CHAPTER- 4
FINANCIAL CONTROL

Concept:
In modern business the term control is used to denote all such activities by which the operations are guided and motivated to the attainment of the predetermined goals. To achieve the ultimate objectives of the enterprise the management formulates plans of execution accordingly. Since finance forms the backbone of business enterprise, its control requires utmost attention and seriousness. Financial control denotes that nothing in the business goes unnoticed and unreported to the management.

A good financial plan alone does not lead to sound financial results. Planning must be complemented by control. Control implies regular measurement of performance, comparison of actual results with the standards and taking corrective action.

In a mixed economy, cooperatives are to function in competition with the private enterprise. But unlike the private enterprise, cooperatives are constrained from making super-profits because of their obligation towards the members and society at large. This necessitates the cooperatives to use utmost care and economy while dealing with finance. Cooperatives are set-up to serve the members.
or to provide them an economic service at the minimum cost. The cost at which the said service is provided to the members would depend upon the soundness with which the financial control measures are applied in the organisation. In order to ensure its survival, a cooperative undertaking must enjoy the confidence of its members and if it indulges in extravagance leading to the wastage of resources, it would lose the confidence of its members. All this underlines the need for enforcing strong financial control measures in conducting the operations of a cooperative enterprise.

A processing cooperative is set-up to enable the growers to combine the benefits of processing along with farming. The magnitude of the benefits arising out of processing would depend to a considerable extent on how efficiently and economically the funds are being utilised.

The importance of financial control techniques like budgetary control, inventory control, cost control, internal audit, etc. have been emphasised from time to time in the various conferences organised to review the working of various categories of processing cooperatives.

Financial controls can be discussed under two heads:

1. Internal financial control.
2. External financial control.

2. National Cooperative Development Corporation, All India Conference of Rice Milling Industry (from 27th February to 1st March, 1975), New Delhi, p. 42.
INTERNAL FINANCIAL CONTROL

A business enterprise may swim or sink depending upon the soundness of financial control operating within the organisation which inter-alia includes budgetary control, standard costing, marginal costing, break-even analysis, financial and accounting statements, ratio analysis, inventory control and internal audit, etc. The purpose of having all these control measures is to ensure that rules and procedures are duly followed, funds are utilised in the optimum manner and maximum economy results from the operations.

Budgetary Control

A budget is a financial and/or quantitative statement prepared and approved prior to a defined period of time, of the policy to be pursued during the period for the purpose of attaining a given objective. It may include income, expenditure, or employment of capital. Matz, Curry and Frank in their work entitled, 'Cost Accounting' say that "budgetary control in its broadcast sense means the use of a comprehensive system of budgeting to aid management in carrying out its functions of planning, coordinating and controlling operations". Budgetary control

is a process of comparing the actual results with the corresponding budget estimates to find out the variances, if any, and to initiate corrective measures. It is a powerful system which should be tactfully used to infuse dynamism and not merely a fear psychosis into an organisation. It should become an integral part of the overall corporate plan because even the minutest activity cannot be ignored in a processing cooperative which seeks to benefit a large number of small and poor farmers.

Normally an agro-processing cooperative should prepare the following three budgets:

1) Revenue budget;
2) Capital expenditure budget;
3) Cash budget.

An important development in the theory of budgeting is that of flexible budget. A flexible budget is one which gives different estimates for the different levels of activity. This type of budget possesses in-built flexibility to change in accordance with the change in the under-lying conditions.

A key-factor influencing the level of activity of agro-processing industries is the raw-material. Because of their dependence on agriculture, the operations of agro-processing industries are subject to constant fluctuations.
Keeping this in view flexible budget assumes special applicability to the business of agro-processing industries. This technique of budgeting by giving estimates at varied levels of output, affords cost control at different levels of productive activity.

The business rules of all the societies under study provide that for every cooperative year, the general manager of the mill shall cause a budget specifying the receipt and expenditure under various heads prepared. As per the business rules such budget shall be placed before the Board of Directors not later than the 15th of June every year for its consideration and approval. During the course of study it was found that in the case of The Batala Cooperative Sugar Mills Ltd., Batala, The Morinda Cooperative Sugar Mills Ltd., Morinda and The Doaba Cooperative Sugar Mills Ltd., Mawanshahr, there is no practice of preparing the annual budget. In the case of The Janta Cooperative Sugar Mills Ltd., Bhogpur, the exercise was not undertaken in time. During the course of study it was found that the budget estimates of the mill for the year 1980-81 were submitted for approval to the Registrar Cooperative Societies, Punjab on 4.3.1981 and the same were approved on 30.3.1981 when the cooperative year was at its fag end as against June 15, 1980. The same was the case with regard
to the budgets for the years 1975-76 and 1979-80. The budgetary exercise for the year 1983-84 undertaken by this mill was confined to the expenditure budget only. Sales budget, production budget, cash budget, etc., were not prepared for the year. No satisfactory reply was available when the researcher asked about the reasons for not preparing these budgets.

A comprehensive system of budgetary control was found operating in The Abohar Cooperative Spinning Mills Ltd., Abohar. The following budgets are prepared by this mill:

(i) Sales budget;
(ii) Production budget;
(iii) Plant utilisation budget;
(iv) Cash budget;
(v) Labour budget;
(vi) Material budget;
(vii) Energy and Stores and Spares budget.

During the course of study, it was found that there is no practice of preparing the annual budget in the cooperative sugar mills in Haryana and The Hansi Cooperative Spinning Mills Ltd., Hansi.

MARKFED is having a budget section headed by a qualified person enjoying the designation of Budget Officer.
The budget section prepares the revenue budget for various divisions/plants based on the marginal costing. The actual results are compared with the budget estimates and in the case of variations the matter is brought to the notice of management. But taking of corrective action which is the crux of the budgetary control system seems to be lacking. This is clear from the recurring losses against the budgeted profit, in all the plants under study except one as discussed in the chapter on profitability. No satisfactory reply was available when the researcher tried to enquire into the reasons responsible for this state of affairs.

In case of rice-shellers of HAFED, budgetary control is used as a tool to control revenue expenditure. For the purpose of control expenditure is classified into various heads, the important being water and electricity, repairs (furniture), repairs (vehicles), petrol and lubricants, printing and stationery, postage, telegram, telephone expenses, etc. The actual expenditure is compared with the budget estimates and variations reported to the top management. Variations to the extent of 2% of the budget estimates are considered as normal and allowed.
From an in-depth study of the system of budgetary control in operation in some of the units under study it was found that these units prepare what can be called a 'fixed budget' (excepting The Abohar Cooperative Spinning Mills Ltd., Abohar). The utility of such budget becomes restricted whenever actual conditions turn out to be different from those assumed. For example, actual paddy procured for processing may be different from the budgeted one. Consequently, the incidental expenses would also vary. It calls for the need for preparing a flexible budget, so that a fair and accurate review of expenditure is undertaken. Of late the management of HAFED has started thinking of switching over to flexible budgeting with regard to the rice mills. Of all the units under study, flexible budgeting was found operating only in the case of The Abohar Cooperative Spinning Mills Ltd., Abohar.

**Performance Budget**

Performance budget is one which presents the purposes and objectives for which funds are required, the costs of the programme proposed for achieving these objectives and quantitative data measuring the accomplishments and work performed under each programme.

3. Quoted by Chester E. Glassen (1953), "Development of the Performance Budget Structure in the Department of Army," unpublished Master's thesis, Syracuse University, p. 34.
Performance budget shifts emphasis from inputs to outputs. In this type of budgeting not only the expenditure is considered but the results shall also be in focus. In this system of budgeting each segment of the organisation is made to understand the role which it can play in the attainment of over-all organisational goals. The focus all along should not be merely on the physical targets to be achieved but on the detailed delineation of the resultant benefits which are likely to accrue to the enterprise and the growers. For example the system of performance budgeting can be usefully applied in ensuring proper cane management in the sugar mills. Activities of the cane development department of the mill, of the growers, and other supportive agencies can be directed towards the achievement of single common objective of ensuring to the mill cane of right quantity and of right quality at the right time.

The importance of performance budgeting in the sugar mills was emphasised in the seminar on 'Management of Sugar Industry' organised by the Management Development Institute, New Delhi in June 1975. The technique was considered useful specially in regulating the supply of sugar-cane to the mills.

4 Management Development Institute (1975); "Resume of Proceedings", Management of Sugar Industry, New Delhi, p. 18.
Performance budgeting was not found in operation in any of the units under study. The mill management were not aware of the technique. No attention has been given to the introduction of this technique so far even though a period of nine years elapsed since its usefulness was highlighted in agro-processing industries (particularly in ensuring proper raw-material management) in the seminar mentioned above.

Cost Control:

Just as navigation charts and instruments are necessary to enable a captain to bring his ship to its destination, similarly an effective system of cost control is necessary to enable the management to attain the objectives of business enterprise. Cost-reduction has come to be regarded as the life-line of the business.

Cost control pre-supposes the existence of costing system in the organisation. Proper system of cost accounting is of utmost importance which aims at providing such analysis and classification as will enable the total cost of any particular unit to be ascertained with a reasonable degree of accuracy and at the same time to disclose exactly how much total cost is constituted. In agro-industries like sugar, rice-milling, cotton ginning, etc., the manufacturing process results in the production of one or more by-products. Installation of the costing
system becomes necessary to allocate the common cost amongst the main product and by-product/products so as to ascertain their individual cost. "Information from such accounting, if available promptly, will, besides giving the management an excellent idea of the state of affairs as regards each operation, enable the application of efficient control at every stage."

Preparation of cost of production statements giving cost for each process/operation and total cost are prerequisite for the exercise of cost control.

Standard costing is a very important technique for enforcing cost control in the organisation. Standards of cost are fixed for each element of cost like material, labour and over-heads for each product/process, actual cost compared with the standards, variances analysed and corrective action taken.

The Committee on Public Undertakings emphasised that the economic success of any project is dependent upon an efficient and accurate system of cost control. The Committee recommended that all public enterprises should

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5 A. D. Gorwala, Report on the Efficient Conduct of State Enterprises, New Delhi, Planning Commission, p. 35
make a concerted effort to bring down the cost of production to a fair level by setting right deficiencies, if any, in organising and management and developing cost-consciousness at various levels of management.

It is to be noted here that what holds good in the case of Public Sector is equally applicable in the Cooperative Sector as both are very close to each other so far as their social objectives are concerned.

