

**SUBJECT-SPECIFIC
COMPLIANCE AUDIT**

CHAPTER III DEPARTMENT OF CO-OPERATION

Regulation of Co-operative Societies in Kerala

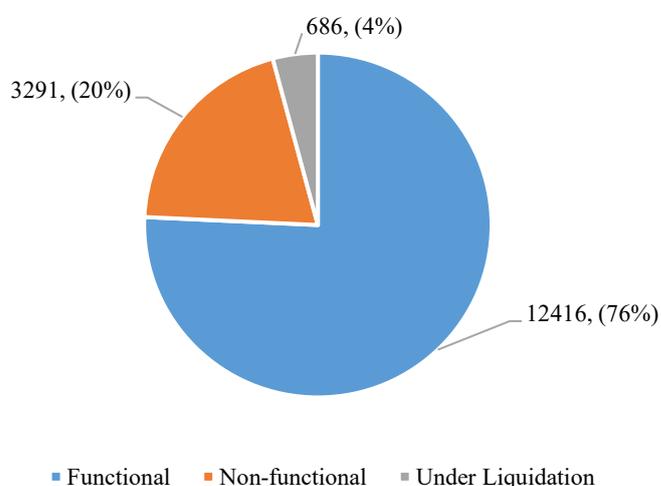
3.1. Introduction

The Kerala State Co-operative Societies Act 1969 (KCS Act) was enacted on 15 May 1969, with a view to providing for the orderly development of Co-operative movement in the State, in accordance with the Directive Principles of State Policy enunciated in the Constitution of India. The Act provided for the establishment, registration, operation, regulation, supervision and management of co-operative societies in Kerala. In exercise of the powers conferred under Section 109 of the KCS Act, the Government formulated the Kerala Co-operative Rules 1969 (KCS Rules) on 14 July 1969.

The co-operative societies in the State were engaged in various promotional activities, particularly in agricultural credit, public distribution system, distribution of agricultural commodities, health, education including professional education, housing, agro processing, Scheduled Caste/Scheduled Tribe (SC/ST) sector, women development etc., and served the people through diverse economic activities. The Department of Co-operation, Government of Kerala (Department) was responsible for the disbursement of assistance and loans to co-operative institutions for implementing various schemes, monitoring the utilisation of funds, recovery of principal/interest on loans etc. In addition to the above, the Department also discharged statutory functions like audit/inspection of co-operatives, providing assistance in the form of share, loan and subsidy, liquidation/winding up of non-functioning societies, dispute redressal, conduct of elections to the committee of a society etc.

The status of co-operative societies in the State as on 31 March 2024 is depicted in **Chart 3.1**.

Chart 3.1: Status of 16,393 co-operative societies under the control of the Department in the State as on 31 March 2024



The administrative control of these societies was vested with the Registrar of Co-operative Societies (RCS). Further, there were 6,911 co-operative societies regulated by other Departments which were under the administrative control of respective functional registrars¹⁰¹. Audit functions of all the above societies were entrusted with the Director of Co-operative Audit (DCA), who reported to the RCS.

The organisational set up of the functionaries under the Department is shown in **Appendix 3.1**.

3.2. Audit Objectives, criteria, scope and methodology

The Subject Specific Compliance Audit (SSCA) was conducted to assess whether;

- the provisions of Co-operative Societies Act/Rules were adhered to in the regulation of co-operative societies; and
- the accountability and monitoring mechanisms were in place and working effectively as envisaged in the Act.

The audit observations were benchmarked against the criteria derived from the KCS Act and its amendments, KCS Rules and its amendments and various notifications and circulars issued by the Government and Department from time to time.

The SSCA covered the period from 2019-20 to 2023-24 and was conducted from 04 July 2024 to 28 February 2025. Audit team visited the Office of the Department in Government Secretariat, offices of RCS and two functional registrars viz., Director of Coir Development and Director of Dairy Development as well as the district and taluk level institutions in four test checked districts, Thiruvananthapuram, Alappuzha, Thrissur and Kannur. The district and taluk level institutions were selected using Simple Random Sampling without Replacement Method (**Appendix 3.2**). The extent of compliance with the provisions of the Act in exercising administrative control over the societies, the functioning of co-operative audit¹⁰² mechanism, extent of utilisation of annual plan funds/GoI funds and lapses in monitoring were covered in Audit.

Audit methodology included scrutiny of files/records and collecting response of auditee institutions to the audit enquiries issued. Audit also conducted joint physical verification of 72¹⁰³ co-operative societies in the test checked districts along with departmental officials, to examine whether financial assistance provided by Government was utilised for the intended purposes.

The Entry Conference of the SSCA was conducted on 03 July 2024 with the Secretary of the Department, in which the audit objectives, scope and criteria were discussed. The Exit conference of the SSCA was conducted with the Special Secretary of the Department on 23 July 2025, wherein the audit findings

¹⁰¹ Director of Industries, Director of Handloom, Director of Coir Development, Director of Khadi and Village Industries, Director of Dairy Development, Director of Fisheries

¹⁰² As the CA report includes reference to audit of Director of Co-operative Audit also, the term 'Audit' with 'A' in upper case, specifically refers to audit of Accountant General

¹⁰³ Thiruvananthapuram-16, Alappuzha-16, Thrissur-14, Kannur-26

were discussed in detail. The reply of the Government has been obtained (July 2025) and suitably included in the Report.

3.3. Impediments to Audit and limitation of scope of audit due to non-production of records and denial of access to database by the Department

All through the course of the SSCA, Audit encountered persistent non-production of essential records/ critical information by the audited institutions at all levels. Audit was denied access to the dump database of the Integrated Co-operative Database Management System (ICDMS), which was the online platform developed as part of the scheme for modernisation of the Department. The platform catered to the registration and amendment of bylaws of co-operative societies, status of audit of co-operative societies and its follow-up, etc. Even though 345 Audit Requisitions/ enquiries were issued to the offices under RCS, only 104 were responded to. The response rate to the audit observations on the regulatory mechanism in the co-operative sector of the State stood at a meagre 30 *per cent*, with the remaining requisitions left unanswered, despite repeated reminders.

The aforesaid non-production of records by institutions was a violation of the provisions of Section 18(1) of the Comptroller and Auditor General (CAG)'s (Duties, Powers and Conditions of Service) Act, 1971, which empowered the CAG to call for any accounts, books, papers and other documents which dealt with or formed the basis of transactions to which his duties in respect of audit extended, and to put questions or make observations, to the person in charge of the office for the preparation of any account or report. Section 18(2) of the above Act advocated that the person in charge of any office or department, the accounts of which have to be inspected and audited by the CAG, was to afford all facilities for such inspection and comply with requests for information expeditiously, in complete form.

The Department's failure to comply with the statutory obligation of furnishing above-mentioned records and denial of access to system resulted in limitation of scope with respect to verification of audit findings, assessment of statutory compliance, extent of fund utilisation, systemic analysis and evaluation of follow-up actions.

As Audit relies upon evidence in the form of data, information and documents to shape its findings and resultant conclusions, persistent reluctance of auditee in providing sufficient and appropriate evidence in support of compliance to the provisions in the Act/Rules and in furnishing response to audit observations on deviations noticed, raises concerns on the Department's transparency and accountability mechanisms, besides carrying the risk of suppression of material facts by auditee. The matter was taken up with the Special Secretary and Chief Secretary vide DO letters dated 19 December 2024 and 22 January 2025 respectively and was reiterated in the Exit conference held on 23 July 2025.

Audit Findings

3.4. Delay in registration of co-operative societies

As per Section 6 of KCS Act, an application for the registration of a co-operative society was to be made to the Registrar along with the required information

pertaining to the society. If the Registrar was satisfied that the application has complied with the provisions of the Act and Rules and all other requirements, he could register the society within a period of 90 days¹⁰⁴ from the date of receipt of the application.

Section 7(2) of the Act stipulated that in case of refusal of an application, the Registrar was to communicate the order of refusal together with the reasons thereof, within seven days of receipt of the application. An application for registration of a society was to be disposed of by the Registrar within 90 days from the date of receipt of the application.

Verification of details of registration in the test checked districts during 2019-24 revealed that there was delay in registration as well as in returning/rejecting applications. District-wise details of processing of applications for registration of societies are given in **Table 3.1**.

