



Effectiveness of Audit in Central Co - Operative Banks - A Study With Reference to Tamil Nadu

Dr. R.S. MANI

Senior Professor, VIT Business School, VIT University, Vellore – 632 014, Tamil Nadu.

Dr. K. REVATHI

Professor in English, School of Social Sciences and Languages, VIT University, Vellore – 632 014, Tamil Nadu.

KEYWORDS

1. INTRODUCTION

Agriculture occupies a dominant position in the Indian economy. The well-being of the people of India largely depends on the progress of agriculture. Hence, an adequate flow of institutional credit to agriculture is vital for its development. The Royal Commission on Agriculture, 1928, has observed that co-operatives are, "the best hope of rural India". The importance of co-operatives for the development of rural India has been endorsed by the Indian Central Banking Enquiry Committee of 1931 in the following words: "The co-operative movement inspite of imperfections and unavoidable setbacks deserves every possible assistance from every quarters, because there is no better instrument for raising the level of agriculturists of this country than the co-operative effort".

In India, the short term co-operative credit in each state consists of a three-tier structure with State Co-operative Banks (SCBs) at the apex level, Central Co-operative Banks (CCBs) at the intermediary level and Primary Agricultural Co-operative Banks (PACBs) at the grass roots level.

In Tamil Nadu, the short term co-operative credit structure consists of Tamil Nadu State Apex Co-operative Bank at the apex level, 18 Central Co-operative Banks at the district level and 4655 Primary Agricultural Co-operative Banks at the village level. There is one Central Co-operative Bank for each district except for Thanjavur where there are two Central Co-operative Banks. The membership in Central Co-operative Banks consists primarily of societies financed by them.

A major portion of loanable resources of Central Co-operative Banks is deployed to farmers through PACBs for agricultural operations. Central Co-operative Banks also undertake social banking activities such as financing of weaker sections of the community like scheduled casts and scheduled tribes, differential interest rate scheme loans at four per cent interest for self-employment of rural youth and the like.

2. STATEMENT OF THE PROBLEM

In most of the Central Co-operative Banks in Tamil Nadu, the accounts, records and vouchers are not kept ready for audit at the end of the accounting year. This imperfect maintenance of accounts by the staff concerned delays the timely completion of audit and preparation of audit reports. The delayed audit of Central Co-operative Banks defeats the very purpose of audit, that is, the early detection and prevention of errors and frauds.

The business of Central Co-operative Banks has also increased over the years due to the implementation of new schemes of lending for agriculture and allied activities. But, there is no corresponding increase in the number of auditors sent to the Central Co-operative Banks for audit work. The increase in the volume of business and inadequate audit staff strength have adversely affected the efficiency of audit.

With regard to co-operative auditors of the Central Co-operative Banks in Tamil Nadu, a vast majority of them are not trained in Central Co-operative Bank audit and they have inadequate knowledge of the important provisions of the Co-operative Societies Act. They need detailed instructions for conducting audit. Most of the auditors have audit experience in areas other than banking such as co-operative sugar mills, co-operative spinning mills etc. As a result, majority of the auditors deputed to Central Co-operative Banks do not know how to proceed and perform their audit work.

Audit programme is a scheme setting out in detail the different phases of work to be done in the course of the audit. Before the commencement of the audit, an audit programme is prepared to guide the auditors. But, in the case of the Co-operative Banks in Tamil Nadu, detailed audit programmes are not prepared in advance. Due to this unplanned approach to audit, there is no systematic evaluation of books of accounts and ultimately the auditors fail to detect the irregularities in the maintenance of books of accounts and malpractices committed by the staff of the banks.

Considering the importance of audit and its contribution to the development of co-operative agricultural credit structure, the researcher has made an attempt to evaluate the system of co-operative audit for the Central Co-operative Banks in Tamil Nadu.

3. SCOPE OF THE STUDY

The study covers the audit of Central Co-operative Banks in Tamil Nadu only. It does not cover the audit of Central Co-operative Banks in the other states of India.

4. OBJECTIVES OF THE STUDY

The objectives of the present study are,

1. To examine the audit practices for Central Co-operative Banks.
2. To suggest measures for improving the quality and efficiency of co-operative audit in Tamil Nadu.