Cost control assumes special importance in the case of the agro-processing cooperatives which are set up to ensure higher return to the farmers. The magnitude of such return would be directly affected by the cost of processing/production. Products of agro-processing industries like sugar, edible oils, rice, etc., are an integral part of the consumption of a common man. Strict cost control becomes necessary to safeguard the interests of the consumers as well.

Cost Record Rules and Cost Audit:

Under section 209(1)(d) of the Companies Act, 1956, the Government of India is empowered to prescribe that certain classes of companies engaged in production,

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processing or mining activities would maintain cost records showing particulars of utilisation of material or labour or other costs. The Central Government, is also empowered to frame rules in respect of such industries to maintain cost accounting records. Accordingly, rules have been framed in the case of 33 products/industries including sugar and Vanaspati. With regard to the companies producing Vanaspati and sugar the rules came into force with effect from January 1, 1973 and October 1, 1974 respectively. Under these rules, a company is required to prepare a number of costing statements. Section 233 B(1) of the Companies Act empowers the Central Government to order cost audit in any of the companies covered by the Cost Record Rules. While the rules are applicable to companies, they are not applicable to the cooperative enterprises producing the same commodity. In the case of sugar, the share of the cooperative sector has gone as high as 54.8% of the total production during 1982-83.

7 Indian Express, November 2, 1984, p. 3. As per the statement made by Shri R.L. Bhatia, President of the Institute of Cost and Works Accountants of India at the opening ceremony of the 47th Chapter of the Institute at Srinagar.


This calls for the need to make necessary amendments in the Cooperative Law so as to extend the coverage of Cost Record Rules and Cost Audit to include all undertakings producing a given commodity irrespective of the form of enterprise. Cost audit inculcates the sense of cost consciousness in the organisation. Propriety of costs incurred and their periodic review can help management to eliminate unproductive expenditure.

Of all the units under study, costing system was found operating only in The Abohar Cooperative Spinning Mills Ltd., Abohar. A number of statements are prepared by the cost accountant monthly (like statement showing net cost of cotton consumed, statement showing cost-centrewise labour, wages and engagement, etc.) and sent by the Chief Executive to the Chairman of the organisation. The techniques of marginal costing and standard costing are used for the purpose of cost control.

In the case of cooperative sugar mills in Punjab and Haryana, cost of production statements are prepared yearly based on the financial records. In ascertaining the cost of production in the case of The Rohtak Cooperative Sugar Mills Ltd., Rohtak for the year 1976-77, Investment Allowance was considered as a part of the cost. The objective behind giving Investment Allowance is to provide...
incentive to boost investment and thereby rate of economic growth. The incentive in the form of Investment Allowance is given over and above the normal depreciation. Unlike depreciation (which means charging to current operations a part of the expenditure incurred in the past), Investment Allowance is not a normal charge and should not form part of the cost of production. The objective behind giving Investment Allowance is to enable an undertaking to retain greater part of the excess of sales over cost of production (net profit) by reducing its tax liability*. So considering Investment Allowance as a part of the cost of production is technically wrong and improper. Investment Allowance if taken as a part of the cost would lead to the over-statement of the cost which may further lead to the over-charging of price especially when it is based on cost of production. As mentioned earlier products of agro-based industries form an integral part of the consumption of common man and over-charging of price would be undesirable from the point of view of the society.

In the case of some of the units of the MARKFED (cotton ginning factories) also, cost of production is

* Income tax rules also provide for the compulsory transfer of the 75% of the Investment Allowance availed to the Investment Allowance Reserve and this reserve has got to be used for acquiring new plant and machinery within a period of ten years.
ascertained from the financial records. Occasionally costing is done based on marginal costing for some of the plants (like Markfed Cotton Seed Processing Plant, Gidderbaha and Markfed Canners, Jalandhar).

There is no practice of ascertaining the cost of production in the case of HAFED rice mills. It had to pay a heavy price for this deficiency during 1979-80. HAFED bagged an order from FCI for custom-milling of paddy (PR 103) in response to a tender given @ 2.50 per quintal at Samalkha, Gharunda and Madlauda rice shelters. This tender order @ 2.50 per quintal was unjustified in view of the higher milling cost (as determined by the auditor) like the following:

(i) Rice-Mill Gharunda @ 5.80 per quintal
(ii) Rice-Mill Madlauda @ 4.60 per quintal
(iii) Rice-Mill Samalkha @ 4.90 per quintal

So absence of costing resulted into a big loss to the undertaking.

Thus, it is high time that cost records are maintained, cost of production statements prepared regularly and used for the purpose of cost control.

Internal Audit:

Internal audit is a tool which if implemented effectively can ensure financial control to a considerable extent. The internal audit organisation is continually engaged in inspection and internal appraisal of performance in the light of established policy and procedures. The deficiencies discovered during the course of audit are reported to the management and improvements suggested. The internal auditor does not directly participate in management decision-making, though his findings and suggestions may influence the decision-making.

Ranson has compared the internal auditor to a family doctor who undertakes regular medical checks to ensure that all is well or if something is amiss remedial measures are suggested by him. Normally the scope of the internal audit should be the following:

(i) To review the soundness, adequacy and application of accounting, financial and operational controls;
(ii) To ascertain the extent of compliance with prescribed plans and procedures and the accuracy of accounts and other data developed within the organisation;
(iii) To offer constructive suggestions for improvement;

Ranson/ V.V.Ramanadham (Ed.) Financial Organisation in Public Enterprises, Bombay, Tripathi, p. 104.
(iv) To review and report the action taken by the authorities on the points brought out in previous audit reports (both internal and external).

In none of the sugar and spinning mills under study the system of internal audit was found in operation. The Rohtak Cooperative Sugar Mills Ltd., Rohtak borrowed one senior auditor and one inspector audit from the cooperative department during 1981-82 for the purpose of introducing internal audit in the organisation. But they were assigned some other jobs and the system of internal audit was not introduced.

In the case of MARKFED there is a centralised internal audit section headed by the Chief Internal Auditor. Chief Auditor is assisted by the Senior Accounts Officer(Audit) called SAO(A). Audit parties visit the plants regularly for the purpose of audit. For the purpose of compliance audit reports are classified into two categories:

(i) Routine reports, and
(ii) Special reports*

* In contrast to routine reports (which are based upon the annual verification of the balance-sheet items done on the basis of test checks) special reports are based upon the thorough examination of serious irregularities, fraud, sudden decline in profits, yield, etc. Special audit is conducted on the basis of information provided by the routine internal audit reports, statutory audit reports, the reports received by the monitoring section in the head-office, press news, etc.
The Senior Accounts Officer (Audit) passes on the audit reports for compliance through the Chief Auditor to the departmental heads who further pass these on to the plants' managers. The compliance of routine reports is directly sent by the plants' managers to the Chief Auditor while the compliance of special reports is routed through the SAO(A). The internal audit covers all the activities of plants like purchases, sales, payments made, assets, etc.

In the case of HAFED there is an internal audit cell headed by the Chief Audit Officer who controls eight audit parties, one at head office and seven in the field. The audit parties in the field submit monthly reports to the Chief Auditor who further passes these on to the Managing Director of HAFED. MD further asks the managers of the plants to ensure compliance of the audit observations. The internal audit covers all transactions of the plants like purchase, sale, receipts, payments, assets, etc.

From the above discussion, it emerges that the management of the sugar and spinning mills under study have not realised the utility of the internal audit in having a proper control over the operations. In one of the cases, the system was not introduced even after recruiting the persons for the job. As per the requirements of the Manufacturing and Other Companies (Auditor's Report) Order 1975, an auditor in the case of a joint-stock
company with a paid-up capital of more than Rs. 25 lakhs has to state whether the company has an internal audit system commensurate with its size and nature of its business. This is a significant requirement since it highlights the need for an effective internal audit system. It is recommended that amendment should be made in the Cooperative Legislation at the national level on the lines mentioned above making it obligatory on the part of the auditor to comment on the efficacy of the internal audit system in the societies with a paid-up capital of more than 25 lakhs. Such provision would induce the cooperative societies (at least large and medium) to introduce internal audit system.

Inventory Control

An important constituent of working capital is inventory, the control of which, if neglected plays havoc with the finances of the organisation. A capital deficient economy like India cannot afford to tie-up working capital in unnecessary inventory accumulation. From this point of view, over-investment in inventories becomes a social wastage. It has been observed at a seminar organised by the Indian Association of Materials Management at Calcutta that 90 per cent of the working capital in Indian industries is locked up in inventories as against not more
than 30 to 40 per cent in industrially advanced countries. Further, according to this association, 64 paise in a rupee are spent on materials by Indian industries, 16 paise on labour and the rest of one rupee of cost is spent on overheads.

Inventory in an industrial undertaking, generally consists of the following:

(i) Raw Materials;
(ii) Stores, spare-parts, packing materials, lubricants, fuels;
(iii) Work in progress;
(iv) Finished goods (including by-products);
(v) Miscellaneous goods (stationery, medicines, etc.).

Effective management of inventories implies the maintenance of an appropriate size of inventory.

A large inventory ensures uninterrupted production but is accompanied by higher carrying-costs and risks of obsolescence. A low inventory means lower carrying-cost and lesser risk of obsolescence but it increases the cost of production because of frequent production interruptions on account of being out of stock. Both the situations are undesirable and can be avoided by fixing minimum and maximum levels with regard to inventory items.

Proper and systematic classification and codification is necessary as a basic measure to control inventories. Classification is the systematic arrangement of similar items into suitably selected categories. Each category should be assigned a distinctive code so as to facilitate easy identification.

Classification on the basis of value of annual consumption is the most common technique of controlling inventories. The technique is called ABC analysis. Careful attention should be paid to estimates of requirements, purchase scheduling, safety stock, prompt receipt and inspection of 'A' items. On 'B' and 'C' items control is comparatively relaxed. With ABC analysis, it is possible to concentrate on the items which constitute major part of the annual consumption.

The basic purpose in ascertaining the Economic Order Quantity (EOQ) is to determine the amount of inventory to be ordered at a particular time so that total of ordering and carrying cost is reduced to the minimum.