Table 3.1: District-wise details of registration of societies during 2019-24

Particulars	Thiruvananthapuram	Alappuzha	Thrissur [#]	Kannur	Total
No. of applications received	122	65	33	70	290
No. of applications rejected/returned/pending	17	21	4	Nil	42
No. of societies registered	105	44	29	70	248
No. of societies registered after 90 days	79	31	13	26	149
Average delay in registration (in days)	156	199	194	39	-

[#] Date of receipt of application for registration in respect of 11 cases were not furnished.
(Source: Details furnished by respective Joint Registrars)

Audit observed that,

- The registration was provided after 90 days in respect of 149 (60 per cent) out of 248 societies with a delay ranging from 91 to 1007 days.
- Audit verified 25 of these 149 registered cases, in which registration was granted after 90 days. The timelines prescribed in the Act/Rules were not adhered to in 15¹⁰⁵ cases due to the delay on the part of Joint Registrars (JR)/Assistant Registrars (AR) in processing of applications.
- In nine¹⁰⁶ out of 11 test checked cases of returning applications, delay ranging from 94 to 509 days was observed.

Government stated in the Exit conference (July 2025) that the process of registration was carried out entirely through the ICDMS web application. However, there were systemic problems in capturing data on account of improper Software Requirement Specification (SRS) resulting in incorrect data. It was also stated that development of new version of ICDMS Version 2.0 was in progress, and the registration process would be streamlined with no delay.

Audit had verified the physical files of registration and observed the delay on the part of the ARs/JRs in processing applications. The extent of delay could have been avoided and timely processing of applications facilitated by the officials concerned.

¹⁰⁴ Reduced to 60 days vide KCS (Amendment) Act 2023 w.e.f April 2024

¹⁰⁵ JR, Thiruvananthapuram (7), JR, Alappuzha (5), JR, Kannur (1), JR, Thrissur (2)

¹⁰⁶ JR, Thiruvananthapuram (2), JR, Alappuzha (7)

3.5. Classification of societies

Section 80(1) of the KCS Act, empowered the Government to classify the co-operative societies according to their type and financial position. Rule 182(1) of the KCS Rules, 1969, prescribed detailed classification of societies¹⁰⁷ in the State with effect from 01 July 1974. The classification was to be revised once every three years, with effect from November 2014.

Examinations for recruitment conducted without ascertaining current classification of societies

Rule 188 of the KCS Rules stipulated every society to adopt the staff pattern indicated in Appendix III to the Rules, according to the type and class to which it belonged. The Co-operative Examination Board (Board) was responsible for conducting examinations to select eligible candidates for filling up of vacancies in the societies covered under Section 80B of the KCS Act. According to Rule 182 of the KCS Rules, such societies were to report the vacancies along with other details *viz.*, latest classification, sanctioned strength as per the classification, post with number of vacancies etc., to the Board in the prescribed proforma.

The RCS issued (April 2013) Guidelines amending conditions for classification of Primary Credit Co-operative Societies, Primary Agricultural Credit Co-operative Societies, Farmers' Service Co-operative Banks, Employees Credit Co-operative Societies, Regional Banks and Rural Banks as various classes¹⁰⁸, based on parameters such as share capital, deposits, loan arrears, profit, audit classification, loan recovery, etc.

As a test check, Audit scrutinised the applications submitted to the Board by 12 societies¹⁰⁹ in Thiruvananthapuram during 2022-23, for conducting examinations to fill up the posts of Junior Clerk and Systems Administrator. Since the RCS had not classified all the societies once in every three years as per instructions issued in April 2013, Audit collected the details of working capital, deposits, outstanding loan amount, classification by the DCA etc., as stipulated in the proforma, from Audit Reports¹¹⁰ of 12 societies sourced from Assistant Director's(AD) office Thiruvananthapuram and assessed the current classification of these societies.

The exercise revealed that, of the above 12 societies, the classes of four societies were to be downgraded and that of one society, be upgraded. There was no change in the classification of the remaining seven societies. Audit compared the sanctioned strength reported by the societies with the strength as per norms, in the case of five societies with change in classification, as given in **Table 3.2**.

¹⁰⁷ as in Appendix III to the KCS Rules, which included the sanctioned list of staff to be employed in each class of society.

¹⁰⁸ Class I – Super Grade, Class I – Special Grade, Class I, Class II, Class III, Class IV, Class V, Class VI and Class VII

¹⁰⁹ Pappanamcode State Co-operative Bank (SCB) (No. 1108), Madhavavilasom SCB (No. 1347), Anchuthengu SCB (3166), State Planning Board Staff CS (4352), Commercial Taxes Department Staff Housing CS (4385), Chembur SCB (T202), Nagaroor SCB (T219), Kerala University Employees CS (T233), Karavaram SCB (T324), Muttathara SCB (T413), Police CS (T696), Vettoor SCB (T728)

¹¹⁰ pertaining to the period 2016-17 to 2021-22

Table 3.2: Details of staff strength reported by societies in excess of strength as per norms

Name of society	Class reported by the society	Sanctioned strength as per classification reported by society	Classification worked out by Audit	Sanctioned strength as per norms
Karavaram SCB	Class II	18	Class V	7
Chembur SCB	Class III	16	Class V	7
Pappanamcode SCB	Class II	18	Class V	7
Kerala State Commercial Tax Department Staff Housing Co-operative Society	Class I	26	Class III	16
Police Co-operative Society	Class I	26	Class I Special Grade	32

(Source: Details furnished by the Board and data consolidated by Audit from the Audit Reports of AD, Thiruvananthapuram)

Thus, the Examination Board accepted the last available classification of the society and not the one as on the date of application. Hence, Audit could not ascertain whether the posts required to be filled in were in consonance with the staff pattern as per the latest classification. Persistent excess/deficient staff strength in a society point to arbitrariness in complying with service conditions, which may adversely affect the overall functioning of societies.

Government stated (July 2025) in the Exit conference that the proposal of RCS seeking revision in classification was pending with the Government. The RCS explained that a software, Co-operative Inspection Management Application (CIMA) was developed with effect from 01 March 2025, for monitoring the management of the societies including the classification, for the first time in the country.

3.6. Functioning of Co-operative Vigilance

3.6.1. Non-appointment of a Police officer as Co-operative Vigilance Officer

Section 68A of KCS Act envisaged appointment of a Vigilance Officer not below the rank of Deputy Inspector General of Police with powers to inquire into and investigate the cases of misappropriation, corruption and any other major irregularity in the societies as may be referred to him by the RCS.

Contrary to the above, Audit observed that, during the period April 2019 to July 2024, Additional Registrar/JRs in the Office of the RCS were vested with additional charge of Vigilance Officer, instead of a person holding the rank of Deputy Inspector General of Police. Government appointed a Superintendent of Police as Co-operative Vigilance Officer in August 2024. As such, the Department was deprived of the technical competence of a police official as Vigilance Officer with powers to enquire and investigate cases of misappropriation, corruption and any other major irregularity in the societies, during the period.

Government stated (July 2025) that the appointment of IPS officer of DIG rank was a difficult procedure due to dearth of personnel and that currently an IPS officer of SP rank was posted as Vigilance Officer based on Government policy decisions (August 2024). It was also stated that FIRs were being registered for

complaints at field level itself and if police intervention was needed, the complaints were forwarded to the Vigilance Officer.

Audit noted that the charge of Vigilance Officers being held by the ARs/JRs during the audit period was against the provisions of KCS Act. As long as the extant rules have not allowed the appointment of an officer not below the rank of DIG of Police as Co-operative Vigilance Officer, the legality of inquiry reports submitted by officials other than the above was likely to be challenged in judicial forum.

3.6.2. Delay in completion of inquiry on vigilance cases and lack of follow-up action on vigilance reports

As per Rule 66A of KCS Rules, the Co-operative Vigilance Officer shall inquire, investigate and report to the Registrar on matters of corruption, misappropriation, fraud, manipulation, tampering or destruction of records, etc., as referred to him by the Registrar. The inquiry or investigation was to be ordinarily completed by the Vigilance Officer within a period of three months, which may be extended for a further period of three months by the Registrar, if satisfied by the interim report submitted by the Vigilance Officer.

As per the Circular issued (May 2008) by RCS, the Vigilance section in RCS was to maintain a register in the prescribed format to monitor cases referred to the Co-operative Vigilance Officer and monitor the progress of each case every three months.