5. METHODOLOGY

The present study is mainly based on primary data. The primary data were collected from the Auditors of Central Co-operative Banks. Secondary data were collected from Annual reports of Central Co-operative Banks, Books, Journals, News papers and circulars of Registrar of co-operative societies.

6. QUESTIONNAIRE

The researcher prepared the questionnaire to the auditors. The draft was pre-tested with the auditors of the Central Co-operative Banks and the final draft was prepared incorporating suitable changes.

7. SAMPLING DESIGN

There are 110 co-operative auditors for Central Co-operative Banks in Tamil Nadu. Out of this population, 50 per cent comprising 55 auditors were selected as samples. These samples were selected on the basis of convenient sampling technique.

8. HYPOTHESES

The following hypotheses were framed for analysing the opinion of auditors on the audit of Central Co-operative Banks in Tamil Nadu.

1. There is no significant relationship between the age of the auditors and their opinions on the efficiency of audit in the Central Co-operative Banks.
2. There is no significant relationship between the educational qualifications of the auditors and their opinions on the efficiency of audit in the Central Co-operative Banks.
3. There is no significant relationship between the training undergone by the auditors and their opinions on the efficiency of audit in the Central Co-operative Banks.

9. ANALYSIS AND INTERPRETATIONS

9.1 Effectiveness of Internal Audit system

The mere existence of Internal Audit system will be of no use unless it is effective. Table 1 shows the opinion of auditors on the effectiveness of internal audit system in the Central Co-operative Banks.

Table 1: Effectiveness of the Internal Audit System

Sl.No.	Particulars	No. of Respondents	Percentage to Total
1.	Effective	11	20.0
2.	Not effective	26	47.3
3.	No opinion	18	32.7
	Total	55	100.0

It is seen from Table 1 that according to 20.0 per cent of the respondents, the internal audit system is effective and those who feel that it is not so, amount to 47.3 per cent. Those who have no opinion on the effectiveness of the internal audit system in banks amount to 32.7 per cent. Those who feel that the internal audit system is not effective top the list with 47.3 per cent, and persons with no opinion on it, come second in the list.

9.2 Adequacy of Number of Auditors Sent

The number of auditors sent to the Central Co-operative Banks influences the nature of auditing. If the auditors sent are inadequate in number, the burden of work increases and it affects the efficiency of the auditors. Table 2 shows the opinions of auditors on the adequacy of the staff sent to the Central Co-operative Banks for auditing.

Table 2: Adequacy of Number of Auditors Sent

Sl.No.	Adequacy	No. of Respondents	Percentage to Total
1.	Adequate	22	40.0
2.	Not adequate	33	60.0
	Total	55	100.0

From Table 2, it can be seen that according to 60 per cent of the auditors the number of auditors sent to the Central Co-operative Bank is inadequate. Those who feel that adequate numbers are sent for audit amount to only 40 per cent. According to majority of the auditors (60%) the number of auditors sent to the Central Co-operative Banks is inadequate.

Every year, the Central Co-operative Banks ask for auditors required for audit. Since the Banks have to meet the salary for the auditors deputed, the banks are reluctant to ask for more auditors, though the implementation of various new schemes for the welfare of the weaker sections has resulted in an increase in the volume of work in the Central Co-operative

Banks. Hence, the auditors find it difficult to cope with the increased volume of work.

9.3 Using Audit programme for writing Audit Report

Audit programme gives the items of work to be done by the auditors. It also helps the auditors in writing the audit report. Table 3 shows the number of auditors who use the audit programme for writing the audit report.

Table 3: Using Audit Programme for Preparing Audit Report

Sl.No.	Adequacy	No. of Respondents	Percentage to Total
1.	Used	51	92.7
2.	Not used	4	7.3
	Total	55	100.0

It is inferred from Table 3 that 92.7 per cent of the Central Co-operative Bank auditors use the audit programme for writing the audit report. Those auditors who do not use the audit programme amount to 7.3 per cent. More than three-fourths of the auditors (92.7%) use the audit programme for writing the audit report.