In most of the agro-processing industries, the production operations are restricted to a part of the year only because of the seasonal availability of the raw materials. In the case of sugar mills, the raw material (sugarcane) used is of perishable nature, so it is not
possible to apply the inventory control techniques like level-setting and economic order quantity to the sugarcane. But these techniques can be usefully employed to control the inventory of consumable stores and spares, fuel, lubricants and packing material. There is another category of agro-processing undertakings like cotton ginning mills, rice mills, spinning mills, etc., the raw material for which is of non-perishable nature. Such undertakings are to carry huge inventory of raw materials because of their seasonal availability. Carrying stocks of raw materials for too long a period may make the processing/milling beyond a certain period uneconomic by putting an excessive burden of carrying cost. At the same time, for a processing unit to be profitable, it must process a certain minimum quantity of raw material in a year. All this makes it necessary on the part of the management to apply the techniques like level-setting and carrying-cost to control the inventory of various items like raw materials, consumable stores and spares, packing material, etc.

Stock-taking is a device through which account balances of various inventory items are compared with their physical quantity in the store. The objectives of the device are two-fold. On the one hand it helps to know whether the recording for the inventory is proper and timely, on the other, it helps in detecting mis-appropriation of inventory items, if any.
In some of the units under study, internal checks with regard to the stock items seems to be missing leading to the misappropriation of stock items. In the case of The Batala Cooperative Sugar Mills Ltd., Batala 38.4 quintals of sugar was found short during 1975-76. In the case of The Rohtak Cooperative Sugar Mills Ltd., Rohtak, shortages and excesses of stores were continuously noticed during the annual stock-taking. A brief position of the shortages and excesses found is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Shortage (Rs in lakhs)</th>
<th>Excesses (Rs in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 30.6.79</td>
<td>4.70</td>
<td>1.84</td>
</tr>
<tr>
<td>For 1979-80</td>
<td>2.15</td>
<td>1.65</td>
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<tr>
<td>For 1980-81</td>
<td>0.72</td>
<td>0.64</td>
</tr>
<tr>
<td>For 1981-82</td>
<td>0.32</td>
<td>0.31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7.89</strong></td>
<td><strong>4.44</strong></td>
</tr>
<tr>
<td><strong>Net Shortage</strong></td>
<td><strong>7.89</strong></td>
<td><strong>7.89</strong></td>
</tr>
</tbody>
</table>

On the physical verification made by the excise inspector and mill management on 29.12.1979 and 5.12.1980 in the case of The Karnal Cooperative Sugar Mills Ltd., Karnal, 295 bags of sugar valuing Rs 1.45 lakhs were found short.

While examining the effectiveness of internal controls, Public Accounts Committee observed that machinery valuing ₹ 0.37 lakh, molasses valuing ₹ 1.03 lakh and fertiliser valuing ₹ 0.18 lakh shown in the accounts of two cooperative sugar mills of Punjab during the year 1977-78 did not physically exist. In the stores section of one of the mills, embezzlement, misappropriation, etc., amounting to ₹ 0.46 lakh had been reported by the department auditors.

In the case of the Doaba Cooperative Sugar Mills Ltd., Nawanshahr, stocks, stores and spares were in excess by ₹ 1.32 lakhs approximately and less by ₹ 0.39 lakhs approximately than the general ledger balances during the year 1974-75. In the case of the same mill, stocks, stores and spares were found excess by ₹ 1.63 lakhs approximately and less by ₹ 0.40 lakhs approximately than the general ledger balances during the year 1972-73. In the case of the Batala Cooperative Sugar Mills Ltd., Batala, stores, and

14. Ibid., p. 35.
spares were found in excess over book value to the extent of Rs 2.90 lakhs approximately during the year 1981-82.

In the case of the Markfed Canneries, Jalandhar shortage and spilage amounting to Rs 2.65 lakhs and Rs 1.85 lakhs were charged to the profit and loss account for the year 1975-76 and 1976-77 respectively. In the case of the Rice Mill, Dhand a heavy shortage of Rs 1.32 lakhs occurred in the different stocks during the year 1978-79.

Cane Shortage in the Sugar Mills Under Study

In agro-processing industries raw material constitutes the major part of the cost of production. Proper control on its procurement, storage and handling is essential to minimise the cost of production. In the case of sugar mills, raw material (sugarcane) is a perishable commodity. Cane management demands that there should be minimum time-lag between the harvesting of cane and its crushing as the recovery rate would reduce with the increase in time lag. Almost all of the sugar mills under study have the cane purchase centres in the field. Cane being a

perishable commodity, it starts losing its weight after having been harvested from the field. Because of this reason, there is bound to be some difference in the cane purchased at the out-centres and the actual cane crushed by the plant. But the cane shortage can be minimised by minimising the time-gap between the purchase of cane and its crushing by the plant. This calls for the need to plan the cane requirements and its procurement in advance.

Because the sugar mills under study are meeting sizeable part of their cane requirements from the out-stations, effective supervision and control is required in this regard. Any laxity on this account may result in heavy shortage and/or misappropriation of sugarcane which would be a direct loss to the mills.

During the course of study it was found that cane shortage in some of the sugar mills was far excess of normal shortage varying from 1 to 2%. In the case of The Panipat Sugar Mills Ltd., cane shortage occurred in some of the cane purchase centres during the year 1975-76 was as high as 13.2%. Cane shortage of 4% occurred in the same mill in some of the centres during the year 1976-77. In the case of The Rohtak Mills, cane shortage of 4.5% occurred
during the year 1979-80 in some of the centres. In the same mill cane shortage of 8.15% was noted at the Ismaila centre during the year 1980-81. In the same mill cane shortage occurred during the year 1981-82 varied from 5% to 19%. In the case of The Karnal Sugar Mills, cane shortage occurred during the year 1977-78 varied from 3% to 6.8%. In the case of The Doaba Cooperative Sugar Mills Ltd., Nawanshahr, sugarcane amounting to Rs 20,180.40 purchased at various centres during the year 1978-79 was not despatched to the mill. During 1978-79 also sugarcane worth Rs 4,808.24 purchased at various centres was not supplied to the mills. All this speaks of the poor cane management in these mills. Shortage of cane is a direct loss for these mills. Managements should give due attention to this point.

Inventory of Process Materials and Stores and Spares in the Independent Societies under Study

The Table 4.1 shows inventory of process materials, consumable stores and spares as percentage of annual consumption. In the case of The Janta Cooperative Sugar Mills Ltd., Bhogpur, inventory of process materials (like lime, sulphur, caustic soda, filter cloth, etc.) and stores and spares, as revealed by the Table had varied from 41% to 136% of the annual consumption during the last eight years ending 30.6.83.

In the case of The Batala Cooperative Sugar Mills Ltd., Batala
### Table 4.1: Inventory of Process Materials, Consumer Goods and Services in the Independent Societies under Study (in Lakh)

<table>
<thead>
<tr>
<th></th>
<th>Mar. 75</th>
<th>Mar. 76</th>
<th>Mar. 77</th>
<th>Mar. 78</th>
<th>Mar. 79</th>
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<th>Mar. 81</th>
<th>Mar. 82</th>
<th>Mar. 83</th>
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<tbody>
<tr>
<td><strong>1. The Janta Cooperative Sugar Mills Ltd., Jhagpur</strong></td>
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</tr>
<tr>
<td>a) Inventory</td>
<td>17.46</td>
<td>15.66</td>
<td>13.64</td>
<td>11.24</td>
<td>23.13</td>
<td>19.03</td>
<td>23.43</td>
<td>19.90</td>
<td></td>
</tr>
<tr>
<td>b) Consumption</td>
<td>22.71</td>
<td>24.50</td>
<td>26.51</td>
<td>27.36</td>
<td>13.02</td>
<td>13.25</td>
<td>47.70</td>
<td>41.60</td>
<td></td>
</tr>
<tr>
<td>c) Inventory as % of consumption</td>
<td>77.0</td>
<td>64.0</td>
<td>51.4</td>
<td>41.0</td>
<td>177.6</td>
<td>131.0</td>
<td>39.0</td>
<td>71.7</td>
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<tr>
<td><strong>2. The Janta Cooperative Sugar Mills Ltd., Jhagpur</strong></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>a) Inventory</td>
<td>14.33</td>
<td>15.22</td>
<td>16.63</td>
<td>18.52</td>
<td>25.73</td>
<td>30.56</td>
<td>26.06</td>
<td>34.33</td>
<td></td>
</tr>
<tr>
<td>b) Consumption</td>
<td>26.60</td>
<td>23.50</td>
<td>29.59</td>
<td>27.42</td>
<td>25.99</td>
<td>28.15</td>
<td>35.23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Inventory as % of consumption</td>
<td>53.8</td>
<td>64.7</td>
<td>56.2</td>
<td>67.5</td>
<td>98.9</td>
<td>108.5</td>
<td>77.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3. The Kansa Cooperative Sugar Mills Ltd., Kansa</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Inventory</td>
<td>23.38</td>
<td>37.74</td>
<td>28.65</td>
<td>34.62</td>
<td>39.33</td>
<td>30.07</td>
<td>34.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Consumption</td>
<td>27.57</td>
<td>28.00</td>
<td>28.57</td>
<td>31.13</td>
<td>37.78</td>
<td>41.40</td>
<td>35.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Inventory as % of consumption</td>
<td>84.8</td>
<td>134.7</td>
<td>100.2</td>
<td>111.2</td>
<td>104.1</td>
<td>72.6</td>
<td>53.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>4. The Udaipur Cooperative Sugar Mills Ltd., Udaipur</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Inventory</td>
<td>17.57</td>
<td>20.48</td>
<td>18.06</td>
<td>16.97</td>
<td>23.72</td>
<td>22.45</td>
<td>33.40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Consumption</td>
<td>14.02</td>
<td>12.44</td>
<td>13.33</td>
<td>15.32</td>
<td>10.32</td>
<td>10.86</td>
<td>20.76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Inventory as % of consumption</td>
<td>125.3</td>
<td>164.6</td>
<td>135.4</td>
<td>110.7</td>
<td>229.8</td>
<td>266.7</td>
<td>159.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5. The Rohtak Cooperative Sugar Mills Ltd., Rohtak</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Inventory</td>
<td>40.61</td>
<td>39.07</td>
<td>36.81</td>
<td>39.81</td>
<td>42.51</td>
<td>43.31</td>
<td>36.10</td>
<td>59.68</td>
<td></td>
</tr>
<tr>
<td>b) Consumption</td>
<td>30.39</td>
<td>26.70</td>
<td>49.39</td>
<td>29.68</td>
<td>31.21</td>
<td>34.01</td>
<td>59.68</td>
<td>66.67</td>
<td></td>
</tr>
<tr>
<td>c) Inventory as % of consumption</td>
<td>133.6</td>
<td>146.0</td>
<td>74.9</td>
<td>134.1</td>
<td>136.2</td>
<td>127.3</td>
<td>63.5</td>
<td>91.7</td>
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</tr>
</tbody>
</table>
inventory holding had varied from 54% to 108%. In the case of The Morinda Cooperative Sugar Mills Ltd., Morinda inventory had been 100% or more during four of the seven years covered by the Table. In the case of The Doaba Cooperative Sugar Mills Ltd., Nawanshahr inventory holding had been more than 100% of the annual consumption during all the years covered by the Table. In the case of The Rohtak Cooperative Sugar Mills Ltd., Rohtak and The Panipat Cooperative Sugar Mills Ltd., Panipat, inventory was more than 100% of the annual consumption during five of the eight years covered by the Table with regard to these mills. In the case of The Panipat Cooperative Sugar Mills Ltd., Panipat, inventory holding was more than 200% of the annual consumption during 1975-76, 76-77 and 79-80. In the case of The Karnal Cooperative Sugar Mills Ltd., Karnal and The Sonepat Cooperative Sugar Mills Ltd., Sonepat, inventory had been more than 100% of the annual consumption during all the years except one. In the case of The Hansi Cooperative Spinning Mills Ltd., Hansi inventory holding had been relatively low though in itself it was also of high magnitude.