During the period 2019-24, the Co-operative Vigilance Officer submitted 247 inquiry reports to the RCS of which remedial action was recommended in 185 cases, including action under Indian Penal Code(IPC)/Code of Criminal Procedure (CrPC). One hundred and ninety five cases were submitted to RCS with a delay ranging from six months to more than five years.

The Vigilance section under the RCS did not maintain registers to monitor the cases referred to the Vigilance Officer and progress of action on inquiry reports of the Vigilance Officer. Of the 185 reports in which action was recommended, 143 reports were forwarded to various sections in the office of the RCS/JRs. Fifty seven of these reports were forwarded with a delay ranging from 31 to 690 days. Details with respect to forwarding of the remaining 42 reports were not available. Test check of 11 out of these 42 cases revealed that in 10 cases action under IPC/CrPC was recommended, indicating serious offences like misappropriation, fraud, embezzlement etc., which demanded expedient remedial action.

Government acknowledged (July 2025) the delay in reporting the action taken on vigilance reports by administrative sections and conveyed that directions were circulated (December 2024) to review vigilance reports and maintain a register to monitor the cases referred to Co-operative Vigilance Officer.

It was also stated that in 41 out of 185 vigilance reports, compliance reports were received from JRs and in the remaining cases, recommendations of Vigilance Officer were being acted upon by the JRs. The above fact was not acceptable, as the reply was silent on the 42 vigilance cases which were not seen forwarded to other sections for initiating action.

3.7. Irregular grouping of societies as Dormant/Records Not Available and ineffective action on non-functioning societies

During the course of Audit, it was observed that the co-operative societies were classified as ‘Dormant’¹¹¹ or ‘RNA’¹¹² and retained in the same status for more than 40 years. The KCS Act, 1969, and the Rules framed thereunder did not contain any definition/mention or explicit recognition of the above terms, nor prescribe any statutory procedure or course of action to be specifically taken in respect of such categories of societies.

During the Exit conference (July 2025), Government agreed that usage of terms ‘dormant’ and ‘RNA’ was non-statutory and informed that administrative circulars have been issued, detailing procedures for reactivating or winding up such societies.

3.7.1. Absence of follow-up action on ‘Dormant’ societies

Section 71 of the KCS Act, laid down the provision for winding up of a society, after holding inquiry under Section 65 or conducting inspection under Section 66 or on receipt of application requesting wind up from members of the society. The Circular issued (October 1972) by RCS reiterated that the existence of large number of bad and dormant societies would bring disrepute to the co-operative movement and that it was necessary to pursue vigorous action to revive or liquidate such societies.

Verification of details of dormant societies in the test checked Taluks revealed that there were 336 dormant societies pending revival/liquidation as of March 2024. The status of dormant societies was as given in **Table 3.3**.

Table 3.3: Status of dormant societies as of March 2024 in test checked Taluks

Name of Taluk	No. of dormant societies pending liquidation	No. of dormant societies whose period of dormancy was known	Year from which period of dormancy started	No. of dormant societies in which liquidation proposal was submitted to JR	No. of societies in which no liquidation/winding up action was initiated
Nedumangad	104	104	2016 to 2022	16	88
Neyyattinkara	43	4	1998 to 2018	4	39
Chengannur	7	7	2008 to 2019	0	7
Mavelikkara	20	20	1995 to 2021	0	20
Kunnamkulam	18	18	1977 to 2018	0	18
Mukundapuram	39	39	1977 to 2022	0	39
Payyanur	53	53	2001 to 2019	3	50
Taliparamba	52	17	1996 to 2023	11	41
Total	336	262		34	302

(Source: Information consolidated from data furnished by AR Offices)

It was observed that,

- In respect of 34 cases pertaining to four selected Taluks, even though liquidation proposal was submitted by the AR to the JR, no further action was initiated by the JR to revive/ liquidate and/or cancel the registration

¹¹¹ Societies which were not functional or not having any regular transactions as per the General Wing, Office of the RCS

¹¹² Records Not Available as per DCA

of the societies. In the case of 302 societies lying dormant for over a total span of 46 years (1977 to 2023), no action has been initiated to revive/liquidate/cancel the registration of these societies. The delay in initiating the liquidation procedures would lead to loss of records, difficulties in recouping the money due from societies etc., which would further undermine the liquidation process.

- Out of 336 dormant societies, the date from which dormant was not available in 74¹¹³ cases (22 per cent), which indicated lack of regular monitoring of the functioning of the societies by the RCS.

Government stated (July 2025) that a comprehensive strategy for timely liquidation of societies was being carried out since September 2024, which included systematic training of officers and fortnightly review.

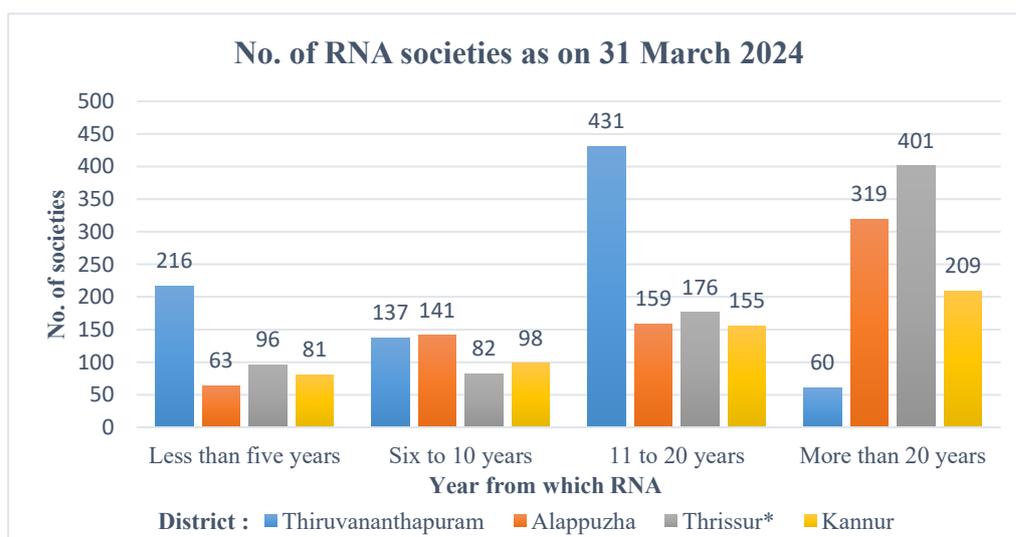
However, the reply was silent on reasons for non-submission of proposals for liquidation/revival.

3.7.2. Absence of follow-up action on RNA societies

Circulars issued by the Government in May 1974 and December 1975, in allegiance with Section 65 of KCS Act, imparted the right to issue summons to societies for production of records for Audit. If the societies did not produce records even after issue of summons under Section 65, the DCA was to initiate action to liquidate the societies and then transfer the file to the office of the Registrar for further action. In case of societies for which records were not available (RNA), RCS could initiate steps under Section 71(2) of the Act to wind up the societies.

Verification of data on societies classified as RNA in the offices of the JD in the test checked districts revealed that there was a total of 3,355¹¹⁴ such societies, awaiting necessary action of winding up. Age-wise data on ‘RNA societies’ as of March 2024 are shown in **Chart 3.2**.

Chart 3.2: Status of ‘RNA societies’ as of March 2024 in selected districts



* As the year from which RNA was not available, year of last audit was considered.
(Source: Data furnished by JD Offices)

¹¹³ Neyyattinkara (39), and Taliparamba (35)

¹¹⁴ Thiruvananthapuram (1375), Alappuzha (682), Thrissur (755) and Kannur (543)
(1,477 societies under the Department of Co-operation and 1,878 societies under functional registrars)

In Thiruvananthapuram, out of 1,375 RNA societies, there were 531 societies for which details of year of last audit/year from which RNA were not traceable. The JDs in Alappuzha, Thiruvananthapuram and Thrissur districts did not recommend to the JRs concerned to revive or wind up the RNA societies. Even though JD, Kannur had sent intimation to the respective JR for winding up these societies, no conclusive action was taken in this direction, and the societies continued to figure in the RNA list.

The major reasons for delay in process of revival/liquidation were cited as non-completion of audit, non-availability of status of accounts due to which liability could not be fixed, undue delay in completing inquiry/inspection under Sections 65/66, etc.

The absence of regular inspection of all societies by departmental officials (as mentioned in Paragraph No.3.19.1 of this Report) and non-submission of annual returns by the societies to RCS as mandated by Section 66C of the KCS Act, point to the absence of effective monitoring and regulation system in the Department.