9.4 Special Audit Report Sent

While conducting audit in Central Co-operative Banks, whenever the auditors notice serious irregularities, such as misappropriation of cash exceeding Rs.1,000 and goods exceeding Rs.5,000, violation of by-laws and maladministration, the auditors send a special audit report to Assistant Director of Co-operatives for taking immediate action. Table 4 shows the number of auditors sending special audit reports to the audit department.

Table 4: Special Audit Reports Sent to Audit Department

Sl.No.	Particulars	No. of Respondents	Percentage to Total
1.	Sending special audit reports	35	63.6
2.	Not sending special audit reports	20	36.4
	Total	55	100.0

It is clear from Table 4 that 63.6 per cent of the auditors have sent special audit reports containing serious irregularities in Central Co-operative Banks to the Assistant Director of Co-operative Audit. Those who have not sent special audit reports amount to 36.4 per cent. Nearly two-thirds of the auditors (63.6%) have noticed serious irregularities and sent reports to the audit department for taking immediate action.

9.5 Frequency of special Audit Reports Sent to the Audit Department

It is interesting to know how frequently special reports have been sent by the auditors who find serious irregularities in the Central Co-operative Banks. Table 5 shows the frequency of special audit reports sent by the auditors to the audit department.

Table 5: Frequency of Special Audit Reports Sent

Sl.No.	Frequency	No. of Respondents	Percentage to Total
1.	Once	12	34.3
2.	More than once	23	65.7
	Total	35	100.0

It is inferred from Table 5 that among the 35 auditors who sent special audit report to the audit department, 34.3 per cent of the auditors have sent only one report and those who have sent more than one report amount to 65.7 per cent. Nearly two-thirds of the auditors have sent more than one special audit report to the audit department for taking immediate action.

9.6 Sufficient Action Taken on Special Audit Reports

The co-operative department and the management of Central Co-operative Banks should take effective action on special audit reports. Inefficient action taken on special audit reports will lead to the Central Co-operative Banks becoming weaker in due course. Table 6 shows the auditors' opinions on the action taken on special audit reports.

Table 6: Action Taken on Special Audit Reports

Sl.No.	Opinion	No. of Respondents	Percentage to Total
1.	Sufficient	25	45.5
2.	Not sufficient	30	55.5
	Total	55	100.0

It learnt from Table 6 that 45.5 per cent of the auditors are satisfied with the action taken on special reports. Those who are not satisfied amount to 54.5 per cent. Majority of the auditors are not satisfied with the action taken on special audit reports. The Co-operative Authorities and the Management of Central Co-operative Banks are not taking effective action on special audit reports due to the influence of the political parties and the trade unions to drop punitive measures.

9.7 Action Taken on the Audit Report

Even though the bank management gives due recognition to audit reports, the real recognition will come only when the action is taken on the basis of the audit report. Table 7 shows the opinions of the auditors on the action taken within the stipulated time.

Table 7: Action Taken on the Audit Report within the Stipulated Time

Sl.No.	Particulars	No. of Respondents	Percentage to Total
1.	Proper action taken	21	38.2
2.	Proper action not taken	34	61.8
	Total	55	100.0

Table 7 reveals that 38.2 per cent of the respondents feel that proper action on the audit report within the stipulated time but 61.8 per cent do not feel so. According to the majority of the auditors (61.8%) bank managements do not take proper action on the comments made in the audit report.

9.8 Opinions on Attending the General Body Meeting

The auditors have the right to receive notices relating to the Annual General Body Meeting of the Central Co-operative Banks and attend such meetings. They also have the right of being heard at the meeting on any subject-matter relating to accounts. Table 8 shows the number of auditors who attend the Annual General Body Meeting.

Table 8: Attending the General Body Meeting

Sl.No.	Particulars	No. of Respondents	Percentage to Total
1.	Attending	8	14.5
2.	Not Attending	47	85.5
	Total	55	100.0

It is evident from Table 8 that only 14.5 per cent of the auditors attend the General Body Meeting and 85.5 per cent do not do so. More than three-fourths of the Central Co-operative Bank auditors (85.5%) do not attend the General Body Meeting.