The Table shows that inventory of process materials and stores and spares is abnormally high in these undertakings. In most of the cases, closing inventory is more than 100% of the annual consumption. The lowest inventory noticed is in the case of The Hansi Cooperative Spinning Mills Ltd., Hansi, for the year 1978-79 when it constituted 39.2% of the annual consumption.
During the course of study, it was found that no maximum and minimum limits with regard to stores and spares inventory were fixed. Economic Order Quantity was not fixed with regard to any of the items. No classification was done (neither on the basis of value of consumption nor degree of essentiality). Purchases were made without considering the stocks of materials in hand. During the course of study, it was found that in the case of The Doaba Cooperative Sugar Mills Ltd., Nawanshahr, store items worth ₹ 5.85 lakhs were purchased before the start of the crushing season 1981-82, but none of these items were consumed during the said season. Some of the Chief Accounts Officers of the units under study admitted that inventory management is an area which continues to be unattended in these organisations. The mills are incurring heavy carrying-cost which is eroding the profitability of these units.

Finished Goods Inventory in the Case of Sugar and Spinning Mills under Study

Table 4.2 shows finished goods inventory as %age of sales in the case of the units constituting independent societies.

In the case of sugar mills, molasses constitute a very small portion of the total inventory and the inventory is mainly accounted for by the sugar. The Table reveals that in the case of sugar mills inventory has been considerably
<table>
<thead>
<tr>
<th>Table 4.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished Goods Inventory in the Case of Sugar and Spinning Mills under Study</td>
</tr>
<tr>
<td>(Rs. in lakhs)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>30.6.75</th>
<th>30.6.76</th>
<th>30.6.77</th>
<th>30.6.78</th>
<th>30.6.79</th>
<th>30.6.80</th>
<th>30.6.81</th>
<th>30.6.82</th>
<th>30.6.83</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The Janta Cooperative Sugar Mills Ltd., Jajpur</td>
<td>a) Finished Goods Inventory</td>
<td>170.37</td>
<td>139.04</td>
<td>167.69</td>
<td>223.68</td>
<td>250.28</td>
<td>42.74</td>
<td>60.58</td>
</tr>
<tr>
<td></td>
<td>b) Sales</td>
<td>274.32</td>
<td>301.12</td>
<td>314.59</td>
<td>325.37</td>
<td>309.60</td>
<td>410.13</td>
<td>210.48</td>
<td>338.76</td>
</tr>
<tr>
<td></td>
<td>c) Inventory as % of Sales</td>
<td>62.1</td>
<td>30.4</td>
<td>53.3</td>
<td>66.7</td>
<td>80.8</td>
<td>10.2</td>
<td>36.8</td>
<td>119.7</td>
</tr>
<tr>
<td>2.</td>
<td>The Jataula Cooperative Sugar Mills Ltd., Jataula</td>
<td>a) Finished Goods Inventory</td>
<td>140.56</td>
<td>143.89</td>
<td>193.56</td>
<td>307.01</td>
<td>324.35</td>
<td>112.43</td>
<td>194.86</td>
</tr>
<tr>
<td></td>
<td>b) Sales</td>
<td>259.02</td>
<td>382.33</td>
<td>385.80</td>
<td>349.61</td>
<td>444.64</td>
<td>545.41</td>
<td>417.09</td>
<td>422.06</td>
</tr>
<tr>
<td></td>
<td>c) Inventory as % of Sales</td>
<td>54.2</td>
<td>42.8</td>
<td>50.1</td>
<td>87.8</td>
<td>57.2</td>
<td>20.5</td>
<td>37.0</td>
<td>100.5</td>
</tr>
<tr>
<td>3.</td>
<td>The Morinda Cooperative Sugar Mills Ltd., Morinda</td>
<td>a) Finished Goods Inventory</td>
<td>194.16</td>
<td>144.04</td>
<td>232.69</td>
<td>312.77</td>
<td>215.15</td>
<td>141.43</td>
<td>199.62</td>
</tr>
<tr>
<td></td>
<td>b) Sales</td>
<td>238.48</td>
<td>421.68</td>
<td>337.76</td>
<td>375.20</td>
<td>394.96</td>
<td>472.49</td>
<td>447.81</td>
<td>521.73</td>
</tr>
<tr>
<td></td>
<td>c) Inventory as % of Sales</td>
<td>81.4</td>
<td>34.1</td>
<td>68.8</td>
<td>83.3</td>
<td>54.4</td>
<td>30.0</td>
<td>44.5</td>
<td>51.1</td>
</tr>
<tr>
<td>4.</td>
<td>The Goela Cooperative Sugar Mills Ltd., Mehsana,</td>
<td>a) Finished Goods Inventory</td>
<td>187.53</td>
<td>147.65</td>
<td>170.55</td>
<td>239.16</td>
<td>211.00</td>
<td>75.65</td>
<td>97.93</td>
</tr>
<tr>
<td></td>
<td>b) Sales</td>
<td>267.62</td>
<td>411.55</td>
<td>322.18</td>
<td>305.64</td>
<td>373.23</td>
<td>390.79</td>
<td>263.47</td>
<td>374.57</td>
</tr>
<tr>
<td></td>
<td>c) Inventory as % of Sales</td>
<td>87.0</td>
<td>35.8</td>
<td>52.9</td>
<td>78.2</td>
<td>55.5</td>
<td>15.3</td>
<td>*37.1</td>
<td>92.9</td>
</tr>
<tr>
<td>5.</td>
<td>The Rohitak Cooperative Sugar Mills Ltd., Rohitak</td>
<td>a) Finished Goods Inventory</td>
<td>230.81</td>
<td>182.07</td>
<td>242.10</td>
<td>395.42</td>
<td>514.6</td>
<td>40.93</td>
<td>140.49</td>
</tr>
<tr>
<td></td>
<td>b) Sales</td>
<td>347.09</td>
<td>586.45</td>
<td>448.76</td>
<td>360.23</td>
<td>426.83</td>
<td>713.66</td>
<td>339.85</td>
<td>540.16</td>
</tr>
<tr>
<td></td>
<td>c) Inventory as % of Sales</td>
<td>66.4</td>
<td>31.0</td>
<td>45.0</td>
<td>109.7</td>
<td>120.5</td>
<td>5.7</td>
<td>43.1</td>
<td>62.2</td>
</tr>
</tbody>
</table>
high for most of the times. In certain cases, the inventory exceeds even the total sales made during the year. The magnitude of inventory, as revealed by the table, was as high as 119.7% as on 30.6.82 in the case of The Janta Cooperative Sugar Mills Ltd., Bhogpur, 100.5% in the case of The Batala Cooperative Sugar Mills Ltd., as on 30.6.82, 109.7% and 120.5% in the case of The Rohtak Cooperative Sugar Mills Ltd., Rohtak as on 30.6.78 and 30.6.79 respectively. Similar cases are there in the case of other sugar mills under study. In the case of sugar mills the magnitude of sugar stocks is linked with the sugar production which is directly dependent upon the sugarcane produce. For example the sugar stocks were low as on 30.6.80 because the sugarcane produce was affected by drought during 1979-80 and the mills did not get sufficient cane for crushing.

Such a heavy inventory of sugar is adversely affecting the profitability of these mills by putting heavy burden of carrying-cost.

Under the present system of partial-control, the sugar mills are required to supply 65% of the sugar produced to the Government agencies for the public distribution system. Even the releases of the remaining free-sale sugar (which constitutes 35% of the production) are controlled by the Government. So the inventory holding of sugar is beyond the control of the mills' managements.
The Government of India has taken certain measures to reduce the burden of high carrying cost which the mills are incurring on the huge sugar stocks. A buffer stock of 10 lakh tonnes of sugar has been created (a buffer stock of 5 lakh tonnes w.e.f. 1st October, 1982 and a further 5 lakhs tonnes w.e.f. 1st October, 1983). Under the scheme the sugar mills are to be reimbursed by the Government, the holding cost, storage and insurance charges at 19% of the cost of sugar covered by the buffer stock. The Government has also undertaken the export of sugar to lessen the heavy stocks of sugar. However, the industry is asking for some more measures in terms of higher buffer stock, long-range export policy, reduction in the excise duty on sugar so as to encourage its domestic consumption*, etc.

The Hansi Cooperative Spinning Mills Ltd., Hansi faced the problem of excessive inventory during the year 1977-78 and 1980-81. For the other years covered by the Table in this case, inventory was well within control.

* As per the budget for the year 1984-85, excise duty on sugar has been reduced.
Finished Goods Inventory in the Case of MARKFED Units:

Table 4.3 shows finished goods inventory as a percentage of cost of sales in the case of MARKFED units under study. Inventory was disproportionately high in the case of Markfed Canneries, Jalandhar for the years 1979-80, 1980-81, 1981-82 and 1982-83. During the course of study it was found that inventory of this unit for the year 1975-76 consisted of dehydrated finished products valuing Rs 4.25 lakhs which had become unfit for human consumption because of the expiry of their life. The Markfed Modern Rice Mill, Rajpura also faced the problem of excessive inventory during the years 1979-80 and 1982-83. The magnitude of inventory was as high as 104.2% for the year 1979-80. For the other units covered by the Table the inventory was well within the controllable limit.

