in this behalf.

3. Need for Updation of changes in constitution or any other data subsequent to Empanelment

Issue:

Reorganizations and mergers of CA firms is very common and frequent in the fast changing and globalizing economy scenario. Consequently, a proprietary or a partnership firm empanelled with the Department of Co-operation may undergo changes in terms of number of partners etc. In the process, it may also happen that some of the existing partners may leave the firm and/or some new partners may join. It is also necessary that co operative authorities down the line as well as stakeholders should be informed about such changes. However, presently there is no facility available in the Department's audit base, with the result that Department's audit base would remain stagnant and to the extent of such changes would become incorrect which can be harmful to all concerned.

Representation :

The Department may provide the facility of updation in the Database so that the Chartered Accountants can update any details after empanelment and there is no



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loss of opportunity w.r.t. to the audit assignments for the CA members. In this regard, we may suggest to adopt the model on which the CAG empanelment website works which is dynamic in nature and considers all such updations also.

4. Categorisation into A, B, C and commensurate allotments :

Issue :

The auditors have been rightly classified into categories A, B and C depending upon their comparative size, experience etc. However, it is observed that many allotments have not happened according to the assigned categories.

Representation :

Sir, as you would also kindly appreciate, Chartered Accountant is a professional rendering specialized services under several statutes. They are also subject to Disciplinary Mechanism under stringent Code of Conduct and Rules and Regulations of the ICAI, the Regulator having the quasi judicial powers to punish them for negligence and professional misconduct. In addition, they are subject to peer review mechanism to ensure compliance with technical standards, acceptance and adherence to quality control policies and procedures for the services rendered by them.

Therefore, it is befitting their stature that preferably CAs are allotted audits of A category societies for qualitative audits in large organisations.

5. Audit fees prescribed for Co-operative housing societies

Issue:

The audit fees prescribed for co-operative housing societies is at Rs. 100/-. This is the minimum fees. However, it is observed that the auditee concerns are paying only



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this much fees only.

Representation :

Looking at the scope of audit now-a-days which has increased drastically and the higher level of expectations of authorities from auditors in reporting, it is submitted that the prescribed amount of Rs. 100/- may be reviewed and it may be increased appropriately.

In this connection, it is necessary to place on record that as Regulator, the ICAI has been prescribing from time to time the minimum recommended fees for various kinds of assignments including the audit assignments. Therefore, it is represented that the fees on minimum side may be kept at Rs. 500/- per member or the minimum recommended fees by the ICAI, whichever is higher. This being the minimum amount of the fees, the actual fees may be agreed between the auditor and the auditee concern.

6. Clarification on the Interim Order of Bombay HC Aurangabad bench dtd. 02.05.2016 on Audit fee GR Dtd.29.10.2014

Issue:

A letter dt. 10th May 2016 was sent to Commissioner for Cooperation and Registrar of Cooperative Societies, State of Maharashtra seeking clarification on the above cited interim Order with regard to its applicability on the type of societies and the financial year from which it will be applicable , audit fees to be charged especially for the fees to be charged by the auditors for the F.Y. 2015-2016 etc. Response from the Department is still awaited. In the absence of clarification from the Department, it is logical that the interim order being per se beneficial Order, concerned the auditors would apply the same in a liberal manner.



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Representation :

The Department may provide the clarification on the Interim Order at the earliest so that the auditors are guided accordingly.

7. ICAI to be notified as Institute under Section 24A of the MCS Act, 1960 for Education and Training

Issue:

Section 24A of the MCS Act, 1960 as amended by MCS (Amendment) Act, 2013 provides that every society shall organize co-operative education and training for its members, officers and employees through State federal societies or the State Apex Training Institutes as notified by the State.

Representation :

The objectives and functions of this committee the CCONPO include studying, analyzing, interpreting various laws concerning co-operatives and NPOs, studying various developments in the sectors, co-coordinating legal, administration, accounting and audit aspects. The Committee has enough resources and technical research to enter into the academic areas concerning the co-operative societies and Non Profit Organisations. The ICAI has number of well furnished buildings and all round logistics across the Country and for the purposes of Maharashtra State the ICAI has buildings called as ICAI Bhavans in Mumbai as well as in many parts of Maharashtra State. Accounting, Auditing, laws relating to co-operative societies and NPOs are ongoing activities at the CCONPO of the ICAI. Since building, technical and manpower infrastructure are available with the ICAI, at its regions and its branches, they can be used for the Co-Operative Departments' various initiatives especially ICAI and Department can work hand in hand and help the members at large in imparting education and training. For doing so, it is requested that the ICAI may be notified as Institute under section 24A of the MCS Act.



