

Chapter XI 1A of MCS Act

Section 144

- ▣ Cooperative Credit Society
- ▣ Section 144 (3A)
- ▣ Non-agricultural credit society means a society the primary object of which is to provide credit to its members & accept deposits from members & include
 - ▣ a) Urban credit society
 - ▣ b) Rural non agri credit society
 - ▣ c) Salary earners credit society

- ▣ Urban credit society do the activities like bank e.i. to accept deposit , to grant loans , to maintain liquidity but there is basic difference between bank & pat sanstha
- ▣ Banking means accepting deposit of money from public for the purpose of lending or investment ,repayable on demand & withdrawable by draft , cheque or otherwise
- ▣ Only bank can accept deposit from public but not Pat sanstha because it can deal only with members

- ▣ Section 144 -5A Prohibition on accepting deposits from non-members
- ▣ For purpose of this section member does not include nominal member
- ▣ Section 144 -9A Cash reserve
- ▣ Every credit society shall maintain cash reserve not exceeding 5 % of it total deposit of previous quarter
- ▣ Cash, Current , SB account ,short term deposit not exceeding 15 days in bank as stated in sec 70

- ▣ Section 144 (10A) SLR
- ▣ Non agri credit society shall maintain SLR in bank not less than 25 % of previous quarter total deposits
- ▣ Society shall file return thereof before 15 th of next month to the Registrar
- ▣ Section 144 Society shall not without prior approval of registrar & without consultation with RB , cannot remit debts of directors, their relatives & firms & companies

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- ▣ Unsecured loans In case of UCS unsecured loans should not exceed 15% of Total Loans
- ▣ Individual exposure is 20 % of own funds
- ▣ Housing loan , vehicle loans ,CC loans should not exceed 15 % of total loans .
- ▣ Loans for trade & business should not exceed 20 % of total loans
- ▣ Term loans on property mortgage should not exceed 10 % of total loans

Individual & group Exposure

Deposits	Particulars	Limit of Loan
Up to Rs 5 crores	Jaminki Loan limit	1.00 Lakh
	Individual Exposure	5.00 Lakh
	Group Exposure	10.00 Lakh
More than Rs 5 cr up to Rs 100 Cr	Jaminki Loan Limit	1.00 Lakh
	Individual Exposure	50.00 Lakh
	Group Exposure	75..00 Lakh

Individual & Group Exposure

Deposits	Particulrs	Limit
More than 100 cr up to Rs 500 cr	Jaminki Loan	Rs 1.00 Lakh
	Individual exposure	Rs 75.00 Lakh
	Group exposure	Rs 100.00 Lakh
More than Rs 500 cr up to Rs 1000 cr	Jaminki Loan	Rs 1.00 Lakh
	Individual Exposure	Rs 100 .00Lakh
	Group Exposure	Rs 150.00 Lakh

Unauthorized Deductions from loans

- ▣ Only shares can be deducted from loans but not followings
 - ▣ 1) Deposits
 - ▣ 2) Building Fund
 - ▣ 3) Golden jubilee or silver jubilee fund
- ▣ Prohibition on giving presents to members when 15 % dividend is paid

- ▣ IRAC Norms
- ▣ Income should be recognized only when it is actually received
- ▣ NPA Account becomes NPA if interest or instalment remains in arrears for more than 180 days
- ▣ In case of loans where instalments are given interest to be charged on monthly rests
- ▣ Proper provision for NPA & OIR should be made before calculating net profit

Section 65 & Rule 49 (a)

- ❖ Amounts to be deducted before calculating Net Profit :-
 - ✓ Interest payable on borrowing and deposits
 - ✓ Establishment expenses
 - ✓ Rent, Rates & Taxes
 - ✓ Audit fee
 - ✓ Provision for depreciation
 - ✓ Provision for Bonus
 - ✓ Provision for Bad and Doubtful Debts.
 - ✓ Provision for Gratuity
 - ✓ Capital redemption fund
 - ✓ Provision for depreciation in Investment
 - ✓ Provision for O.I.R.
 - ✓ Provision for N.P.A.
 - ✓ Provision for election expenses

Rule 65

Books of Accounts

- ❖ Society shall keep the following book of accounts :-
 - ✓ Member Register
 - ✓ Share Register
 - ✓ Minute book of Annual General Body Meeting.
 - ✓ Minute book of Annual Board of Directors Meeting.
 - ✓ Minute book for sub committee
 - ✓ Cash Book.
 - ✓ Day Book.
 - ✓ Bank Book.
 - ✓ General Ledgers.
 - ✓ Individual Ledgers
 - ✓ Stock Register
 - ✓ Property Register in form “XI”
 - ✓ Audit rectification register
 - ✓ Register for returns submitted in form “Y”
 - ✓ Register of auditors appointed and their written consent.