Inventory-holding in the Case of Rice Mills of HAFED.

The Table 4.4 shows inventory as %age of cost of goods sold in the case of rice mills of HAFED under study. It emerges from the Table that some of the rice mills had been facing and are facing the problem of excessive inventory. Inventory as a percentage of cost of goods sold constituted as much as 190.0% and 118.2% in the case of Rice Mill, Taroari as on 30.6.1980 and 30.6.1981 respectively. Inventory component was also quite high in the case of Rice Mill Pehowa as on 30.6.83 (103.1%), Rice Mill, Samalkha as on 30.6.1980.

| Source: | annual accounts of the units. |
| Notes: | 1. Markfed Cotton Ginning and Pressing Factory Jowiana did not gin any cotton from 1979-80 to 1982-03 at its own (thus carried no inventory). It was engaged only in the custom-ginning on behalf of the other agencies. |
| 2. Markfed Cotton Ginning and Pressing Factories at Jaitu and Sardulgarh have been engaged only in the custom-ginning (thus carried no inventory) and hence could not be included in the Table. |
### Table 4.4

Inventory-Holding of Rice Mills of HAFED (in lakhs)

<table>
<thead>
<tr>
<th>Date</th>
<th>Mill 1</th>
<th>Mill 2</th>
<th>Mill 3</th>
<th>Mill 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.6.77</td>
<td>30.6.78</td>
<td>30.6.79</td>
<td>30.6.80</td>
<td>30.6.81</td>
</tr>
<tr>
<td>a) Cost of Goods Sold</td>
<td>43.59</td>
<td>40.11</td>
<td>69.74</td>
<td>99.17</td>
</tr>
<tr>
<td>b) Closing Inventory</td>
<td>16.70</td>
<td>9.29</td>
<td>27.68</td>
<td>36.78</td>
</tr>
<tr>
<td>c) Inventory as % of Cost of Goods Sold</td>
<td>39.6</td>
<td>33.1</td>
<td>20.7</td>
<td>100.1</td>
</tr>
<tr>
<td>a) Cost of Goods Sold</td>
<td>99.63</td>
<td>97.06</td>
<td>103.92</td>
<td>65.49</td>
</tr>
<tr>
<td>b) Closing Inventory</td>
<td>25.77</td>
<td>34.64</td>
<td>24.46</td>
<td>24.72</td>
</tr>
<tr>
<td>c) Inventory as % of Cost of Goods Sold</td>
<td>28.7</td>
<td>35.6</td>
<td>23.4</td>
<td>14.7</td>
</tr>
</tbody>
</table>

**Notes:**
- Inventory consists of raw material (paddy) and finished products (rice etc.)
- Sources: Annual Accounts of the Units.
and 30.6.1982 (48.1%), Rice Mill, Gharaunda as on 30.6.82 (89.8%), Rice Mill, Ambala on 30.6.81 (56.3%) and Rice Mill Barara as on 30.6.81 (49.0%). Similar cases can also be found in the case of other rice mills as well. Under the present system of millers' levy quota, a major part of the rice produced (nearly 90%) is to be supplied to the Government agencies for the public distribution system. Early and quick despatches to the Government help in reducing the volume of inventory of rice with the mills. In the case of rice mills, the normal duration of the milling season is assumed to be of six months. The season starts from November every year and a rice mill is expected to complete the milling of entire paddy stock much before the end of June every year (the date on which the accounts of such mills are finalised). During the course of study it was found that closing inventory consists of huge stocks of unmilled paddy. The main reason for this is the heavy break-downs due to mechanical, electrical and repairs and maintenance reasons. The repair and cleaning operations carried on during off-season need to be given proper attention so as to minimise the break-downs during the operating season. The heavy inventory is affecting adversely the profitability of these units by increasing the carrying-cost.
From the above analysis of inventory management, it emerges that the magnitude of inventories in most of the cases is disproportionately high. This is impinging upon the profitability and health of these units. No attention seems to have been given to the vital aspect of inventory management.

**Maintenance and Finalisation of Accounts:**

Financial statements give a very useful information regarding the health and profitability of a concern. For the financial statements to give a true and fair view of the financial position and net results of the operations and to ensure their timely finalisation, it is essential that accounts are maintained properly. Proper maintenance of accounts also becomes essential to facilitate the task of audit. In processing cooperatives, proper maintenance of accounts and their timely finalisation becomes essential in order to enable the grower-members to know how well their undertaking is functioning.

During the course of study, it was found that in the case of The Panipat Cooperative Sugar Mills Ltd., Panipat and The Sonepat Cooperative Sugar Mills Ltd., Sonepat balance books of all the accounts were not maintained. The Sonepat Cooperative Sugar Mills Ltd., Sonepat hired three officials on

In order to ensure the accuracy of accounts it is desirable to keep two sets of ledgers i.e., particular ledger and general ledger/control ledger. Particular ledger records entries in the individual accounts while aggregate of individual accounts of same category are recorded in the general ledger. The total of the balances of the individual accounts in the particular ledger should tally with the balance of the general ledger/control ledger.
deputation from the Cooperative Department of the state during the year 1978-79 to improve upon the maintenance of accounts, but their services were not utilised for the purpose for which they were hired. One of them was ordered to discharge the duties of the Sugar Sales Manager, the other of a general assistant and the third was assigned some other job.

It is an admitted fact that the accounts section is the heart of any institution. In case the heart fails, the limbs automatically collapse.

In the case of The Batala Cooperative Sugar Mills Ltd., Batala goods worth Rs. 73 lakh for which payment had been made during 1965-66 continued to be shown as 'Goods in transit' even at the end of June, 1978. The point drew the attention of the Public Accounts Committee of the Punjab Vidhan Sabha. This speaks of poor position of accounting in this organisation.

As per the audit observations the position with regard to the maintenance of accounts in the case of Kapurthala and Sardulgarh plants of MARKFED is not satisfactory. In the case of Kapurthala it was reported that Rs. 18.56 lakh of goods were shown as 'Goods in transit' even at the end of June, 1978. In the case of Sardulgarh it was reported that Rs. 11.52 lakh of goods were shown as 'Goods in transit' even at the end of June, 1978.

22. Punjab Vidhan Sabha, Public Accounts Committee (1982-83) (Sixty-Fifth Report), Chandigarh, p. 36 Point(ii)

Capital advances of Rs 10.36 lakhs were given for purchase of capital equipment three years back but not adjusted till 30.6.81. The internal audit report of the Markfed Refined Oil and Allied Industries, Kapurthala for the year 1980-81 states that accounts of the unit have not been reconciled with the head office and other units. The same was the case with other units.

In none of the units under study, manufacturing account and trading account are prepared separately except in the case of The Doaba Cooperative Sugar Mills Ltd., Nawanshahr (in which case the manufacturing and trading accounts are prepared separately from 1978-79 onwards). In such a case the individual efficiency of manufacturing and trading functions cannot be examined.

Generally accepted principles of accounting were ignored in some of the cases while preparing manufacturing, trading and profit and loss account. In the case of The Morinda Cooperative Sugar Mills Ltd., Morinda, selling expenses, insurance charges and investment allowance were found charged to trading and manufacturing account for the year 1978-79 rather than charging them to the profit and loss account. In the case of


25 Internal Audit Report of the Markfed Refined Oil and Allied Industries, Kapurthala, 1980-81, Point 5(b)

25a One of the British high courts in a suit involving Associated Portland Cement Manufacturers Ltd. Vs. Price Commission(1974) held that the term generally accepted accounting principle refers to the acceptance and approval of the said principle by the accounting profession irrespective of degree and frequency of its use. (Accountancy, Vol.94, No.1075, March 1983, p. 94)
The Rohtak Cooperative Sugar Mills Ltd., Rohtak cane development expenses for the years 1978-79, 1980-81 and 1981-82 were included in the trading expenses and were charged to profit and loss account while these expenses should have been included in the sugarcane and allied expenses and charged to the manufacturing and trading account. Excise duty paid on sugar was found debited to the profit and loss account (for the last ten years ending 30.6.1983) in the case of The Janta Cooperative Sugar Mills Ltd., Shogpur and to the manufacturing and trading account for the years 1974-75 and 75-76 in the case of The Rohtak Cooperative Sugar Mills Ltd., Rohtak. In all other cases, sales were shown net of excise in the trading and profit and loss account. As per the Accounts Manual issued by the National Federation of Cooperative Sugar Factories for the guidance of the cooperative sugar factories, sale of sugar should be shown at gross value inclusive of excise duty and excise duty should be debited to profit and loss account. Similar view is expressed in the "Guidance Note on Accounting Treatment for Excise Duties" issued by the Institute of Chartered Accountants of India. To quote from the said Guidance Note, "excise duty should normally be..."

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be considered as a manufacturing expense and like other manufacturing expenses be considered as an element of cost for inventory valuation. Excise duty would normally be so considered when it is a specific or advalorem duty. The above Guidance Note further states that where excise duty is not considered as a manufacturing expense on the basis that the liability arises only after manufacturing is completed and inventory is valued at direct manufacturing cost, it may be charged out as an expense of the period in which the expenditure is incurred provided that the full liability is provided in respect of all excisable goods manufactured during the period irrespective of whether such goods have been removed from the factory stored in bond. In a recent decision on this point, Supreme Court has held that the incidence of excise duty is directly relatable to manufacture but its collection can be deferred to a later stage as a measure of convenience or expediency.

None of the units under study has completely followed the guidelines for the accounting treatment of excise duty given in the Accounts Manual issued by the National Federation of Cooperative Sugar Factories and Guidance Note issued by the

28. Ibid.
Institute of Chartered Accountants of India. In the case of The Janta Cooperative Sugar Mills Ltd., Bhogpur and The Rohtak Cooperative Sugar Mills Ltd., Rohtak, it was only the excise duty actually paid which was found debited to the manufacturing and profit and loss account and trading account/while as per the above mentioned Manual and the Guidance Note, it is the total excise duty on the entire output which should have been debited to the manufacturing and trading account/ In other cases excise duty was not debited to the manufacturing and trading account and sale was shown net of excise which is contrary to the guidelines laid down in this regard in the above mentioned Accounts Manual and the Guidance Note. The managements of the units should give due attention to this point. Furthermore, lack of uniformity in this regard vitiates the usefulness of the annual statements for the purpose of inter-firm comparison.