Government stated in the Exit conference (July 2025) that the liquidation of societies was a lengthy process and the Department was short of qualified staff to do this. Also, the Department was conducting training programmes like 'Mikavu' for staff to enable faster liquidation process as well as fortnightly reviews. Justifying delay in liquidation process citing shortage of staff was not acceptable as impediments in liquidation process need to be addressed on priority.

3.8. Lack of comprehensive data on co-operative societies in Management Information System

The Co-operative Audit Monitoring and Information System (CAMIS) launched in September 2021 served as the central digital platform for accessing audit related information on co-operative societies in Kerala. Currently, the CAMIS portal displays data pertaining exclusively to those societies audited/auditable by the office of the DCA. The co-operative societies that have not been audited were not represented in the system, resulting in a significant gap in public access to comprehensive and updated data. In the case of societies whose last audit was conducted many years ago, CAMIS displayed data as on the date of last audit with no updates or remarks, thereby making the information outdated. Further, the portal did not provide insight into extent of delay in audit, current operational status of societies, irregularities in the functioning of the societies etc.

Audit also observed variation in data uploaded in CAMIS with the number statement¹¹⁵ prepared by the Statistical wing in the office of the RCS. The total number of functional societies in the State as per the records of RCS as of March 2024 differed¹¹⁶ from that shown in CAMIS. This was indicative of the absence of a reliable and comprehensive database of societies in the State.

¹¹⁵ Type-wise and district-wise information of Co-operative societies in the State under the administrative control of the RCS.

¹¹⁶ The number of functional Societies as per number statement of the RCS was 12,416, whereas it was displayed as 12,893 in CAMIS.

Government stated in the Exit conference (July 2025) that attempts were underway to make the entire audit process online so that real time information on societies could be made available. It was also stated that they were working on a new version, CAMIS 2.0 to rectify the issues in the old version of the software.

3.9. Delayed action on Special Reports

As per Section 64(10) of the KCS Act, 1969, if the result of audit held under Section 63 disclosed any serious defect in the working of a society, the DCA or the person authorised by him was to communicate the same forthwith to the RCS for immediate further action. In cases where irregularities of criminal nature were observed during the course of audit, DCA/ Joint Director (JD) was to initiate action to register the case, and the action taken along with the recommendation for any further action to be initiated was to be communicated to the RCS/JR concerned, within seven days. These irregularities of serious nature which chiefly related to violation of CrPC/IPC Sections were communicated through Special reports.

As per the information furnished by the selected offices of JDs in Audit wing, there was delay in forwarding Special reports to the respective offices of JRs in General wing, as detailed in **Table 3.4**.

Table 3.4: Details of delay in forwarding of Special reports from offices of JDs to offices of JRs

District	No. of Special reports received in the offices of JDs in 2019-24	No. of Special reports forwarded to offices of JRs within one month	No. of delayed cases (Range of Delay)
Alappuzha	17	8	7* (1-10 months)
Kannur	150	97	53 (1-10 months)
Thiruvananthapuram	24	17	7 (1-21 months)
Thrissur	147**	86	53 (1-22 months)
Total	338	208	120

* In two cases, the reports were not forwarded to the Office of the JR

** Date of receipt/date of forwarding missing in eight cases

(Source: Information furnished by Offices of JDs)

Verification of the action taken on the Special reports received during the period 2019-24 at the selected JRs' Offices revealed the following:

- Fifteen Special reports were forwarded to the JR's office Alappuzha by JD concerned, for necessary action. In 11 of these reports, inquiry/inspection was continuing for a period ranging from 10 to 49 months. In two cases, revenue recovery (RR) was pending since 2020, due to non-submission of application by JR through RR portal.
- The JD, Thiruvananthapuram forwarded 25 Special reports to the JR's office. The details of action taken in these reports were not furnished by the JR's office. Verification of three Special report files¹¹⁷ made available to Audit revealed delay in finalising the cases and absence of conclusive action to fix responsibility and/or remedy the loss.

¹¹⁷ Files relating to T976 Ottoor SCB, T 1884 Adimalathura Rural Development CS Ltd. and T 1837 Anchalikkonam Residence Welfare CS

- Though JR, Kannur reported that action has been initiated on 153 Special reports, details were not furnished. The RCS stated (July 2025) to Audit that of 147 Special reports received, enquiry under Section (u/s) 65 was ordered in 48 cases, inspection u/s 66 was ordered in 30 cases and explanation sought in respect of 69 cases.
- Of the 139 Special reports received by JR, Thrissur, inquiry/inspection was going on in 113 cases. Among these, the period of inquiry/inspection ranged from seven to 37 months in 75 cases.

As the Special reports tend to highlight the frauds, misappropriations and other significant defects in the functioning of co-operative societies, delay in resorting to corrective actions would affect the financial stability of societies.

Government stated in the Exit conference (July 2025) that specific interventions were being made through IT systems where registers are done away with and Special reports get forwarded to the next level automatically after a certain period.

3.10. Lapses in conducting inquiry/inspections under Sections 65, 66 and 68 of the Act

In accordance with Section 65 of the KCS Act, an inquiry by the Registrar into the constitution, working and financial condition of the society, was to be completed within a period of six months. Section 66(1) of the KCS Act empowered the Registrar to supervise the working of every society for issuing necessary directions to the society or its officers to take action as specified in the order within the time limit mentioned.

If any defects are noticed on the basis of inquiry/inspection report u/s 65/66 inquiry, then inquiry u/s 68(1) is carried out to fix the surcharge¹¹⁸. On the basis of 68(1) report, notice shall be issued to the parties and hearing conducted by the JR and if necessary, a surcharge order u/s 68(2) would be issued by the JR, providing the details of the case and the amount to be recovered from each party.

Verification of inquiry/inspection cases initiated under Sections 65, 66 and 68 in the offices of the JR in selected districts during the period 2019-24 revealed that there was delay in completion of inquiry/inspection as detailed in **Appendix 3.3**.

The following observations were made:

- No inquiry or inspection registers were maintained in the selected AR/JR offices. In the absence of registers, Audit relied upon data furnished by the JRs, consolidated on the basis of available records/files.
- Of the 300 inquiry/inspection cases initiated by Thiruvananthapuram, Alappuzha, Thrissur and Kannur JRs, surcharge order u/s 68(2) was issued and/or action completed only in respect of 54 cases. In respect of 197 pending cases in four districts¹¹⁹ involving a money value of ₹343.47 crore (69 cases), no conclusive action has been taken to rectify

¹¹⁸ Money, property, interest, cost or compensation to be repaid or restored from the party responsible for causing loss to the society.

¹¹⁹ Thiruvananthapuram (55), Alappuzha (32), Thrissur (78), Kannur (32)

the defects even after a period ranging from three months to over five years.

- Even though orders to repay or restore the money/property were issued post inquiry under Section 68(2) in 31 cases, no follow-up actions were taken to ensure that the loss was made good. These cases were not included in the list of inquiry/inspection cases, in the monthly DO Narrative to the higher authorities. This left the Department without any mechanism to watch the status of recovery of amount due in these cases.
- Scrutiny of 41¹²⁰ inquiry/inspection files provided to Audit revealed a series of lapses, viz., repeated extension of inquiry/inspection period, extensions granted without submission of interim report¹²¹, delay in initiating 68(1) inquiry, inquiry/inspection stopped without ascertaining the actual status of court cases, not finalising cases despite repeated hearing sessions held, no follow-up action initiated on order u/s 68(2), etc.

Government replied (July 2025) that the Department has implemented Co-operative Inspection Management Application (CIMA) with effect from 01 March 2025. All enquiries are assigned specific timelines and their progress can be monitored, thereby streamlining the completion of statutory inquiries and inspections without delay.

The Department had not prioritised or prepared a road map to finalise such long pending cases. Timely completion of inquiries/inspections would have acted as a deterrent to malpractices, thereby facilitating effective functioning of societies.

3.11. Delayed/non-submission of finalised accounts of societies for Audit

Section 63(4) of the Act stipulated that it shall be the duty of the managing committee to cause to audit the accounts of every society at least once every year, within six months of the close of the financial year to which such accounts relate. Further, Section 94(4) of the Act provides for imposing fine of ₹5000 on the society/member for failure to furnish any information required from him.