Section 28 :- Restriction on holding shares

- ▣ A member can not hold shares more than Rs.20,000/-
- ▣ In case of UCB , as per RBI guidelines , member can hold shares up to Rs 5.00 Lakh but not exceeding 5 % of its paid up capital
- ▣ In case of Pat sanstha , he can hold up to Rs 5.00 Lakh

Rule 23

- ❖ If a person has ceased to be a member of society then shares shall be returned to him or his nominee by making valuation of shares based on last audited balance sheet.

Value per share =	Networth
	No. of shares.

Net worth =	Paid up share capital + Free Reserves - Accumulated loss - shortfall in provisions
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cont.

- ❖ If nominal value of share is Rs.1000/- & valuation comes at Rs.400/-, society shall return share = Number of shares x 400/-
- ❖ If valuation comes at Rs.1200/-, society shall return Rs.1000/- per share.

Section 44 A

- ❖ Cooperative society including Urban Co-operative banks cannot recover as interest more than principal in respect of loan granted for agricultural purpose.
- ❖ In case of non-agricultural loan upto Rs.10,000/-, Urban Co-operative Bank cannot recover as interest more than principal.
- ❖ RBI has directed banks not charge compound interest on agricultural loans It should be charged yearly

Section 43 Restriction on borrowing

- ❖ Society shall receive deposits & loans only to such extent as may be prescribed.
- ❖ Borrowing limit as per Rule no 35 = Paid up share capital + Reserve fund + Building fund – Accumulated loss x 10.
- ❖ Not applicable if not received any financial assistance from Government.
- ❖ Not applicable to C.C.S.E.

Section 70 :- Investment of funds

- ❖ In DCC / SCB having A class in last 3 consecutive years.
- ❖ Securities specified in Section 20 of Indian Trust Act 1882.
- ❖ In shares / bonds of societies having similar classification.
- ❖ CCSE shall invest its funds subject to guidelines issued by R.B.I.
- ❖ Any other mode permitted by Rules or general or special order by Government.

COVERAGE OF IA OF CREDIT SOCIETIES

- ▣ Physical verification of cash by surprise
- ▣ Physical verification of gold against which loans are given
- ▣ Verification of loans & advances
- ▣ a) Security
- ▣ b) Register mortgage deed
- ▣ c) Noting pat sanstha"s lien on property
- ▣ d) Valuation
- ▣ e) search report

- ▣ f) Insurance of property
- ▣ g) post sanction inspection
- ▣ h) proper loan documents
- ▣ i) NOC of local banks & pat sansthas
- ▣ j) scrutiny of loan accounts , recovery
- ▣ h) loans to directors & their relatives are within limit fixed in by-laws
- ▣ Scrutiny of overdue debts
 - ▣ a) Whether overdues are correctly calculated
 - ▣ b) Whether legal action is taken against all overdue accounts for more than 1 year

- ▣ Whether deposits are accepted only from regular members
- ▣ Whether there are any book entry transactions
- ▣ whether investment is made against the provisions of section 70 of MCS Act 1960
- ▣ Whether limit of 15 % of total loans on unsecured loans is followed
- ▣ Whether OTS is accepted by bank if Yes calculation of settlement amount is correct

- ▣ Working Capital = Total of Balance sheet -
contra items - accumulated loss if any
- ▣ 1) NIM = Interest on loans + Interest on Invest
- ▣
$$\frac{\text{Interest on loans} + \text{Interest on Invest}}{\text{Average earning assets}} * 100$$
- ▣
- ▣ 2) Net profit ratio = Net profit (audited)
- ▣
$$\frac{\text{Net profit (audited)}}{\text{working capital}} * 100$$
- ▣
- ▣ Should be more than 1 %

- ▣ 3) CRAR = $\frac{\text{Own funds (Capital funds)}}{\text{Risk weighted assets}} * 100$
- ▣
- ▣
- ▣ Own Funds includes
 - ▣ 1) Paid up capital
 - ▣ 2) reserve fund
 - ▣ 3) Building fund
 - ▣ 4) DEF
 - ▣ 5) IFR
 - ▣ 6) Standard assets provision

- ▣ 7) Excess NPA provision
- ▣ 8) balance of net profit (Accumulated profit
+current profit -- proposed dividend

- ▣ Minus ---
- ▣ 1) Short provisions of Npa & OIR
- ▣ 2) Short provision of expenses
- ▣ 3) accumulated loss
- ▣ CRAR Should be more than 9 %

▣ 4) Operating Profit

----- * 100 = should be more

▣ Average working capital than 2

Operating profit means net profit before making provisions . Here , provisions means NPA provision & OIR provision