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8. Mandatory EDP Audit to be introduced in Credit and other societies

Issue:

EDP Audit is an important requirement now for credit and other societies for good governance. It needs to be made mandatory.

Representation :

The Department of Co-operation is requested to provide for mandatory EDP audit for credit and other societies. In this regard we would like to mention that ICAI has 25000+ DISA qualified auditors who can be of help to the Department for doing the necessary EDP audit. Further we would like to mention that RBI also prescribes DISA qualified Chartered Accountants for banks' concurrent and statutory audit purposes. It may be mentioned that at present, RBI also uses services of DISA qualified Chartered Accountants for concurrent and statutory audit purposes. Accordingly, it is suggested that the Department may consider using their services atleast for credit and thrift societies or those whose accounts are being maintained on ERP Programs so that presence of all requisite controls can be established and verified. Their services can also be used for getting special audits conducted, if such need arises.

9. Non availability of the Circulars on Department website and elsewhere

Issue:

It is being noticed by our members that the circulars issued by Department and quoted by the DDRs in various review meetings are neither available on Department's Website nor are sent to the ICAI or its regional organ the WIRC. Moreover, such circulars are uploaded on Mahasahakar site quite late. These circulars (which are not available in public domain) at a later date become cause of mistrust with the Department for their non-compliance by the auditor.



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Representation :

Therefore, it is suggested that as and when any new circular specifically pertaining to audit is issued by the Department, a copy of the same should be invariably marked to the ICAI's regional organ the WIRC to ensure its compliance by the CA auditors apart from getting the same uploaded on the Department website at the earliest possible. In this regard, we may inform that our WIRC website has got a designated Co-Operative section for the benefit of all the members.

10. Non availability of MHADA/MMTDA/SRA housing societies on Department portal

Issue:

At present MHADA/MMTDA/SRA housing societies are not available on Department portal.

Representation :

The Department may consider to include these societies to be covered online in the portal.

11. Difficulties in login and in uploading of documents on the website

Issue:

Societies are facing difficulties for logging in as well as for resetting of password. Also because of technical reasons societies in some cases could not upload auditor's appointment which could have resulted in DDR's appointment of another audits.

Representation :

The technical issue with reference to the Department's Website need to be taken care immediately and also the online processes be made simpler for easy



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implementation. Further problems related to uploading of necessary documents need to be addressed as they may result in non-compliances and unnecessary hardships. It is also reiterated that once online process is introduced then the role of the Department to do approvals of uploaded data should be eliminated. The human interface should also be abolished or at least avoided.

12. Awareness need to be created at societies level :

Issue :

Although the Department is rightly keen to computerize the processes and to make the societies audit compliant, it appears that the society managements are not aware of such pro active steps of the Department. The societies are also not aware about their enhanced role in the wake of new Act and in the wake of computerization.

Representation :

For compliance mechanism to function in a better way, it is necessary that awareness be created amongst societies regarding the training institutions and compulsory training through newspapers and Television, etc. including requirements on the part of the societies about audit appointments and related aspects. If sought, ICAI would be most willing to join in the efforts of the Department to create such various awareness.

13. Approvals required from Departmental officials in various contexts :

Issue :

At so many places the official's role has been envisaged in the newly introduced computerized systems for the purposes of approvals, updation etc.



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Representation :

The Department's decision and implementation to computerise various processes is highly appreciated. At the same time, it is represented that one of the prime purposes of computerisation is to eliminate or at least reduce the human interfere with the authorities. Therefore, it would be highly appreciated if at various kinds of registrations and uploading of data concerning societies and audits, the human interfere is eliminated or at least kept to the minimum. The interactions may be by email communications.

While requesting your good office to kindly attend as soon as possible to the issue mentioned above along with our respective Representation, we may mention that if you deem appropriate, I will be pleased to depute someone to co ordinate with the officer who may be designated by you in this behalf.

With Warm Regards,

CA. Tarun Jamnadas Ghia
Chairman, Committee for Co-operatives and NPO Sectors
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