As per the progress report of the test checked districts, 183 audits were pending in 100 societies¹²² as of March 2024. Along with the societies that were removed from the list of auditable societies as records were not available, a total of 3,455 societies had failed to furnish the accounts on time as detailed in **Table 3.5**.

¹²⁰ Thiruvananthapuram (16), Alappuzha (8), Thrissur (4) and Kannur (13).

¹²¹ Rule 66 (3) of KCS Rules stipulates that if the inquiry or inspection cannot be completed within the time specified, the person conducting the inquiry or inspection, shall submit an interim report stating the reasons for failure to complete the inquiry or inspection.

¹²² excluding societies classed as RNA

Table 3.5: Details of delayed/non-submission of accounts for audit

District	No. of audits completed as of 2023-24	No. of audits pending as of March 2024	No. of societies in which Audit was pending	Societies classified as RNA societies as of March 2024	Total no. of societies against which fine to be imposed
Thiruvananthapuram	1844	143	83	1375	1458
Alappuzha	1277	17	10	682	692
Thrissur	1256	23	7	755	762
Kannur	1551	0	0	543	543
Total	5928	183	100	3355	3455

(Source: Information consolidated by Audit from the Progress reports and data furnished by JD offices)

The RCS had failed to impose a fine amounting to ₹1.73 crore¹²³ against these societies which had delayed submission of accounts/not submitted the accounts.

Government assured (July 2025) that the Department is implementing a Uniform software across Kerala, which will centralise financial data and streamline accounting processes for all co-operative societies, thereby eliminating the problem of delayed submission of accounts by societies.

Delay in submission of Audit reports and issue of Audit certificates

The RCS had issued (March 1975) circular insisting that, on completion of audit of a society, the auditor was to submit the report to the AD within 15 days in respect of single concurrent auditor¹²⁴, and within five days in respect of other auditors.

- In JD office, Alappuzha and in four¹²⁵ AD offices, there was delay in furnishing of Audit reports by the Auditor to the respective offices. In 3,964 instances of audit completed, 1,920 reports (48.44 per cent) were submitted after 15 days, with a delay ranging from 355 days to 977 days.
- The JD, Thiruvananthapuram did not maintain a register to monitor the receipt of reports.
- In the offices of JD/AD at Thrissur and Kannur, as the date of submission of the Audit report was recorded as the date of completion of audit in the Inward and Approval registers, Audit could not ascertain the actual delay in submission of Audit report.
- In 20 cases, the Audit reports were not submitted by the auditors to the AD's office at Nedumangad on completion of audit. These reports were pending submission from 32 to 1370 days as of March 2024.

Accepting the audit observation, Government stated in the Exit conference (July 2025) that the process can be streamlined only by opting for a complete online procedure. It was intimated that action is being taken in respect of officials who had failed to submit the Audit reports at AD, Nedumangad.

According to paragraph 4B under Section 64 of KCS Act, the Director of Co-operative Audit (DCA) was to issue an Audit certificate to the society concerned

¹²³ 3455 x ₹5,000

¹²⁴ Auditor whose full service is availed by a society for the audit of its accounts is termed as a single concurrent auditor.

¹²⁵ Neyyattinkara, Nedumangad, Mavelikkara, Chengannur

with a copy of Audit memorandum¹²⁶ within three months from the date of receipt of the Audit report.

- Of the 15,273 Audit certificates issued during 2019-24, 7,172 certificates (46.96 *per cent*) were issued after three months, with delay ranging from two to 22 months (**Appendix 3.4**).
- In the eight test checked AD offices, though marked as issued in the approval registers, 2,487 certificates pertaining to the period 2018-19 to 2022-23 were not seen forwarded to the respective societies. A total of 342 major irregularities were included in these reports.

Government replied (July 2025) that issues discussed above will be addressed through the implementation of Online Auditing System Software. The software will manage issuance, tracking and monitoring of Audit certificates and Audit memoranda.

3.12. Ineffective follow-up action on Audit certificates

Sections 64(9) and 64(10) of the KCS Act stated that, if the result of the audit held under Section 63 of the Act disclosed any defects in the working of a society, the DCA may bring such defects to the notice of the society, and in case of serious defects, to the notice of the RCS, for immediate further action. As per Section 64(11) of the Act, the DCA was to direct the society or its officers to take action within the time specified and to rectify the defects disclosed in audit, under intimation to the RCS. Further, Section 64(12)(c) required the society to submit rectification reports on the defects mentioned in the Audit certificate, to the DCA and RCS within two months of receipt of the certificate.

Instructions were circulated (July 1975) among the Registrars to open separate file and Register of summary of defects for recording details such as year of audit, name of auditor, date of receipt of summary of defects, file number, date of closure of file etc., and to verify the register regularly.

During the test check of 12 offices each of AD/JD and AR/JR in selected districts, Audit observed that:

- No separate files and/or registers on the defects observed in audit were seen maintained, in the absence of which, regular follow-up on the defects noticed in audit was not ensured by the General/administrative wing.
- During the audit period, 12,786 out of the total 15,273 Audit certificates were issued to the societies in the test checked offices. However, not even a single rectification report was seen forwarded by the societies concerned to the DCA and/or RCS.
- No revenue recovery procedure was seen initiated by the DCA for recovering from a society or its past/present/deceased member, any dues to the Government.

The aforementioned laxity resulted in failure to initiate follow-up action on defects mentioned in Audit certificates as revealed in the following instances:

¹²⁶ The statement issued to the society after completion of audit, stating the important observations, summary of defects, details of receipts and expenditure, profit and loss statement, balance sheet etc.

- The Department sanctioned ₹five lakh during 2019-20 to Ulloor SC Society for establishing a computer centre. The Society did not establish a computer centre and the above lapse was reported in the Audit Certificate for the year 2019-20. The failure of Thiruvananthapuram JR/JD to initiate timely action on the report had resulted in suspected misappropriation of the entire amount. Though action was recommended against the Governing body and Secretary through Section 65 inquiry report (December 2023) by the JR, the amount has not been transferred to the Government account till date.
- An amount of ₹20 lakh provided to Vithura SCB No.1048 during 2021-22 for starting a tourism facilitation centre was not utilised for the purpose. An amount of ₹17.95 lakh was diverted for constructing retaining wall and compound wall. As the society was not able to furnish the utilisation certificate, Audit Reports of 2022-23 and 2023-24 mentioned that the amount, along with the interest, was to be refunded to Government. However, no repayment has been effected till date.
- An amount of ₹10 lakh was provided to Mavelikkara Taluk Yuva Printing and Publishing Co-operative Society in 2022-23 for setting up an Offset Printing unit. In the Audit Certificate for the year 2023-24, it was mentioned that the society, being non-functional, has not initiated any steps to start the printing unit and that the amount along with interest at 18 *per cent*, was to be remitted back to Government. No follow-up action on the comment was seen pursued (October 2024).
- As per the Audit certificate for 2019-20 of Pullukulangara SCB Ltd. No. 2992, the members of the working committee had outstanding loans, which made them disqualified to hold the membership as per Rule 44 (1)(c) of the KCS Rules. However, the irregularity persisted without corrective action and was seen recorded in the Audit Certificate for the year 2022-23 also.
- As per Annexure II of the number statement for the month of March 2024 of AR, Kunnankulam Taluk, the Priyadarshini Hospital Co-operative Society Ltd. No. R 756 was functional. However, during joint verification (December 2024), Audit noticed that apart from a shed erected at the site, no hospital building existed. The Audit certificates issued to the society for the year 2022-23 and 2023-24 stated that the society did not furnish details of utilisation of ₹5.50 crore received from Consumerfed in connection with transfer of the above property to the



Figure 3.1: The shed at the site of Priyadarshini Hospital Co-operative Society Ltd. Photo taken by Audit party on 04 December 2024

society. The AR, Kunnamkulam did not initiate action to compute the assets of the society and prepare financial statements for ₹5.50 crore.

- The JR Kannur accorded sanction (January 2023) for release and utilisation of ₹10 lakh towards Peringome Area Yuvajana Co-operative Society Ltd. Kannur for starting an Event Management and Catering Unit. The Audit certificate for the year 2022-23 mentioned that the society did not utilise the sanctioned amount fully. The society has not refunded the unutilised amount worth ₹8.95 lakh yet to the Government (October 2024), which remained parked in its bank account.
- The Thrissur District SC/ST Motor Transport Co-operative Society was registered (August 1984) with the objective of providing jobs to SC/ST youth by operating Bus Service and Goods Transport Service. The Audit Certificate issued to the society in 2015-16 had mentioned that the society was not keeping records of Receipts/Expenditure, bills in respect of the procurement of spare parts and that there was no authenticity in the accounts maintained. As per the Audit certificate, the society incurred a loss of ₹318.94 lakh¹²⁷.