In preparing the final accounts in the case of The Morinda Cooperative Sugar Mills Ltd., Morinda for the year 1973-74 and The Sonepat Cooperative Sugar Mills Ltd., Sonepat for the year 1982-83, closing stock was valued at a market price higher than the cost. In the case of the cooperative sugar mills in Punjab no provision for bad and doubtful debts was made though debts amounting to crores of rupees were expected to go bad. In the case of the Markfed Modern Rice

Mill, Rajpura loss of Rs 3722.86 for the year 1975-76 was debited to the profit and loss account for the year 1977-78. So in this way loss for the year 1977-78 got unduly inflated by this amount.

In case of The Morinda Cooperative Sugar Mills Ltd., Morinda, there is no practice of creating provision for taxation against the profits. Actual income tax paid amounting to Rs 7.54 lakhs and Rs 3.16 lakhs during 1977-78 and 78-79 respectively against the profits earned in the previous years was found charged to the profit and loss account for the years 1977-78 and 1978-79 (The mill suffered losses during 1977-78 and 78-79). In this way losses of the years 1977-78 and 1978-79 got inflated by this figure of (income tax paid). In the case of The Panipat Cooperative Sugar Mills Ltd., Panipat no provision for income-tax was made against the profits earned during the years 1974-75 and 1975-76 though the mills earned a net profit of Rs 4.90 lakhs and Rs 16.60 lakhs during these years respectively. This is against the principles of sound financing which require that for arriving at the figure of distributable profits; an undertaking's taxation liability in respect of income tax against the year's profits should be carefully estimated and an adequate provision created therefrom.
In certain cases accounts are not finalised in time. For example in the case of The Morinda Cooperative Sugar Mills Ltd., Morinda and The Doaba Cooperative Sugar Mills Ltd., Nawanshahr final accounts for the year 1982-83 were not prepared till June 1984. The Cooperative Societies Act 1912 does not enlist in detail the requirements for the maintenance of accounts. The Act also does not prescribe any proforma for the preparation of final accounts. Section 85(2) (XIII) and (XIV) of The Punjab Cooperative Societies Act 1961 requires a cooperative society to prepare after the close of a cooperative year a balance-sheet, trading account and profit and loss account and such other statements relating to accounts as may be specified from time to time by the Registrar in the form laid down by the Registrar. The Registrar in these States have not prescribed any proforma for the preparation of annual accounts.

The Chief Auditor Cooperative Societies, Punjab issued an accounts manual for the guidance of cooperative sugar mills in September, 1962. While the manual prescribes the ledgers and

29 Maharashtra Cooperative Societies Rules prescribes a general proforma for the preparation of profit and loss account and balance-sheet (Maharashtra Cooperative Societies Rules form 'N' Annexure D).
sub-ledgers and registers which a cooperative sugar mill should maintain, it prescribes no proformas for the presentation of the annual accounts. The National Federation of Cooperative Sugar Factories, New Delhi, issued an accounts manual on April 29, 1983 for the guidance of the cooperative sugar factories. The manual guides the sugar mills with regard to the classification and codification of accounts, budgeting and budgetary control, management information system, project monitoring information system, etc. The manual also contains proformas for the presentation of the annual accounts. None of the sugar mills under study were found aware of the manual issued by the National Federation of the Cooperative Sugar Factories, New Delhi. As a result of all this there exists wide variation with regard to the treatment of items in the trading account and/or loss account in the cooperative sugar mills under study.

On having an in-depth study of the position of accounts in the units under study, one becomes painfully aware of the confusion in accounts of the various units primarily for want of proper system of account-keeping and also of properly trained accounts staff. The fundamental norms of accounting have been ignored in some of the cases. Efforts made by the audit department of Government and other bodies by issuing accounts manuals have failed to achieve the desired results.
While some efforts have been made recently in some of the units by appointing professionally qualified persons as heads of the accounts department, in others no attention has been given so far to this vital aspect. Observance of the manual issued by the National Federation/Cooperative Sugar Factories, New Delhi should be made mandatory like schedule VI in the case of joint-stock companies so as to ensure uniformity in the presentation of the final accounts of the cooperative sugar mills on all India basis. Similar accounts manuals should be issued by the apex national cooperatives for other categories of processing cooperatives as well so that uniformity is observed at the national level.

Management Information System

An enterprise is set-up with certain objectives. On becoming operational it needs some mechanism to ensure that the desired goals are achieved. Since the control task involves the comparison of actual results with the standards and taking of corrective action in the case of short-falls, the presence of an effective information system becomes a pre-requisite for the job. In order to perform the control function effectively the management must get right information at the right time so that corrective action is initiated well in time. Accordingly identification of the relevant information and the frequency and format of presentation are
the important considerations to be kept in mind while designing Management Information System (MIS).

In cooperative agrico-processing industries, information regarding variables connected with the raw materials (their cost, etc.) procurement, prices, recovery, yield, processing/finished product/products (demand, price) and the service provided to the members should constitute an important part of the MIS.

Of the various statements prepared by the sugar mills under study, some important are the following:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Periodicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cane crushed</td>
<td>Daily/monthly/yearly</td>
</tr>
<tr>
<td>2. Sugar produced</td>
<td>Daily/monthly/yearly</td>
</tr>
<tr>
<td>3. Recovery</td>
<td>Daily/monthly/yearly</td>
</tr>
<tr>
<td>4. Sugar losses</td>
<td>Daily/monthly/yearly</td>
</tr>
<tr>
<td>5. Break-downs</td>
<td>Daily/yearly</td>
</tr>
<tr>
<td>6. Sales</td>
<td>Monthly/yearly</td>
</tr>
<tr>
<td>7. Profit/Loss account and</td>
<td>Yearly</td>
</tr>
<tr>
<td>balance sheet</td>
<td></td>
</tr>
</tbody>
</table>

Information system with regard to the materials (process materials, consumable stores and spares) and debtors/receivables seems to be missing in the sugar mills under study. Most of the times materials were purchased without considering their quantity in hand. In certain cases, debts are
outstanding for years. Neither any effort has been made to realise such dues nor has any confirmation of such claims been obtained from the parties. In the case of The Janta Sugar Cooperative Mills Ltd., Bhagpur, MIS with regard to the cash and bank balances seems defective. The mill borrowed huge amounts against its cash-credit limit from time to time @ 15½% whereas it had more than one crore in its saving bank account during the year 1981-82.

In the cooperative sugar mills under study no information regarding the cane purchased from the members and non-members, and from small farmers and big farmers is maintained.

In the case of the rice shellers of HAFED, of the various statements which they are required to prepare as per instructions from head office, some important are the following:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Periodicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Paddy milled</td>
<td>Monthly/yearly</td>
</tr>
<tr>
<td>2. Rice produced</td>
<td>Monthly/yearly</td>
</tr>
<tr>
<td>3. Inventory (paddy, rice and by-products)</td>
<td>Monthly/yearly</td>
</tr>
<tr>
<td>4. Break-downs</td>
<td>Monthly/yearly</td>
</tr>
<tr>
<td>5. Trial balance</td>
<td>Monthly/yearly</td>
</tr>
<tr>
<td>6. Profit and loss account</td>
<td>Yearly</td>
</tr>
</tbody>
</table>
As per instructions of the HAFED head office, rice-shellers are required to prepare monthly statements with regard to paddy milled, rice-produced, inventory (paddy and rice etc.) for each month and send the same to the head office before the expiry of 8th day of the following month. During the course of study, it was found that these statements are rarely supplied to the head office in time. Management has not taken any action in this regard. As a result, supplying information quite late (and only after getting quite a good number of reminders from the head office) has become a practice on the part of the plant managers. All this shows a lack of interest on the part of the management in maintaining an effective information system.

One of the important requirements of MIS pertains to the periodicity of the information. Frequency and periodicity of information should be such that management is in a position to initiate corrective action well in time. The periodicity of the statements prepared in the case of the rice mills of HAFED should be shortened keeping in view the fact that milling season is confined to only six months in a year. Management should also take steps to ensure that it gets the above statements from the plants well in time.
In the case of MARFED, there is a monitoring section (Plants) in the head office which receives various reports from the plants. The following statements are prepared and sent to the head office by the plants:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Periodicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Physical production</td>
<td>Daily/yearly</td>
</tr>
<tr>
<td>2. Production-machine utilisation</td>
<td>Daily/yearly</td>
</tr>
<tr>
<td>3. Profit and loss position</td>
<td>Monthly/yearly</td>
</tr>
<tr>
<td>4. Inventories (finished products)</td>
<td>Monthly</td>
</tr>
<tr>
<td>5. Exports</td>
<td>Monthly/yearly</td>
</tr>
</tbody>
</table>

Monthly performance review meetings are held in which the general-manager of the concerned plant is called upon to explain the reasons for poor performance to the Managing Director, MARKFED.

In the case of The Hansi Cooperative Spinning Mills Ltd., Hansi, various weekly/monthly and yearly reports regarding cotton processed, yarn produced, yarn realisation, spindle-shift utilisation are prepared. But the control part seems to be missing which is clear from the low spindle-shift utilisation in this mill.

Of all the units under study, an effective MIS was found operating only in the case of The Abohar Cooperative Spinning
Mills Ltd., Abohar. Of the various statements prepared, some important are the following:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Periodicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Statement showing input/output and waste product</td>
<td>Weekly/monthly</td>
</tr>
<tr>
<td>2. Statement showing cotton issued</td>
<td>Weekly/monthly</td>
</tr>
<tr>
<td>3. Statement showing cost-count-wise and waste production</td>
<td>Weekly/monthly</td>
</tr>
<tr>
<td>4. Statement showing spindle utilisation</td>
<td>Weekly/monthly</td>
</tr>
<tr>
<td>5. Statement showing cost centre-wise labour, wages and engagement</td>
<td>Weekly/monthly</td>
</tr>
<tr>
<td>6. Statement showing actual consumption of packing material</td>
<td>Monthly</td>
</tr>
<tr>
<td>7. Statement showing consumption of stores material</td>
<td>Monthly</td>
</tr>
<tr>
<td>8. Statement showing yarn produced, despatched and closing stock</td>
<td>Monthly</td>
</tr>
<tr>
<td>9. Statement showing production per spindle in Gms. and efficiency, machine productivity Index and HOK</td>
<td>Monthly</td>
</tr>
<tr>
<td>10. Profit and loss account</td>
<td>Weekly</td>
</tr>
</tbody>
</table>

Financial statements, if prepared at regular intervals, provide useful information for the purpose of planning and control by giving an idea about the financial result of the operations. In the case of The Janta Cooperative Sugar Mills Ltd., Bhogpur and the HAFED rice mills, trial balance is prepared monthly. But the financial statements in the sugar mills
Cooperative under study, HAFED rice mills and The Hansi/Spinning Mills Limited, Hansi are prepared only once after the close of the year.

