



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**WHAT FACTORS CHALLENGE EXTERNAL AUDITING
PRACTICES IN SELLECTED MULTIPURPOSE
COOPERATIVES IN ASSOSA WOREDA**

**BY
SEID YASIN MOHAMMED**

**JUNE, 2016
ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION ACCOUNTING AND FINANCE**

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APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies

Signature

Advisor

Signature

External Examiner

Signature

Internal Examiner

Signature

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Alem Hagos. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Seid Yasin Mohammed

Name

St. Mary's University, Addis Ababa

Signature

June, 2016

ENDORSEMENT

This thesis has been submitted to St. Mary's University School of Graduate Studies for examination with my approval as a university advisor.

Alem Hagos (PhD)

Advisor

St. Mary's University, Addis Ababa

Signature

June, 2016

ACKNOWLEDGMENTS

First, I would like to thank for the almighty God; Allah for his support from beginning up to the final of the thesis processes. Secondly, I would like to express my gratitude to my advisor Alem Hagos (PhD) for his constructive and invaluable comments and suggestion.

My sincere thanks to my dearest wife Foziya Hussein for her patience and moral support.

I would also like to extend my thanks to all Assosa woreda cooperative promotion office staffs and those individuals who were very cooperative in participating in the experiment and survey works taking time for filling the questionnaires.

I express my sincere thanks to my group mate and everyone who has contributed towards this paper!

Abstract

The main objective of this study is to explore how the selected multipurpose cooperatives audit practices looks like and identification of the main audit challenges that affect audit practices in multipurpose cooperatives in Benishangul Gumuz Regional State, Assosa Woreda. To this end, answers to the basic questions pertaining to the possible causes of audit challenges, audit practices and the performance of respondents in the contribution of audit practice and challenges sought for. The research methodology employed in this study was descriptive survey. In aggregate 100% of the questionnaires were properly filled in and returned, and data analysis made according to respondents response. Because the research is survey type, both method of data analysis was used (i.e. qualitative and quantitative data analysis methods was used in the study). The finding of the study showed that shortage of auditors, lack of due professional care, Absence of Uniform audit standards among auditors, Absence of adequate auditing manual, Lack of adequate audit training and Lack of Accountability and Responsibility to the society were the major challenges. The recommendation forwarded for the above challenges was; the regional or the woreda level office should prepare practically applicable training to audit staff & the committees in the woreda & should prepare guiding manuals to the woreda expertise, Auditors should maintain their professional integrity and ethical values and should follow uniform audit standard (GAAS) and an appropriate auditors should be employed in the woreda.

Key Words; Accountability, Audit challenges, Audit practices, Due professional Care, Multipurpose Cooperatives and Responsibility

LIST OF ACRONYMS & ABBREVIATIONS

AICPA	American Institute of Certified Public Accountant
AKUAP	Awareness Knowledge Understanding Attitude and Perception
BGRS	Benishangul Gumuz Regional State
COOP	Cooperatives
CA	Cooperative Auditors
CAP	Continues Audit Process
CAS	Cooperative Audit System
CCs	Control Committee
CSA	Central Statistic Authority
BDs	Board of Directors
FCA	Federal Cooperative Agency
FGD	Focus Group Discussion
GAAP	Generally Accepted Accounting Principle
GAAS	Generally Accepted Audit Standards
IAPC	International Auditing Practices Committee
ICA	International cooperative alliance
IFAC	International Federation of Accountants
ISAs	International Standards on Auditing
KIs	Key Informants

MPCs	Multipurpose Cooperatives
PCs	Primary Cooperatives Societies
RCPB	Regional Cooperative Promotion Bureau
SACCOs	Saving and Credit Cooperatives
SPSS	Statistical package for social science
SEC	Securities and Exchange Commission
PCA	Post complete Audit
OL	Organizational learning

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Chapter One

1. Introduction

1.1. *Back ground of the Study*

In many countries, auditing is statutory function of a government service (India, Malaysia) while in other is the task either of cooperative federations provides especially trained cooperative auditors (Austria, Germany) or of certified public Accountants (united kingdom). Elsewhere, (Italy, Philippines) cooperatives may decide to organize their external audit in one way or another, while free audit by government auditor's is a valuable support service; it can also be a disadvantage, if the auditors are not sufficiently trained or equipped to carry out this task (e.g. in some countries of east and central Africa) or where the fact that audit advice and guidance is in the hands of one government service is tantamount to direct interference in the organizational management of the cooperatives (Kenya). Furthermore, the external audit of cooperatives (Auditing practices committee, 1990).