The Administrative Committee of the society filed a complaint (March 2023) to the RCS and JR, Thrissur on occurrence of theft, misuse and misappropriation of assets in the society. As per the complaint, the buses purchased and operated by the society were either missing with no traceable records or left to rust in the open.

As per the Inspection Report (September 2024) of enquiry initiated under Section 66 of the KCS Act, even though the society had availed financial assistance/loan amounting to ₹2.22 crore (1996-2015) from GoK, Kerala State Federation of SC/ST Development Co-operatives Ltd. and Kerala State Development Corporation for SC/ST Ltd. the society failed to run the bus service. The JPV conducted (November 2024) by Audit at the site of the Garage workshop of the society confirmed the absence of remedial action. Ten out of 25 buses purchased were left abandoned in the society premises, covered with thicket/bushes. Of these, only six buses had registration numbers.

Government replied (July 2025) that with the implementation of “Online Auditing System Software” the audit certificates would be forwarded automatically and there would be real time visibility of the rectification status of defects pointed out in Audit.

No specific reply was furnished with respect to the defects observed by Audit.

3.13. Financial Management

3.13.1. Trend in Receipt and Expenditure of Funds

Funds for the Department of Co-operation and offices thereunder were provided in the budget under the Heads of Accounts 2425 and 4425 and through Central schemes. Budget allocation and expenditure of the Department of Co-operation during the audit period 2019-24 indicated total receipt of ₹3602.80 crore and

¹²⁷ The net loss was inclusive of amounts of ₹62.63 lakh in respect of vehicles and ₹160.56 lakh related to unrealised advances

expenditure worth ₹2692.33 crore, as detailed in **Table 3.6**.

Table 3.6: Details of receipt/allocation and expenditure of funds during 2019-24
(₹ in crore)

Year	State Grant				National Co-operative Development Corporation assistance (NCDC) ¹²⁸		NABARD assistance		Total Receipt/allocation	Total Expenditure
	Receipt/Allocation		Expenditure		Receipt/Allocation	Expenditure	Allocation	Expenditure		
	Plan	Non Plan	Plan	Non Plan						
2019-20	177.35	359.10	90.33	249.71	70.31	45.88	18.31	18.31	625.07	404.23
2020-21	542.13	348.11	514.10	285.06	113.62	109.77	23.63	23.63	1027.49	932.56
2021-22	162.33	398.65	77.02	344.17	65.00	21.51	19.92	19.92	645.90	462.62
2022-23	155.93	362.76	52.33	267.74	246.12	222.82	0.00	0.00	764.81	542.89
2023-24	141.35	363.27	17.62	325.24	34.91	7.17	0.00	0.00	539.53	350.03
Total	1179.09	1831.89	751.40	1471.92	529.96	407.15	61.86	61.86	3602.80	2692.33

(Source: Figures provided by RCS)

The analysis of funds received and expenditure incurred during the period 2019-20 to 2023-24 indicated that fund utilisation was at its peak during the COVID year (2020-21), with utilisation of Plan funds and NCDC funds pegged at 94.83 per cent and 96.61 per cent respectively. However, the utilisation of Plan allocations declined after 2020-21, rose again in 2022-23, and then dipped to 12.47 per cent in 2023-24. A similar pattern was observed in NCDC allocations, where utilisation plummeted to 20.54 per cent in 2023-24.

Government replied (July 2025) that, as additional amount was received from NCDC and State Plan fund, there was an abnormal hike in expenditure in 2020-21. During the financial years 2022-23 and 2023-24, expenditure of State Plan fund declined due to limitation in budget allocation and pending ways and means clearance. In 2023-24, the percentage of expenditure of NCDC assistance was low due to shortage of eligible proposals and pending release orders from Government.

3.13.2. Surrender of funds under Plan Schemes

The Kerala Budget Manual set forth the need for Departments to ensure that the estimates are neither inflated nor underpitched, but as accurate as practicable with provisions for all items that can be foreseen to maintain budgetary accuracy and fiscal discipline.

A detailed scrutiny of the budget allocation and annual expenditure on Plan funds meant for implementation of various schemes and activities of the Department during the audit period revealed that funds were surrendered in an average of 47 out of 55 Heads of accounts (**Appendix 3.5**).

Government replied (July 2025) that during financial years 2022-23 and 2023-24, expenditure in State Plan declined due to limitation in budget allocation, pending ways and means clearance etc.

3.14. Negligence in recovery of outstanding Government loan/shares from societies

As per Section 42 of the KCS Act, the Government could subscribe directly to the share capital of a society with limited liability. The other forms of State aid

¹²⁸ The National Co-operative Development Corporation (NCDC) is a statutory Corporation under the Ministry of Co-operation. NCDC provides loans and grants to State Governments for financing co-operative societies.

to the societies included loans, advances, guarantees, subsidies etc., as permitted under Section 53 of the Act. Additionally, loan or share assistances were provided by NCDC, for the development of co-operative societies. Section 79(1) of the Act stipulated that all sums due to the Government from a society/officer/member, past or deceased, will have to be recovered on the basis of a certificate issued by the RCS or DCA, in the same manner as arrears of public revenue due on land. The Department of Finance had directed (March 2018) the Head of the Office to identify the institutions that defaulted in repayment, so as to collect the pending amount along with interest.

Audit observed that an amount of ₹1,173.29 crore was outstanding from the co-operative societies in the State as on 31 March 2024, as shown in **Table 3.7**.

Table 3.7: State-wide details of shares and loans received and balance amount outstanding from societies

(₹ in crore)

Nature of assistance	Amount Sanctioned	Balance amount outstanding				
		Principal	Interest	Penal interest	Dividend	Total
NCDC Share	561.97	112.89	NA	5.12	0.19	118.20
NCDC Loan	298.19	161.89	218.49	33.13	NA	413.51
Government Share	410.62	136.00	NA	12.19	0.35	148.54
Government Loan	433.95	108.84	370.61	13.59	NA	493.04
Total	1704.73	519.62	589.10	64.03	0.54	1,173.29

NA : Not applicable

(Source: Details furnished by RCS)

In this regard, the following observations were made in Audit:

- In the selected districts, financial assistances were sanctioned in 2230 cases, of which no repayment of loan/share was made for ₹492.94 crore in 315 cases as given in **Appendix 3.6**.
- Audit noticed that there was mismatch in details of outstanding loans and shares furnished by the offices of JRs in test checked districts with the data provided in the Half yearly report of the RCS as of March 2024, as given in **Appendix 3.7**. As per the monthly progress report of outstanding loan, share, interest and penal interest furnished to Audit, JRs at Thiruvananthapuram, Alappuzha and Thrissur had a total outstanding amount of ₹6.27 crore, ₹8.19 crore and ₹4.45 crore respectively, as of March 2024. Revenue recovery was seen initiated by JR, Thiruvananthapuram for ₹84.73 lakh, whereas JR, Alappuzha and JR, Thrissur did not furnish details of recovery.
- In the case of JR, Kannur, an amount of ₹874.95 crore was outstanding as of March 2024. The major chunk of outstanding dues related to Kerala State Co-operative Hospital Complex and Centre for Advanced Medical Service Ltd.¹²⁹ (₹213.19 crore), RUBCO¹³⁰ (₹524.77 crore), AGREENCO¹³¹ (₹35.51 crore), RAIDCO¹³² (₹23.79 crore) and Thalassery Taluk Rubber and Agricultural Marketing Society (₹1.05 crore), for which recovery action/ action on request for write-off of dues

¹²⁹ Pariyaram Medical College

¹³⁰ Kerala State Rubber Corporation Limited

¹³¹ Kerala State Agro Co-operative Limited

¹³² Regional Agro Industrial Development Co-operative of Kerala Limited

were in progress. In the remaining cases, demand notices for ₹14.56 lakh were stated to have been issued through Revenue Recovery online portal.