5) Net profit

----- * 100 = Should be more than 1.25%

Loans + Investments

- ▣ 6) Term deposit

- ▣ $\frac{\text{Term deposit}}{\text{Total Deposits}} * 100$ should be up to 70%

- ▣ Total Deposits

- ▣ 7) Non performing Investment

- ▣ $\frac{\text{Non performing Investment}}{\text{Total Investment}} * 100$

- ▣ Total Investment

- ▣ Should be less than 5 %

- ▣ 8) Net profit / own Funds * 100 should be more than 10 %

▣ Acts applicable to cooperative bank

- 1) Banking Regulation Act 1949 Particularly section 56 as applicable to coop banks
- 2) Maharashtra cooperative societies Act 1960 as amended & MCS Rules 1961
- 3) Multi-state Cooperative Societies Act
- 4) Securitization Act 2002
- 5) Governing Bodies a) RBI B) Registrar

- As per section 2(10) of MCS Act Cooperative bank means cooperative society which is doing banking business as defined in section 5 (1b) of BR Act 1949
- As per BR Act 1949 definition of cooperative bank is inclusive .Cooperative bank means scb, ccb and pcb
- As per BR Act 1949 definition of cooperative bank

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- ▣ PCB Primary cooperative bank means bank
- ▣ Primary object of which is transaction of banking business, Paid up capital & reserves of which are not less than Rs 1 Lakh & the bye-laws of which does not permit admission of any other cooperative society as member.
- ▣ So , as per BR Act 1949 UCB cannot admit any cooperative society as its members Therefore, it cannot grant loans to cooperative society
- ▣ Cooperative bank does not include LDB

- ▣ UCBs with asset size of Rs 500 crores & more have to implement Risk Based Internal Audit (RBIA)
- ▣ All other UCBs having asset size of less than Rs 500 crores ,unit ucb , salary earners banks will be governed by RBI Master circular on “Inspection & audit system in UCBs” dated 01-07-2015

- ▣ Internal audit function shall not be outsourced
- ▣ RBI has constituted high level committee under chairmanship of Shri A Ghosh the then Dy Governor of RBI to enquire into various aspects relating to frauds and malpractices in banks
Some of the recommendations relevant to UCBs were recommended by RBI to be adopted by banks

- ▣ Bank should introduce sound system of internal audit .Head of IA should be sufficiently senior person
- ▣ Generally officer who is going to retire within 1 or 2 years is posted to internal audit or new persons are allotted in IA department
- ▣ IA shall should critically analyse and make indepth study of corruption /fraud prone areas

Coverage of internal audit (IA)

Appraisal of credit proposals ,balancing of books ,reconciliation of inter-branch accounts ,suspense accounts ,premises ,stationery account during course of IA leaving no scope for malpractices /irregularities remaining undetected

- ▣ **Compliance with prudential norms** ie non compliance with IRAC norms &provisioning
- ▣ **Diversion statement to be prepared**

- ▣ **Revenue audit** ie leakage of income should be examined in depth,expenditure vouchers
- ▣ **Credit portfolio audit** –special scrutiny of high value loan accounts with reference to
 - ▣ 1 security
 - ▣ 2 mortgage deed
 - ▣ 3 search report
 - ▣ 4 CIBIL

- ▣ 5 CARSAI registration
- ▣ 6 valuation report by independent valuer
- ▣ 7 noting of bank lien on 7/12 extract / property card
- ▣ 8 Post sanction inspection
- ▣ 9 insurance of property
- ▣ 10 compliance with Individual exposure limit of 15 % of Tier 1 capital & 25 % of Tier 1 capital for group is observed or not

- ▣ limit of 10 % of preceding years total assets of bank for unsecured loans observed or not
- ▣ 12) limit on loans to housing 25 % of total loans & loans to builders 5% of total loans is observed or not
- ▣ 13) PSL targets are met or not
- ▣ 14) at least 50 % of aggregate loans should be small value loans by 31-03-2026

- ▣ Small value loans means loans of value not more than Rs 25 lakh or 0.40 % of Tier 1 capital whichever is higher , subject to max of Rs 3 crore per borrower
- ▣ Loans to nominal member shall not exceed Rs 1 Lakh per borrower
- ▣ Number of nominal members shall not exceed 20 % of regular members

Government Subsidy /interest Subvention

- ▣ If any loan is granted to borrower for which subsidy is received from Govt , auditor should verify end use of loan e.g. Loan for purchase of powerlooms , cashew machinery
- ▣ He should visit one or more unit of borrower to confirm end-use
- ▣ In case of loan under Annaso Patil Mahamandal for purchase of buffelows /cows , he should inspect Gota & confirm end use

Investment portfolio audit

- ▣ a) whether investment in Gsec tallies with SGL/CGSL holding certificate
- ▣ b) Classification & valuation of investment
- ▣ C) Provision for depreciation in investment
- ▣ d) Yield on investment
- ▣ e) IFR
- ▣ f) Exposure limit of 5 % for deposit with single