Accordingly, cooperative external audit support services have to take this aspect in to account by having an independent team of government auditors (Thailand). Or a team of private auditors specialized in cooperative audit (Philippines), or cooperative audit federations (Germany, Indonesia) (ILO, 1996).

Countries like Thailand, cooperative auditing is governmental service carryout by Cooperative Auditing Department (CAD) whose auditors appointed by the Registrar. The auditing shall be conducted at least once a year in accordance with the rules prescribed by the registrar. Cooperative auditing department is the only institution to audit all type of cooperative Societies in the United Kingdom. CAD auditors had to trace extensively throughout the country once or twice a year for 60-90 days each time in order to perform the cooperative auditing after they found taxes had not been fully recorded or bookkeeping in general was not up-to-date owe to this fact was difficult for the auditors to carry out on impartial audit (Auditing practices committee, 1990).

Therefore in an attempt to solve the problems, CAD had established Practical Auditing Office (PAO) in order to: ensure more intensive counseling for the accountants of cooperatives and formal associations; shorten the time between the end of financial year and the date of certification by the auditors; provide more update information for management purpose; assist in strengthen is the internal control system of cooperatives and formal associations and facilitate

immediate information for government official in charge of supervising the cooperatives and formal associations concerns any irregularity which might have occurred and require prompt action (Auditing practices committee, 1990)

The primary objective of cooperative institution is not the earning of profits. Promotion of economic as well as social welfare is the main goal of cooperative institutions. "cooperative audit is an examination of accounts and all inquire in to the affairs of the society in order to ascertain the correctives of accounts and the extent of 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" (Karthikiyan 2007).

Audit of a cooperative institution is not merely a financial audit. The auditor of cooperative institution is not only expected to satisfy himself by examining the books of accounts alone. In addition he has to ensure that the institution is working in accordance with the cooperative principles, the relevant Act and rules, and the directions issued by the appropriate authority. Hence an audit of a cooperative institution may be regarded as an administrative audit also cooperative audit may also be described as a critical examination of the documentary and other evidence with the help of which the profit and loss account can the balance sheet of a cooperative institution have been prepared in order to report that they exhibit true and fair view of the summary of transactions for the period under audit. (K.C.Shekhar 2003.)

Cooperatives are basically socio-economic organizations to promote economic interests of their members with democratic management as its key principle. These cooperatives have uneducated members especially at the primary level and the cooperatives are managed by ill paid personnel employees hence the handling of the business and money in hence certain temptation by both the vested interest and employees. These conditions call for certain precautions, which require many hard and fast rules with superior powers. To ensure the proper use of funds and their accounts, their needs constant and vigilant security of the accounts and examination of the general management. So examination of accounts or auditing the amounts of cooperatives is considered essential. (K.C.Shekhar 2003.)

A number of factors have been identified as holding back the development of multipurpose agricultural cooperatives. These include low capitalization levels, a limited range of products and services and poor outreach. Some multipurpose cooperatives suffer from weak internal control and Audit system. (Andrew Bibby, 2006).

Internal audit should be augmented and evaluated by external audit, in the absence of which the Board and any external body would simply accept what management reports. Absence of proper audit eventually gives rise to lack of confidence on the part of the donor community, the public clients, etc (Mekonen Yalemwosen, 2004)

1.2. Statement of the problem

Today it is quite clear that cooperative societies at all levels are facing serious problems that affect organizational efficiency. The challenge they are facing includes lack of improving the viability of the cooperative societies, awareness of members towards the proclamation, organizational and board of directors competence, skilled employees to their cooperative societies. Due to this government agencies are expected to provide technical support including audit activity, credit service and others (ILO, 1995).

A challenge, which existed, people were scared to take up leadership positions to control and follow up in each primary cooperative activity. The problem of non-viable agricultural multipurpose cooperatives still existed so that this condition was creating a gap between the management and external auditors (D. de Jong, 2006).

The major weaknesses in the existing cooperative audit arrangement are that audit of a large number of cooperatives. In the developing countries remain in arrears, and the audit staffs of the cooperative departments are neither adequate nor often qualified to do a professional job. The basic purpose of audit consequently is largely defeated. (Krishan K. Taimnijan, 1997)

Cooperative societies have no internal auditors because of their limited financial capacity. Thus the absence of an internal auditor in each primary cooperative creates difficulty to control day to day activities and rely on external auditors in a given period of time. (ILO, 1995).