- An amount of ₹30 lakh was sanctioned to Kundukadu Co-operative Health Centre (Society) for purchase of modern medical equipment under the scheme 'Assistance to Miscellaneous Co-operatives'. The JR, Thrissur directed¹³³ the AR, Thalappilly Taluk, to obtain Utilisation Certificates from the society or to obtain reasons for non-submission. In response, AR reported (December 2017) that only ₹3.89 lakh out of the ₹30 lakh had been used for the sanctioned purpose and that the remaining amount had been diverted for unauthorised purposes¹³⁴. Consequently, the JR directed AR to initiate recovery of amount due to Government along with accrued interest. Audit observed that the AR, after a delay of more than four years, ordered (March 2023) for Revenue Recovery of ₹1.06 crore¹³⁵ from the society. Despite the JR instructing AR in December 2017 to initiate recovery of amount due to Government as ₹26.11 lakh of assistance received was diverted, no recovery was seen effected till date.
- Kerala State Agro Co-operative Ltd. No.4437 (AGREENCO), Kannur received (2004-05) ₹14.57 crore¹³⁶ as assistance from GoK for setting up an export oriented pineapple processing unit. Based on a Special Report of DCA which pointed out non-maintenance of vouchers and receipts by AGREENCO, the RCS ordered (January 2014) an Inspection under Section 66 of KCS Act, with direction to furnish the Inspection report within one month, which was also not received.

The DCA's report for the year 2013-14 (last audit conducted till date) stated that an amount of ₹24.14 crore was transferred by AGREENCO to subsidiary companies which were created by AGREENCO without obtaining sanction of RCS. AGREENCO also failed to execute any Agreement/Guarantee with these subsidiary companies, to ensure repayment of Government Loan/Grant/Subsidy. AGREENCO did not initiate any action against these subsidiaries for not remitting the Government dues even though the directors of AGREENCO were also part of the Board of Directors of these subsidiary companies.

JPV conducted by Audit at AGREENCO, Kannur on 29 October 2024 revealed that the said society was not functioning, and the buildings and plant and machinery were idling at site, in a dilapidated condition. Thus, the lack of necessary action against the lapses of the society resulted in non-utilisation/refund of the loan provided and idling of plant and machinery worth ₹6.61 crore¹³⁷.

Apathy on the part of officials to reclaim the amount due to Government with interest from societies, besides violating Section 79(1) of the Act, facilitates evasion of Revenue Recovery procedures by societies.

¹³³ through five consecutive correspondences issued between June 2016 and November 2017

¹³⁴ Payment of arrears of salary of doctors, repayment of erstwhile advances drawn, expenses for medicinal plant garden, repayment of loan and interest to District Co-operative bank, etc.

¹³⁵ including interest @12 per cent and penal interest @2.5 per cent and Audit fee of ₹5,720

¹³⁶ ₹9.72 crore was reimbursed by NCDC to GoK

¹³⁷ as stated in the status report dated 04 June 2011

Government replied (July 2025) that issues stemmed from difficulties in monitoring and reconciling demand collection and balance (DCB) precisely. In order to address the critical concerns, a DCB online platform will be launched to ensure transparency, showing outstanding demand to Government, real time status of repayment and defaults. This will significantly enhance the efficacy of the recovery mechanism for Government dues.

However, no specific reply was furnished on the action initiated to recover the outstanding amount, in cases pointed out by Audit.

3.15. Audit Fee and cost pending collection

As per Section 64(6) of the KCS Act, the amount of fee or cost for audit of accounts of society was to be fixed by DCA and paid by the society concerned within 30 days of intimation thereof. In case of non-payment within the period, it was to be recovered by RCS from the account maintained in the financing bank by the society.

The total audit fees pending collection in the State as of March 2024 was ₹16 crore, of which, ₹6.63 crore was pending for more than five years. In the test checked districts, an amount of ₹8.69 crore was pending in respect of audit fee and cost.

Government stated (July 2025) that through the upcoming DCB online platform, recovery of audit fee dues will be resolved. The reply was silent on the action initiated by RCS to recover the long pending dues.

3.16. Short remittance of contribution towards Co-operative Member Relief Fund and penal interest on defaulted amount

On the basis of Section 56(1)(c) of KCS Act and Rule 53A of KCS Rules, the Co-operative Member Relief Fund, maintained and administered by the RCS was to be utilised for providing assistance to members of co-operative societies who were undergoing treatment for various ailments, partially or totally disabled due to accidents, dependants of the members who had died or were bed ridden due to accidents, etc. A society was to transfer 10 *per cent* of the net profit annually, subject to a maximum of ₹ one lakh, to the Fund.

In case of failure of remittance to the Fund, the Chief Executive of the society making such default would be liable to pay a penal interest at the rate of six *per cent* per annum on the default amount.

As per the information furnished by the office of the RCS, against a total contribution of ₹68.22 crore due to Co-operative Member Relief Fund for the period 2019-20 to 2023-24, ₹39.27 crore was seen remitted by the societies, which indicated that ₹35.44 crore¹³⁸ was pending collection from societies.

Government replied (July 2025) that orders have been issued, instructing Joint Director (Audit) to ensure collection of Member Relief Fund before issue of Audit certificates and Joint Registrar (General) to maintain registers for monitoring.

¹³⁸ ₹28.95 crore (pending contribution) + ₹6.49 crore (Penal Interest)

3.17. Kerala Co-operative Professional Education Fund Scheme

Section 56 of KCS Act and Rule 53 of KCS Rules envisaged the constitution of Professional Education Fund (Fund) maintained by the RCS, through transfer of five *per cent* of net profit of societies to the Fund. The Fund was constituted with the objective of providing assistance for the promotion of professional education in the Co-operative Sector of the State of Kerala.

On scrutiny of the files, registers and connected records of the Fund, the following observations were made:

- In allegiance with Paragraph 7 of the Guidelines of Kerala Co-operative Professional Education Fund Scheme, the societies were to remit the amount due to the Fund within a period of two months from the date of receipt of Audit Certificate. Audit noticed that against ₹220.71 crore due, only ₹79.99 crore was collected, and an amount of ₹140.72 crore (63.76 *per cent*) was pending realisation from societies as on March 2024.
- Audit of accounts of the Fund was to be conducted annually by the DCA free of cost, who was also required to submit reports consisting of Receipts and Disbursements account and Balance sheet duly certified, to the Registrar within five months from the end of every financial year. It was noticed that audit of accounts of the Fund has not been conducted till date, since its constitution in March 2016.
- The RCS was to prepare an Annual report of the scheme and submit it along with the Annual Accounts statement, to the Government within six months from the end of every financial year. However, no Annual report was furnished by RCS even after a lapse of eight years from the inception of the scheme.

Government replied (July 2025) that orders were issued, instructing Joint Director (Audit) to ensure collection of Professional Education Fund before issue of Audit certificates.

3.18. Irregularities in utilisation of Government assistance by societies as revealed in Joint Physical verifications

As per Section 42 of KCS Act, the Government could subscribe directly to the share capital of a society with limited liability or hold more than one fifth of the total share capital of the society, as enabled by Section 22. Section 53 of the Act specified other forms of State aid to the societies including loans, advances, guarantees, subsidies etc. The society seeking financial assistance was to furnish documents such as Detailed Project Report (DPR), project feasibility report of Assistant Registrar, non-corruption certificate from Joint Registrar (General), last Audit Certificate, signed agreement etc. The funds provided were to be utilised only for implementing the approved projects, and the society was expected to adhere to the rules for financial assistance and the terms of agreement executed.

Audit conducted Joint physical verification (JPV) along with departmental officials in 72 societies in the selected districts, to verify the extent of utilisation of Government assistance and observed irregularities in the form of diversion of funds, short/non-utilisation, delayed utilisation of funds, idling of assets etc.,

(Appendix 3.8). During the Exit conference (July 2025), Government acknowledged the audit findings and stated that a new system is being developed with the help of State Planning Board to create a template for standardising the projects. It was also stated that an experienced person will handhold the society to prepare the DPRs and project creche will be introduced to resolve the issue.

3.19. Internal Control Mechanism

3.19.1. Non-conduct of regular inspection of societies

The Joint Registrars (JRs) were to report to the RCS, the names of societies inspected, dates of inspection and dates of communication of defects in their monthly DO Narrative Reports. Rotation registers were to be maintained at district and taluk levels, containing details of inspections conducted and inspection of societies were to be completed at regular intervals of time as per targets set and responsibility was to be fixed for shortfall in inspections.