- ▣ Bank & 20 % for deposit with all banks is followed or not
- ▣ Internal auditor should study various policies prepared by bank viz loan policy , KYC policy , ALM policy , payment of interest on deposit policy , Cyber security policy ,recovery policy ,recruitment policy etc
- ▣ Internal auditor should study minute book of BOD , Audit committee, Loan committee ,Recovery committee,executive committee,

DEAF

- ▣ Whether there are any amount pending for more than 10 years in deposit, share anamat, anamat ,advance ,sundries ,suspense which are not transferred to DEAF
- ▣ Claims reimbursed from DEAF
- ▣ Balance outstanding at year end
- ▣ Whether return submitted in time

Inoperative & Dormant accounts

- ▣ As per RBI guidelines whether bank has contacted inoperative account holders by phone, message , email or letter
- ▣ After one year , whether they are classified as Dormant
- ▣ Are there any withdrawals allowed in these accounts
- ▣ Whether BOD has taken review of such accounts once in year

RBIA

- ▣ RBIA should undertake independent risk assessment for formulating risk based audit plan
- ▣ BOD is primarily responsible for overseeing the internal audit function
- ▣ RBIA policy shall be formulated with approval of board
- ▣ Policy shall document purpose,,authority &responsibilities of internal audit

- ▣ Every activity shall be subjected to risk assessment by RBIA
- ▣ ACB/BOD shall review the performance of RBIA
- ▣ Senior management shall ensure that appropriate action is taken on internal audit findings & status of closure of audit report is placed before ACB/BOD
- ▣ RBIA should be adequately staffed with skilled persons & trained periodically

- ▣ Head of IA shall be senior executive IA staff should have authority to communicate with any staff members & get access to all records
- ▣ Requisite professional competence & experience is required for IA team
- ▣ IA staff should be appointed for minimum 3 years
- ▣ HIA shall report directly to ACB/CEO
- ▣ ACB shall meet once in every quarter

- ▣ IA shall undertake independent risk assessment for the purpose of formulating risk based audit plan
- ▣ Risk assessment would cover risk at various levels/ areas
- ▣ The basis for determination of levels (high,medium, low) & trend (increasing ,stable, decreasing) of inherent business risk & control risks should be clearly spelt out

- ▣ All pending high & medium risk paras & persisting irregularities should be reported to board/ ACB in order to highlight key areas in which risk mitigation has not been undertaken despite risk identification
- ▣ Internal audit function should have system to monitor compliance to the observations made by internal audit .Status of compliance should be an integral part of reporting to the ACB/BOARD

- ▣ Internal audit function should evaluate risk management system & control procedures in various areas of operations
- ▣ It should anticipate areas of potential risks & mitigate such risk

- ▣ IRAC Norms
- ▣ NPA must be identified on on –going basis & through system
- ▣ Provision should be made quarterly
- ▣ In some of non scheduled banks , NPA is identified manually
- ▣ Auditor should attach divergence statement of NPA & state amount of NPA worked out by bank & NPA as per his assessment , provision required to be made as per his aassessment & provision made by bank

- ▣ He should quantify effect of shortfall in provision for NPA on net profit.
- ▣ In case of some banks , even though monthly instalments are given , recovery is in the month of march. Auditor should verify whether it is actual recovery or solicitory credit.
- ▣ Auditor should verify whether term loan account is renewed before all instalments are recovered , additional / new amount is disbursed

- ▣ As per RBI guidelines , if once account is identified as NPA , suppose it is identified as npa in the month of july , then all instalments up till march must be recovered . If one instalment is remained to be recovered , account will be treated as NPA .
- ▣ In case of gold loan account , only interest is recovered and loan amount is renewed . These accounts should be treated as npa

- ▣ In case of cash credit accounts , auditor should verify whether dp is correctly calculated on the basis of stock statements which are less than three months. If stock statements are not received for more than three months , account should be treated as npa
- ▣ Interest on PA accounts should be credited to P & L account and debited to loan account
- ▣ Interest on NPA should be debited to NPA interest receivable & credited to OIR accounts

- ▣ In case of- coborrower if principal borrower is NPA , accounts of co-borrower should also be placed in NPA
- ▣ If one account of borrower is NPA , all his accounts will also become NPA , auditor should verify that interest receivable on other accounts is also reversed

Valuation of security

Valuer of land and building should be minimum BE.
DCE is not competent to make valuation.

Valuer of agricultural land should be graduate in agricultural science and member of institute of valuer with experience of three years in farm valuation.

Valuer of vehicle should be automobile engineer.

Valuer of machinery should be mechanical engineer



THANKS