9.9 Auditors' Discretion in Classification

The Reserve Bank of India had prescribed the norms for awarding marks on the basis of various factors such as loan recovery performance, observance of seasonality discipline, operational efficiency, profit earned and so on. The Central

Co-operative Banks should be classified only on the basis of the marks obtained. Even though the auditors classify the banks on the basis of marks, the subjective judgement of the auditor influences the nature of classification. Table 9 shows the position regarding the use of personal discretion in classification.

Table 9: Personal Discretion in Classification

Sl.No.	Particulars	No. of Respondents	Percentage to Total
1.	Discretion used	29	52.7
2.	Discretion not used	26	47.3
	Total	55	100.0

It is clear from Table 9 that 52.7 per cent of the auditors use their discretion in classification and those who do not do so amount to 47.3 per cent. Majority of the auditors (52.7%) use their discretion in awarding marks leading to classification.

9.10 Modifying the Format of Audit Memorandum

After completing the audit work in the Central Co-operative Banks, the auditors submit the audit memorandum to the Director of Co-operative Audit. This memorandum has two parts. Part I contains statements relating to membership, share capital, reserve fund, other reserves, deposits, borrowings, liabilities, assets, income and expenditure and the like. Part II contains the schedule of defects. This is a voluminous work. The preparations of statements take much of the auditors' time. Hence, the auditors feel that the number of statements should be reduced to the minimum. Table 10 shows the opinions of the respondents on the need for modifying the audit memorandum.

Table 10: Modifying the Format of Audit Memorandum

Sl.No.	Opinion	No. of Respondents	Percentage to Total
1.	Needed	25	45.5
2.	Not needed	24	43.6
3.	No opinion	6	10.9
	Total	55	100.0

It is inferred from Table 10 that 45.5 per cent of the auditors feel that the audit memorandum should be modified. Those who feel that there is no such need amount to 43.6 per cent. 10.9 per cent have not expressed any opinion. Auditors who feel that the audit memorandum should be modified top the list with 45.5 per cent. In the interview, it was noted that, of the 25 auditors who supported modification in the format, 56 per cent favoured total modification, 24 per cent advocated deletion of unwarranted lists and enclosures and 20 per cent wanted maximum simplification of the audit format.

10 Chi-square test

10.1 Auditors' Age and their opinions on the efficiency of Audit in Central Co-operative Banks

The auditors of Central Co-operative Banks belong to different age groups. Hence, an attempt has been made to analyse whether there is any significant relationship between the age of the auditors and their opinions on the efficiency of audit in Central Co-operative Banks. Table 11 shows the age-wise classification of the auditors and their opinions on the efficiency of audit in Central Co-operative Banks.

Table 11: Age and Opinion of Efficiency of Audit

Sl.No.	Age	Opinion			Total
		High	Medium	Low	
1.	20 to 40 years	6	6	4	16
2.	Above 40 years	13	15	11	39
	Total	19	21	15	55

From Table 11, it is clear that among the 19 auditors who have high level opinion on the efficiency of audit in Central Co-operative Banks, 6 auditors are in the age group of 20 to 40 years and 13 auditors are in the age group above 40 years.

In order to ascertain whether there is any significant relationship between the age of auditors and their opinions on the efficiency of audit in Central Co-operative Banks, chi-square test was applied.

Calculated value is 0.101. Table value of chi-square (0.05) = 5.991. Since the calculated value is less than the Table value at 5 per cent level of significance, the hypothesis is accepted. This shows that there is no significant relationship between the age of the auditors and their opinions on the efficiency of audit in Central Co-operative Banks.

10.2 Auditors' Educational qualifications and their opinions on the efficiency of Audit in Central Co-operative Banks

The auditors of Central Co-operative Banks have different educational qualifications. Hence, an attempt has been made to analyse whether there is any significant relationship between the educational qualifications of the auditors and their opinions on the efficiency of audit in Central Co-operative Banks. The educational qualifications of the auditors and their opinions on the efficiency of audit in Central Co-operative Banks are presented in Table 12.