Audit observed that:

- Rotation registers were not maintained in the selected AR/JR Offices.
- Surprise or detailed inspection of societies were not carried out by the JR and AR (SC/ST)¹³⁹ in JR office, Thiruvananthapuram during the period 2019-24.
- In the AR offices of Thiruvananthapuram and AR/JR offices of Alappuzha, Thrissur and Kannur, no targets for inspection were seen fixed. The societies to be inspected were selected arbitrarily by the ARs/Inspectors concerned without prior approval of the JR/AR. There was no system in place to ensure that the inspection of all societies in the district/taluk were completed at regular intervals.
- Scrutiny of DO Narratives in these districts revealed that no details other than the names of societies inspected by JRs/ARs/Inspectors were recorded, for information of higher authorities.

As no separate targets were fixed by the AR/JR offices, Audit verified the number of actual inspections conducted by the offices of the JR against the targets mentioned in the Circular issued by RCS in August 1993, as detailed in Table 3.8.

Table 3.8: Details of targets and achievements of inspections during 2021-24

District ¹⁴⁰	Joint Registrar				Assistant Registrar (SC/ST)			
	Detailed checks		Surprise checks		Detailed checks		Surprise checks	
	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved
Alappuzha	36	22	72	43	72	32	108	49
Thrissur	36	2	72	13	72	63	108	92
Kannur	36	32	72	70	72	16	108	38

(Source: Information consolidated by Audit from DO Narratives of JR offices)

In order to ascertain the impact of inspections, the inspection reports in the office of JR, Alappuzha during the period 2023-24 were called for. Against 78

¹³⁹ The AR (SC/ST) oversees the functioning of the SC/ST societies under the JR office, conducts the inspection of SC/ST societies and assists in implementing the Government policies and schemes relating to SC/ST co-operatives.

¹⁴⁰ Except Thiruvananthapuram, where no inspections were conducted during the five year audit period

inspections conducted by JR, Alappuzha in 2023-24, the office could produce only 28¹⁴¹ inspection reports. Verification of related files revealed that:

- The letters intimating the defects noticed during inspections were communicated to the societies, with delays extending upto 123 days. In six cases, letters intimating defects were not dispatched to societies inspected.
- Action taken reports on the inspection reports were not furnished by the societies and/or no details regarding the same were available with the JR.

Failure in maintenance of rotation register and setting of targets for inspections, non-preparation of inspection reports and lapses in intimating results of inspections to the societies, defeat the purpose of conducting inspections.

Verification of the DO Narratives of inspections conducted at Taluk level by the Assistant Registrars during the period 2019-24 revealed that the inspection of societies was not carried out at regular intervals and that 354 societies¹⁴² were not inspected even once during the entire audit period of five years. ARs' office-wise data on inspection of societies which are functioning, are given in **Table 3.9**.

Table 3.9: Details of inspections conducted at Taluk level by the test checked offices of AR during the period 2019-24

AR offices	Number of societies				
	No inspections conducted	1 to 5 inspections conducted	6 to 20 inspections conducted	21 to 40 inspections conducted	Above 40 inspections conducted
Mavelikkara	59	20	42	17	4
Chengannur	37	10	11	19	1
Nedumangad	18	120	111	3	0
Neyyattinkara	68	126	124	3	0
Taliparamba	42	83	68	10	2
Payyanur	62	60	56	8	2
Kunnamkulam	19	24	29	8	0
Mukundapuram	49	56	47	0	0
Total	354	499	488	68	9

(Source: Information consolidated by Audit from DO Narratives and information furnished by RCS and AR offices concerned)

Interestingly, when significant number of institutions were left without inspection, Audit observed that more than 40 inspections were conducted in just four societies in Mavelikkara, one society in Chengannur and two societies each at Taliparamba and Payyanur.

Government replied (July 2025) that an application named Co-operative Inspection Management Application (CIMA) has been successfully implemented across the State since March 2025, with real time monitoring that ensures systematic and effective inspection processes.

3.19.2. Arbitration and Execution cases

Section 69(h) of KCS Act, 1969 mandated the disputes among members, past members, between the society or its committee etc., to be referred to the Co-operative Arbitration Court in the case of non-monetary disputes and to the RCS

¹⁴¹ two inspections conducted by JR and 26 by AR SC/ST

¹⁴² excluding dormant societies and societies under liquidation

in the case of monetary disputes. The RCS, with a view to execute the statutory responsibilities of arbitration, execution and liquidation with efficiency, directed (November 1991) the JRs to verify the cases pending for more than five years and initiate prompt action to settle these cases and report to the RCS.

Details of pending arbitration/execution cases in the selected districts as of March 2024 are as mentioned in **Table 3.10**.

Table 3.10: Details of pending Arbitration and Execution cases as of March 2024

Particulars	Thiruvananthapuram	Alappuzha	Thrissur	Kannur
Total no. of arbitration cases	5,954	2,377	8,083	7,251
Amount involved (₹ in crore)	244.95	162.81	606.27	147.32
No. of arbitration cases pending for more than five years	28	6	110	3
Total no. of execution cases	27,963	7,552	46,500	16,439
Amount involved (₹ in crore)	905.69	294.55	2,654.78	534.56
No. of execution cases pending for more than five years	1,906	236	6,905	0

(Source: Details furnished by JR offices)

Even though the number/amount of arbitration/execution cases disposed were mentioned in the DO Narratives submitted to RCS, the action taken for disposing the long pending cases was not furnished.

Government replied (July 2025) that in 2,22,103 arbitration cases involving ₹8,488 crore and 86,622 execution cases involving ₹3,407 crore, recovery was effected during the period September 2024 to June 2025. However, the reply was silent on the long pending arbitration and execution cases mentioned in the paragraph.

3.20. Conclusion

Delay on the part of JR/AR in processing the applications resulted in delay in providing registrations to societies in the selected districts. There was also delay in returning/rejecting the applications for registration of societies. The pattern of classification of societies according to the type and financial conditions was not revised regularly as envisaged in the statutes, rather, were done arbitrarily on the basis of requests from the societies. Audit observed that there was delay ranging from 31 to 690 days in 57 cases, in forwarding the Vigilance Inquiry Reports to sections concerned/JRs for further follow-up action.

No action was seen initiated to revive/liquidate/cancel the registration of 302 societies lying dormant for over a total span of 46 years in the selected districts. There was delay on the part of JRs in initiating action on Special reports forwarded by the JDs, as well as in completion of inquiry/inspection under Sections 65, 66 and 68. Considerable delay was also noticed in forwarding the Audit certificate by the DCA to the respective societies after the receipt of Audit Reports.

An amount of ₹1173.29 crore was outstanding as Government/NCDC loans and shares and their interest/dividend from the co-operative societies in the State as on 31 March 2024. An amount of ₹16 crore was pending collection in respect of audit fees from the societies. There was short collection of ₹35.44 crore in respect of Co-operative Member Relief Fund and ₹140.72 crore in respect of Kerala Co-operative Professional Education Fund Scheme. Lack of monitoring

and oversight by the Department led to diversion of financial assistance, wasteful expenditure and idling of assets by the societies. The test checked offices of JR/AR were not maintaining rotation registers for regular monitoring of detailed and surprise inspections. There were more than 147 arbitration cases and 9,047 execution cases pending for more than five years in the test checked districts.

3.21. Recommendations

- *The RCS may ensure that registration and returning/rejection of applications of societies are done in adherence to prescribed timelines.*
- *Government/RCS may devise a system to revise the classification norms and classify societies every three years. It may be ensured that societies submit latest classification certified by the Registrar while applying for recruitment through the Co-operative Examination Board.*
- *Government may ensure that the Department establishes a centralised and inclusive online platform that enables citizens to view the details of all registered co-operative societies, in the interest of improving public trust, accountability and accessibility.*
- *The RCS may take steps to avoid delay in forwarding Special Reports and Vigilance Reports, and initiate timely action on these reports. The timelines prescribed for inquiries/inspections under Sections 65, 66 and 68 should be strictly adhered to.*
- *The RCS may review Audit Certificates/Memoranda issued by Director of Co-operative Audit including significant deficiencies in working of societies and ensure that the observations of DCA are acted upon by societies in a timely manner.*
- *Government may consider introducing IT systems to enable conduct of audit and issue of Audit reports and Audit Memoranda and real time monitoring of the same.*
- *Government/RCS may consider introducing MIS to track accounting of Government assistance and to ensure that the societies repay their outstanding dues of Government/NCDC loans and shares within prescribed time limit.*