From the above discussion it emerges that all is not well with the MIS in the units under study. In some of the units (sugar mills) some important statements showing stocks of materials (stores and spares), aging of debtors, services provided to the small farmers are not prepared. In others the information is not supplied in time. Moreover, the periodicity of the statements prepared is not short enough to ensure timely action (HAFED rice mills).

**Cash Flow and Funds Flow Statements:**

A statement showing the sources from where the cash has come into the business and the uses to which it has been made is called cash flow statement. Fund flow statement shows the reasons which have led to the change in working capital position between the two balance sheet dates by showing the sources from where the funds have come into the business and the uses to which they have been put. Both the statements enable the management to judge the reasonableness of the investment policy so that a strong liquidity position is not lost. Historical cash flow/fund flow statements enable the management to know the reasons of variances and to take remedial action so as to avoid their occurrence in future.
A business can run without profits at least for some time but in any case it cannot be run without cash even for a single day.

Of all the units under study, cash flow and fund flow statements are prepared regularly for the purpose of management control only in the case of The Abohar Cooperative Spinning Mills Ltd., Abohar. In other units, these statements are prepared as and when required by the financial institutions and banks. Haryana State Federation of Cooperative Sugar Mills Ltd., Chandigarh devised a proforma of monthly cash flow statements (as given in the appendix-IV for the cooperative sugar mills in the State. But none of the cooperative sugar mills in the State have adopted the said proforma.

**Break-even Analysis:**

Break-even analysis helps to find out the level of output at which a firm's total sales are exactly equal to its total costs. It gives a composite view of the firm's operations by focusing attention on a few but vital issues such as sales, fixed costs, variable costs and output. For a firm to earn profit it must operate at a level higher than the break-even. It enables the management to know whether the efforts be made to reduce costs instead of increasing volume or selling price as a step towards increased profits and if the cost reduction is the answer should pressure be
exerted on variable or fixed costs.

The technique can be very usefully employed in agro-processing industries (based on a given rate of recovery) so as to reach a level higher than the break-even.

During the course of study, it was found that break-even analysis was used by the Haryana State Federation of Cooperative Sugar Factories, Chandigarh to find out the break-even price of sugarcane, i.e., the price which the cooperative sugar mills can afford to pay to the growers without resulting into any loss to the mills. Of all the units under study, the technique is applied only by The Abohar Cooperative Spinning Mills Ltd., Abohar. The application of the technique requires the segregation of over-heads into fixed and variable. As mentioned earlier in this chapter, in none of the units under study (excepting The Abohar Cooperative Spinning Mills Ltd., Abohar) the costing system is in operation.

Accounting Ratios:

Accounting ratios indicates the significant relationship which exists between different activities of business such as capital expenditure, profit, production, purchase, debtors, inventory and sales, etc. Ratios serve several purposes in

They too provide very useful information for the purpose of planning and control. For the purpose of control standard ratios are established and the relationship between primary ratios is used to establish the desirable coordination or balance which is normally linked with the budgetary control.

In none of the units under study, the ratio analysis is being used for the purpose of planning and control. In the case of The Panipat Cooperative Sugar Mills Ltd., Panipat, The Rohtak Cooperative Sugar Mills Ltd., Rohtak and The Karnal Cooperative Sugar Mills Ltd., Karnal, the auditor has given some ratios (like current assets to current liabilities, sales to working capital, borrowed funds to owned funds, profitability ratios, etc.) for some of the years to highlight the working of the mill under audit.

EXTERNAL FINANCIAL CONTROLS

External financial controls refer to the examination into the affairs of an undertaking by an agency external to the organisation. As mentioned in the first chapter processing

32 Ibid., p. 116.
cooperatives have been recognised as powerful instruments for uplifting the large number of small farmers. The State has been encouraging processing cooperatives by giving financial, managerial and administrative support and priority in the matter of licensing. In the present inflationary economy contribution of the State Government to the share capital of the processing cooperatives is much higher than those of all the growers taken together as the growers with their limited income cannot spare funds to finance a modern processing plant fully with their own funds. The State, the grower-members and the public in general should know how far the actual working of a processing cooperative is in accordance with the objectives laid down for it. This calls for the need for creating a machinery which could ensure that the affairs of the society are conducted in a manner which benefits the members best. This becomes necessary because those who manage a processing cooperative are different from those who own it or for whose benefits the venture has been set-up. In the case of a processing cooperative, the membership is drawn from the rural areas and it consists of illiterate and semi-literate persons. This calls upon the State to take steps to ensure that interest of the members is fully protected and taken care of. The procedure adopted in this regard in Punjab and Haryana consists of the following:

I Examination of the working of the societies by the Public Accounts Committee of the state legislature.
II Statutory audit of the societies.

III Supervision by the Registrar Cooperatives Societies of the State.

Examination by the Public Accounts Committee:

The examination of the working of the cooperative societies by the Public Accounts Committee is based on the audit observations. The following are the main functions of the Public Accounts Committee with regard to the cooperative societies in these States:

(i) To scrutinise the audit reports of the cooperative societies;

(ii) To suggest ways and means of rectifying various irregularities pointed out in the audit reports;

(iii) To watch the follow-up action on the audit reports and on its review and recommendations made from time to time;

(iv) To advise the Registrar, as is considered necessary on scrutiny of audit reports or special reports or any other information called for from the societies.

The Public Accounts Committee (1982-83) of Punjab Vidhan Sabha observed in its sixty-fifth report that in one of the cooperative sugar mills of Punjab ₹ 1.18 lakhs being bonus payable to growers for the year 1965-66 was not paid till 1981. The said Committee also observed that irregularities were committed in the purchase of gunny bags by The Punjab

State Sugar Mills Federation for the cooperative sugar mills in Punjab during the year 1978-79.

The Public Accounts Committee (1972-73) of the Haryana Vidhan Sabha in its 5th report, while examining the matter of cost over-runs by 100% in the case of The Rohtak Cooperative Sugar Mills expansion (1968) observed that the cost over-runs of such a big magnitude were partly due to the loose financial controls during the construction period. The Rohtak Cooperative Sugar Mills Ltd., Rohtak had to incur an extra expenditure of Rs 37,800 on the purchase of limestone as a result of ignoring the lowest quotations and effecting the purchases at personal level. The Panipat Cooperative Sugar Mills Ltd., Panipat had to incur extra expenditure of Rs 19,600 on the purchase of lime-stone due to delay in finalising the purchase due to which the lowest tenderer withdrew his offer.

34 Ibid, pp. 40 and 41.
35 Haryana Vidhan Sabha, Public Accounts Committee (1972-73), 5th Report, Chandigarh, p. 49.
36 Haryana Vidhan Sabha, Public Accounts Committee (1974-75) 7th Report, Chandigarh, p. 36.
37 Ibid, p. 36.
In some cases (with regard to The Rohtak and The Panipat Sugar Mills) contracts for execution of works and purchase of materials involving substantial amounts were made on the basis of limited tender system i.e. without giving wider publicity through standard newspapers. The other observations of the committees have been given at appropriate places in the thesis.

The Committee after examining the cases of glaring irregularities insists on fixing responsibility on the erring employees and taking disciplinary action so as to avoid their occurrence in the future.

State level apex marketing societies in Punjab and Haryana (MARKFED and HAFED) have set-up a number of plants producing agricultural inputs and processing agricultural produce. These societies undertake other activities as well like the procurement of the foodgrains, distribution of agricultural inputs, etc. The proper working of the units set-up by these societies (like rice mills, cotton ginning mills, cotton seed processing plants) is as important as that of the independent sugar and spinning mills for the benefit of the

38 Haryana Vidhan Sabha, Public Accounts Committee (1972-73) 5th Report, Chandigarh, p. 47.
growers. But the working of these units is rarely examined by the Public Accounts Committee of the State Legislature. PAC must cover at least some of the agro-processing plants, if not all, set-up/the apex-marketing societies in its report.

Statutory Audit

In regard to the cooperative audit, it would be worthwhile to quote the Mehta Committee on Cooperation "The main object of audit of a Cooperative Society is to ensure that it has carried-out the requirements of law governing the working of cooperative societies as also that it functions on sound lines in accordance with cooperative principles and practice". This object of cooperative audit is very important keeping in view the very nature and purpose of cooperative movement.

To quote Mirdha Committee on cooperation in this regard "audit should also embrace a scrutiny as to what extent the benefits of a society have accrued to the weaker or smaller among its members".


Cooperative audit may, therefore, be defined as an examination of accounts and an enquiry into the affairs of the society in order to ascertain the correctness of accounts and the extent to which the activities of the society were useful in promoting the socio-economic welfare of its members through the satisfaction of their needs in accordance with the principles of cooperation. Cooperative audit is thus something more than a mere financial audit. That is, it is also an administrative audit.

The object of cooperative audit is thus three-fold viz:

(i) To ascertain the correctness of accounts;

(ii) To examine whether the affairs of the society have been carried on in accordance with the principles of cooperation and the provisions of cooperative law; and

(iii) To assess the extent to which the conditions of the members have been improved by the activities of the society. So conducting cooperative audit is a tedious and difficult task. This necessitates the need to ensure that the persons to whom this job is to be assigned should be carefully selected and properly trained.

In the company sector as well the concept and scope of audit has undergone a tremendous change over a period of time. While in the past the audit was confined to what may be called financial audit, its scope is being extended to cover other important aspects like cost audit, management audit and social audit in the present day times. The latter concepts are assuming greater importance on account of growing realisation in the society that an organisation being a social organ has certain obligations towards the society. Financial audit with conventional tools may be found to be wholly inadequate for examining the working of cooperative enterprises. What is required in these undertakings is what can be called as efficiency audit. Processing Cooperatives are organised to ensure higher return to the growers. The efficiency with which the various operations are performed directly affects the return which it can offer to the growers.