Auditing has numerous advantages but has certain limitations too. At the time of auditing, auditors have to depend on the books of accounts and records produced before they prepared by the staff of the organization without intention or in convince with the management law misrepresentation of such records. Auditor's management is in a position to bring them to light uncover all sorts of manipulations. In other words, audit may not trace out all type of errors misappropriations or manipulations (Chandier and et al, 1996).

Though the cooperative proclamation No. 147/98 and its amendment proclamation No. 402/2004 of Ethiopia gives due attention to dealing with the audit, inspection, keeping audit and inspection results and actions to be taken to assess the auditing system of the society, there are

unsolved problems. As far as my knowledge there is no research conducted regarding factors that challenges cooperative auditing Practice in the region, the 2014/2015 Regional Cooperatives promotion Bureau annual report and multipurpose cooperatives audit reports shows that different resources in the Cooperatives are wasted because of different reasons. So, the study try to identify major factors that challenges cooperative auditing Practice based on Benishangul Gumuz Regional State, Assosa woreda Multipurpose Cooperatives.

1.3. Research Questions (Issues to be addressed)

The study will address the following issues:

1. What type of cooperative audit followed in selected multipurpose Cooperatives in Assosa Woreda?
2. What are the factors that challenges cooperative audit Practices in Selected Multipurpose Cooperatives?
3. Are auditors applying their due professional cares during audit in Selected Multipurpose Cooperatives?
4. What are the mechanisms to overcome the factors that challenge auditing practices in Multipurpose Cooperatives?

The above and other related issues were addressed in the study.

1.4. Objectives of the Study

The **general objective** of the study is to investigate the factors that **challenge** External auditing practices in selected multipurpose cooperatives in Benishangul Gumuz Regional State, Assosa woreda. **Specific objectives**

1. To assess Cooperative audit practices in selected multipurpose Cooperatives in Assosa woreda
2. To Investigate that whether Auditors are following **Due professional care** during Audit in selected Multipurpose Cooperatives in Assosa woreda
3. To investigate that Auditors are Applying **Generally Accepted Audit Standards** during Audit in selected Multipurpose Cooperatives in Assosa woreda
4. To suggest mechanisms to overcome the factors that challenges cooperative auditing practices

1.5. Significance of the Study

As for, the selection of study area is found in Benishngul Gumuz Regional State .; Since still there was no conduct research paper in this Region regarding to challenges of cooperative auditing practices the study is exceptionally very imperative for cooperative societies exist in the Region. The study is aimed to have the following significant benefits, among all other things:-

- ✓ It will help managers of the cooperatives and their external stakeholders
- ✓ Create awareness about the importance of the audit assistance and advice.
- ✓ It will demonstrate the need for audit to reduce fraud and error in cooperatives
- ✓ It may create an opportunity to solve audit Challenges
- ✓ It may be the basis for other researchers

1.6. SCOPE OF THE STUDY

This study is delimited to study of multipurpose cooperatives in Assosa woreda, which have better accessibility to collect data and early registered under cooperatives proclamation No147/1998 . The study moreover, focuses only on the issues of challenges of cooperative auditing practices. Furthermore, it is physically delimited only to the sampled Assosa woreda in Benishangul Gumuz Regional State.

1.7. Limitation of the Study

To investigate Factors that challenge cooperative auditing practices, it is better that if the study was conducted in all types of cooperative. However, the unavailability of time and resource, the study restricted only to multipurpose cooperatives registered under cooperative proclamation No147/1998 in the region.

The researcher put some of the limitations that faced during the survey:

- ❖ Lack of previous research and related literature review;
- ❖ Lack of professional enumerator to collect data and to Interview the respondents;
- ❖ Most multipurpose cooperatives perceived that auditing is a secret no one cannot get this information;;
- ❖ Some of the variables could not express statistically so that the researcher was unable to show as expected. Therefore, the thesis is qualitative than quantitative.

Even if, the above limitation faced during the study, the researcher put maximum effort as much as possible to overcome the problems and gathered reliable data for the accomplishment of this thesis.

Since the work was done in survey, it is difficult to find appropriate quantitative measurements for some variables and this forced the researcher to heavily rely on qualitative measurement.

1.8. Definition of Terms

1.8.1 Conceptual Definition of Terms

Cooperatives: an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Cooperative Values: general norms that co-operators, cooperative leaders and cooperative staff should share.

Self-help: joint or collective action of people in order to improve their destiny.

Democracy: the right to participate, to be informed, to be heard and to be involved in making decisions.

Equality: Equal rights and opportunities for people to participate democratically

Equity: Fair distribution of income and power in society

Solidarity: mutual self -help and a collective responsibility for the well-being of its members.