Table 12: Educational qualifications and Opinions on the Efficiency of Audit

Sl.No.	Educational qualification	Opinion			Total
		High	Medium	Low	
1.	Under Graduates	4	8	3	15
2.	Graduates	8	10	7	25
3.	Post Graduates	7	3	5	15
	Total	19	21	15	55

Table 12 clearly reads that among the 19 auditors who have high level opinion on the efficiency of audit in Central Co-operative Banks, 4 auditors are Under Graduates and 15 auditors are Graduates.

In order to ascertain whether there is any significant relationship between educational qualifications of auditors and their opinions on the efficiency of audit in Central Co-operative Banks, chi-square test was applied.

Calculated value is 3.673. Table value of chi-square (0.05) = 9.488. Since the calculated value is less than the Table value at 5 per cent level of significance, the hypothesis is accepted. This shows that there is no significant relationship between the educational qualification of the auditors and their opinions on the efficiency of audit in Central Co-operative Banks.

10.3 Training undergone by auditors and their opinions on the efficiency of Audit

Some of the auditors of the Central Co-operative Banks have undergone special training in audit and some have not. Hence, an attempt has been made to analyse whether there was any difference between those who had undergone special training and those who had not, in their opinions on the efficiency of audit in Central Co-operative Banks. Table 13 gives details.

Table 13: Training Undergone and Opinions on the Efficiency of Audit

Sl.No.	Particulars	Opinion			Total
		High	Medium	Low	
1.	Undergone training	10	9	5	24
2.	Not Undergone training	9	12	10	31
	Total	19	21	15	55

It is clear from Table 13 that among the 19 auditors who had high level opinion on the efficiency of audit in Central Co-operative Banks, 10 auditors had undergone special training.

In order to ascertain whether there was any significant relationship between training undergone by auditors and their opinions on the efficiency of audit in Central Co-operative Banks, chi-square test was applied.

Calculated value is 1.281. Table value of chi-square (0.05) = 5.991. Since the calculated value is less than the Table value at 5 per cent level of significance, the hypothesis is accepted. This confirms that there is no significant relationship between the training undergone by the auditors and their opinions on the efficiency of audit in Central Co-operative Banks.

11. SUGGESTIONS

Following suggestions are made for improvement in the conduct of the audit of Central Co-operative Banks in Tamil Nadu.

11.1 Special Audit Training to Central Co-operative Bank Auditors

The Co-operative Audit Department in Tamil Nadu should arrange for special audit training programmes to the auditors before they are deputed to Bank audit. The co-operative Audit Department should consult the Co-operative Training College and conduct refresher courses every year. The course should contain all the latest techniques like, Proprietary Audit, Management Accountancy etc.

11.2 Effective Internal Audit System

The Internal Audit system which exists in Central Co-operative Banks should be improved. Each Central Co-operative Bank in Tamil Nadu should appoint an Internal Auditor. He should be a person who knows all the provisions of the Co-operative Societies Act, Rules and Bye-laws. Hence, it is better to choose an officer from the Co-operative Audit Department, who knows the relevant documents to be included in the audit report.

11.3 Deputing Adequate Number of Auditors

Both the officials of the Co-operative Audit Department and Central Co-operative Banks should meet atleast once in six months and review the number of auditors required for the audit work. The Co-operative Audit Department should select and recruit auditors according to requirements.

11.4 Sufficient Action on Special Audit Reports

The special audit reports submitted to the Co-operative Audit Department will be effective only when action is taken on them. The Co-operative Audit Department should forward the reports to the Co-operative Administrative Department for recommending necessary action on these reports. The management of Central Co-operative Banks should implement these recommendations immediately without any delay. After submitting the special audit reports, only ten days time limit should be given to each office for taking necessary action. The officers who are responsible for the delayed action should be held liable under civil procedure codes. The Government of Tamil Nadu should amend the Tamil Nadu Co-operative Societies Act 1983 accordingly.

11.5 Change in the Format of Audit Memorandum

The Co-operative Audit Department should consult the bank auditors regarding any change in the format of audit memorandum which may minimise the number of enclosures in the audit report. This in turn will reduce the work of the auditors in preparing the enclosures and allow them to concentrate more on the conduct of audit work.

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