A recent development in the sphere of audit is one which pertains to propriety audit. Propriety audit extends beyond the formality of expenditure to its wisdom, faithfulness and economy. The auditor investigates the necessity of expenditure incurred and sees whether some results could have been obtained otherwise with greater economy and whether the rate and scale of expenditure were justified giving due regard to the facts and circumstances of the case.
According to the provisions of The Punjab Cooperative Societies Act, 1961, the accounts of a cooperative society are to be audited every year by the audit wing of the cooperation department. In Punjab and Haryana there is a system of concurrent audit with regard to the audit of cooperative societies. In the case of large processing societies like sugar mills, spinning mills, cotton-seeds, processing plants, full-time audit parties are sitting at the plants site. In the case of small and medium processing cooperatives audit parties visit the plant site periodically. The audit covers all the major areas like the following: (a) Purchase, (b) Sales, (c) Debtors, (d) Creditors, (e) Stores, (f) Accounts, (g) Share-section, (h) Contracts and use of vehicles, (i) Investment-decisions including erection and commissioning of plants (j) The management and meetings.

As per the directives of the Registrar in these States, the management of the concerned mill is to send the compliance report of the audit observations within a period of three

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42* The State Haryana was created out of joint-Punjab in 1966. It did not have its own cooperative societies Act. The Punjab Cooperative Societies Act, 1961 continued to be applicable to the cooperative societies in Haryana. Recently, the Haryana Vidhan Sabha has passed a comprehensive bill on Cooperative Societies on April 2, 1984 covering all types of societies: (Indian Express, April 3, 1984, p.7)
months on receipt of the audit report. During the course of study, it was found that no compliance of the audit report was made by the mills and the audit observations remained unattended for years. The audit report of The Panipat Cooperative Sugar Mills Ltd., Panipat for the year 1981-82 points out that compliance of irregularities, discrepancies, shortages of stocks, misappropriations and embezzlements contained in the audit reports of the last eleven years have not been made. The audit report of The Batala Cooperative Sugar Mills Ltd., Batala while dealing with the compliance of audit observations states, "compliance of the audit report prepared by the mills from 1969-70 to 1971-72 was not considered by the Board and the compliance of the report of the audit notes for the years from 1973-74 onwards was not prepared by the mills in utter disregard of bye-laws No. 41 (vii) of the mills". To quote audit report of The Doaba Cooperative Sugar Mills Ltd., Nawanshahr in this regard, "The compliance of the previous years' audit reports is still awaited". In the case of The Sonepat Cooperative Sugar Mills

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Ltd., Sonepat, the audit observations were found unattended and no compliance report was submitted since the mill was first audited for the year 1978-79. To quote the audit report of The Karnal Cooperative Sugar Mills Ltd., Karnal in this regard, "compliance of audit reports from 1977-78 onwards have not been submitted so far by the sugar mills which is to be submitted within three months of their receipt."

The position of the other units under study with regard to the compliance of audit observations is in no way better. All this defeats the very purpose of audit. In such circumstances, the audit staff cannot be expected to take required interest in the job. Compliance of audit observations is necessary to maintain the public image of these organisations and to assure the state and general public that the movement is proceeding on the right lines.

As has been mentioned above, the financial-cum-efficiency audit of cooperative processing units is conducted by the

46 Audit Report of The Sonepat Cooperative Sugar Mills Ltd., Sonepat, 1981-82, page 3 (point 2)
auditors from the department of cooperation of the concerned state. During the course of study it was found that all the auditors are not duly qualified for the job. In certain cases even matriculates are called-upon to perform the job. All this affects the quality of the audit work. The problem can be tackled by appointing the persons duly qualified for the job or else the task of auditing the processing cooperative (at least large units like sugar and spinning mills) could be assigned to the professionals. Making amendments in the Cooperative Act so as to give an option to the bigger cooperatives to get their accounts audited by the chartered accountant selected out of a panel approved by the cooperative department was one of the suggestions given by the Government of India to the state governments in October, 1960, on the recommendations of the National Development Council (as per its meeting held on November 8 and 9, 1958).

It is to be noted that no step has been taken in these states in this regard even though a period of twenty three years has elapsed since the suggestion was given by the Union Government in 1960. This sort of attitude on the part of the state governments is not appreciable. Action in this regard may be taken at the earliest so as to improve the quality of audit. Chartered Accountants being highly qualified and

well-equipped with the knowledge and know-how of financial accounts, cost accounts, performance budgeting, etc., can give a more comprehensive audit report than one by the auditors of the cooperative department. This will certainly help in removing the defects in the present system.

Secondly, there is an urgent need to broaden the scope of cooperative audit so as to cover social audit. Apart from the completion of mechanical checking of accounts and ensuring the correctness of final accounts, the auditor of a cooperative society should also examine certain administrative matters having a social bearing such as working of the society with reference to the working of management, pattern of membership, involvement of the members in the working of the society, amount of service provided to the members, members education, holding of general body meetings, control of air and water pollution, etc., which the cooperative should undertake for the benefits of the members in particular and the society in general. So the social audit (or what in a cooperative can be rightly termed as administrative audit) is also of utmost importance as it would indicate how far the activities of a processing cooperative conform to the cooperative principles. The need for introducing social audit in cooperative undertakings was felt during the Eighth Indian Cooperative Congress held on March 9 and 11, 1979 in New Delhi
The said congress recommended that the scope of cooperative audit should be made more comprehensive by incorporating management audit and social audit.

It should be noted in this regard that the various states have appreciated the need for such a step and in some states like Tamil Nadu and Andhra Pradesh and in the Union Territory of Goa, Daman and Diu the recommendations have been implemented.

III Supervision by the Registrar

In developing countries where people are illiterate and will to come together and work jointly is lacking amongst them, State is to come forward and provide necessary leadership in this regard if it intends to uplift the poor and downtrodden. This task is performed through the Registrar who acts as the promoter and the guardian of the cooperative movement. Along with it he has also to see that the cooperative institutions work on the right lines and they fulfil the objectives for which they have been set-up.

This task is to be performed with a great deal of care and sincerity as the mal-functioning of a society not only deprives its members from the benefits expected from it, but

retards the growth of the movement as well. The Registrar is to see that the business of the society is conducted and the funds are utilised in accordance with the bye-laws and the provisions of the cooperative legislation.

But the supervision by the Registrar may give rise to one problem, that is with regard to maintaining and preserving operational autonomy of these undertakings. For any undertakings to be successful it must enjoy the operational autonomy, more so a processing undertakings which is to function in competition with the private enterprise. Supervision by the Registrar may lead to interference in the working of a cooperative society or it may act as deterrent to the conduct of smooth business operations.

As mentioned in the Chapter on 'Financial Planning' the business rules of all the societies under study provide that for every cooperative year the general manager shall cause a budget prepared. As per the business rules a copy of the proposed budget shall also be forwarded to the Registrar, Cooperative Societies of the concerned state for his scrutiny and comments and the board shall approve the budget after taking into account the views expressed by the Registrar. As mentioned earlier in this chapter there is no practice of preparing the annual budget in most of the units (constituting independent societies) under study. During the course of study
it was found that budget estimates by some of the units were not submitted to the Registrar for his approval in time. The audit observations as mentioned earlier continue to be unattended for years. All this shows inefficiency in supervision on the part of the supervisory agency.

There are instances when the Registrar has interfered in the internal working of a society to its detriment. During the course of study, it was found that in the case of The Janta Cooperative Sugar Mills Ltd., Bhogpur, the Registrar considered the payment of bonus during 1970 irregular when it was paid with the approval of the Board of Directors and the general body of the mill. Similarly the Registrar withdrew the payment of production incentive to the workers of The Batala Cooperative Sugar Mills Ltd., Batala during the year 1981-82 on the plea of disciplining them. Production incentive was meant to be given to those workers who by putting better and efficient labour, produce more than the norms fixed by the management. Such action of the Registrar cannot be justified keeping in view its impact on the business of the mills and the morale of the workers.

The issue relating to the Registrar's power to issue orders and directions to the cooperative societies was examined by the Public Accounts Committee (1982-83) of the Punjab Vidhan Sabha in its sixty fifth report. The said
Committee recommended that the Registrar, cooperative societies, should interfere in the working of the society in accordance with the provisions of the relevant act only when it is unavoidable and it should be in rare circumstances. There should be no hesitation on the part of the Registrar to withdraw his direction in case it is working to the disadvantage of the society to which it was issued.

Summary

From the above discussion, it emerges that position with regard to financial controls in these undertakings is far from satisfactory. In some of the units there is no practice of preparing the annual budget as required by their bye-laws. In others the usefulness of the system is vitiated by abnormal delay in finalising the estimates. The budget prepared by some of these units is what can be called a fixed budget. Because of their dependence on agriculture agro-processing industries are subject to constant fluctuations in their business and the utility of such budget becomes very much restricted under such circumstances. Moreover, budget in most of the units is used only as a device to get the departmental approval to incur expenditure under various heads. It is not used as an overall planning and control device. Cost control is totally lacking in these units. In the absence of legal requirement none of the cooperative sugar mills in these states have adopted the costing system. Only the
consolidated cost statements are prepared on the basis of financial records. The magnitude of inventories particularly of process materials and stores and spares is abnormally high which is adversely affecting the profitability of these units. There is lack of internal check with regard to stores and stock items, which has led to misappropriation of goods and materials. The amount of cane shortage in the case of sugar mills is abnormally high in some cases.

The position of accounts is far from being satisfactory. The basic principles of accounting have been ignored in some cases while preparing final accounts. Accounting and adjusting entries were not made for years. In some of the cases management information system is not effective keeping in view the periodicity and the coverage of the statements prepared. The use of modern management techniques such as funds flow and cash flow analysis, break-even analysis, ratio analysis is conspicuous by its absence. Of all the units under study, these techniques are applied only by The Abohar Cooperative Spinning Mills Ltd, Abohar.

The working of the processing units of MARKFED and HAF has rarely been examined by the Public Accounts Committee of the State Legislature. The quality of the audit is not so good due to the reason that unqualified persons are called upon to handle the job in certain cases. Audit observations continue
to be unattended for years. With regard to some of the matters the supervision by the Registrar seems to be ineffective. There are instances of interference by the Registrar in the internal working of these units in the name of supervision to the utter disregard of their operational autonomy.

Financial controls in the units are inadequate and ineffective. There is an urgent need to introduce financial discipline into the working of these units.