(The 1995 Statement of Identity of ICA)

1.8.2 Operational Definition of Terms

Cooperative auditing: is an examination of accounts and an inquiry into the affairs of the society in order to ascertain the correctness of accounts and the extent of 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”(O.R.Krishnaswami)

Due professional care: using sound judgment in establishing scope, selecting methodology and choosing tests and procurers and evaluating and reporting audit results (P. Moizer, 1991).

Responsible body: Body either supervisory or other executive committee, which is responsible for complete set of accounting records and supporting information available to the auditor and exercise caution in selecting the audit firm (Moeller and Witt, 1999).

Audit Control system: is a system designed by the society's board of directors, management and other personnel, to provide reasonable assurance regarding the achievement of the objectives. (John p.Higgins, Jr.chair, 2007).

Government support: is the justification for giving the department ultimate responsibility for audit and supporting the cooperative movement in many ways. In Ethiopia the auditor shall be a government official or appointed by auditors must be employed unless and until the cooperatives can satisfy the system of their own employing professional accountants of status and qualifications. (M. Karthikeyan, 2007).

Challenge of auditing: Any factor which hinders the efficiency and effectiveness of audit work.

Auditor: An individual who takes responsibility for carrying out Audit work within an organisation whether as an employee or as an external agency.

1.9. Organization of the Study

The thesis was organized in four chapters. The first chapter: introduction deals with background and justification of the study, statement of the problem, and objectives of the study, significance of the study, scope of the study, limitation of the study, organization of the study and definition of terms. The second chapter covers literature review and empirical studies. The third chapter includes area of the study, methodology & data collection, sampling technique, techniques of analysis and interpretation. Analysis, result findings incorporated under chapter four. Finally, Summary, conclusions and recommendations organized under chapter five.

Chapter Two

2. Review of Literature

2.1 Introduction

The purpose of this chapter is to give conceptual definitions of terminologies and basic theories used in the research. Relevant concepts and definitions are included which clarify the conceptual model used in the research.

2.2. Theoretic Literature

2.2.1. “Co-operatives”: Definition and Concepts

In the world, Co-operatives have been conceived as a device to bring together similar minded People of limited means, on a common platform to solve their financial needs. The "cooperatives" is a concept wherein persons of humble origin voluntarily associate together on the basis of equality for the solution of their economic problems. The basic principle of cooperative movement is thrift and self-help through cooperation between the members keeping in view the needs of individual members as well as the solution of problems in a collective way. Co-operatives aim at bringing about more equitable institution of distribution and optimum utilization of the resources of human as well as financial resources (ICA, 1995).

The 1995 Statement of Identity of ICA defines a cooperative as "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise." The statement emphasizes important characteristics of cooperative enterprise.

2.2.2. Cooperative Values: Basic cooperative values are general norms that co-operators, cooperative leaders and cooperative staff should share, and which should determine their way of thinking and acting. The values include:

Self-help: people have the will and the capability to improve their destiny peacefully through joint action which can be more powerful than individual effort, particularly through collective action in the market.

Democracy: Members have the right to participate, to be informed, to be heard and to be involved in making decisions. Members are the source of all authority in the cooperative.

Equality: Equal rights and opportunities for people to participate democratically will improve the use of society's resources and foster mutuality, understanding and solidarity.

Equity: Fair distribution of income and power in society and in its economic life should be based on labour, not ownership of capital.

Solidarity: Cooperatives are based on the assumption that there is strength in mutual self-help and that the cooperative has a collective responsibility for the well-being of its members. Further, individual cooperatives strive to create a united cooperative movement, by working with other cooperatives to improve collective well-being. The values statement also articulates values of personal and ethical behaviours that co-operators actualize in their enterprises. They describe the kind of people we strive to be and traits we hope to encourage through cooperation. These are: honesty, openness, social responsibility, and caring for others (ICA, 1995).

2.3 The cooperative principles (1995) adopted by ICA

The cooperative principles are guidelines by which cooperatives put their values in to practice.

Principle 1: Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination

Principle 2: Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner

Principle 3: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-cooperative. At least part of that capital is usually the common property of the co-operative.

Principle 4: Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy

Principle 5: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation

Principle 6: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by Working together through local, national, regional and international structures.

Principle 7: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members. (ICA, 1995)

2.4. Audit

The origin of audit can be traced to the need to ensure that a person who comes into possession of money or property belonging to another has properly accounted for it. The system of checking records of financial transaction in earlier time was confined to the scrutiny of cash transactions. Moreover, such checking was limited to only public accounts. The person whose duty it was to check such accounts became known as the Auditor, the word being derived from the Latin word 'Audire' meaning to hear, as originally the Auditor merely used to 'hear' the accounts to pass the transactions as genuine or correct. Auditing is a systematic & independent examination of data, statements, records, operation and performances (financial or otherwise) of an institution with a view to expressing an opinion thereon. This definition is comprehensive, since it covers all types of audit-independent financial audit, cost audit, internal audit, Management audit etc.

(Karthikiyan 2007).

Audit is playing an important role in developing and enhancing the global economy and business firms. Auditors express an opinion on the fairness of financial statements. This is important for the users of financial statements to gain assurance that the data are being reported, properly measured, and fairly presented. Auditors must raise their skills in order to increase the probability to rely more on the auditor's report and audited financial statements which are more relevant, unbiased and accurate for the decision makers (Husam Al-Khaddash,2013).

2.4.1. General Principles of Audit.

Some of the tested principles governing the procedures in Audit Engagement, which are considered worth following, are summarized thus:-

- To ascertain the authority competent to sanction expenditure, to receive or pay money or to incur liabilities, on behalf of the concern.
- To understand the system of account followed.
- To check the accuracy of the original record, namely, the cashbook.
- To see all transactions are in accordance with the minutes of the meetings of the Board of Directors or the orders of competent authority.
- To investigate unusual financial transaction.
- To check the accounts from the original records and to suggest corrections, if any, in the classification of transactions.
- To review the procedure of stocktaking and of pricing of the goods in hand.

To check the financial results, that is the manufacturing, Trading and Profit and Loss accounts and the Balance Sheet, which will indicate accurately the progressive position of affairs.

(Sri Niranjana Deb Barma;1996)

2.5. Audit of Cooperative Institutions

It may be mentioned at the very outset that the audit of cooperative institutions is different from that of commercial establishments such as joint stock companies, partnership firms etc.

The primary objective of cooperative institution is not the earning of profits. Promotion of economic as well as social welfare is the main goal of cooperative institutions.

Audit of a cooperative institution is not merely a financial audit. The auditor of cooperative institution is not only expected to satisfy himself by examining the books of accounts alone. In addition he has to ensure that the institution is working in accordance with the cooperative principles, the relevant Act and rules, and the directions issued by the appropriate authority. Hence an audit of a cooperative institution may be regarded as an administrative audit also cooperative audit may also be described as a critical examination of the documentary and other evidence with the help of which the profit and loss account can the balance sheet of a cooperative institution have been prepared in order to report that they exhibit true and fair view of the summary of transactions for the period under audit (Sri Niranjana Deb Barma; 1996) .

2.6. Nature of Audit in cooperatives

Cooperative audit may also be described as a critical examination of the documentary and other evidence with the help of which the profit and loss account and the balance sheet of a cooperative institution have been prepared in order to report that they exhibit true and fair view of the summary of transactions for the period under audit.

The audit of cooperative institution is the statutory responsibility of the registrar of cooperative societies. He delegates his powers in this regard to his subordinates who conduct the audit & submits the audit report to him (Krishan K.Taimni jan, 1997).

2.7. Statutory and State Controlled Audit

Since the audit of a cooperative institution is performed in accordance with the statute (i.e., cooperative Societies Act), it is a statutory audit. At the same time, since the registrar of cooperative societies who, in turn, is appointed by the government performs it, it could be considered as a state controlled audit. A cooperative institution is an association of individuals and/or representatives of the individuals and/or institutions, the management of which is entrusted with the representative of the. These representatives constitute individual and/or institutions concerned the managing committee of the parent institution. The audit is conducted to safeguard the interest of the members who have no direct participation in the day-to-day administration of the institutions concerned. The audit is made statutory to guard against any lapse on the party of the managing committee in carrying out its duties properly. Thus proper management of the institutions concerned through statutory audit. It may be noted that the cooperative movement in many countries was originated from the initiative of the people. As for as India is concerned, cooperative movement has, has, by and large, originated through statute, i.e., it is, by and large, government sponsored movement. Hence, the government owes a duty to ensure its success. Mismanagement plays a major role in defeating the very purpose behind cooperative institutions. Hence, it is imperative that adequate and proper control should be imposed on the working of these institutions .It is with this objective in view that the audit of cooperative institutions is performed under the control of the government. The expenses of audit are borne by the institutions concerned in the form of audit fees (SahakaraDarpana, 1991).

2.8. Objective of cooperative audit

- To ascertain the correctness of accounts and records maintained by the cooperative enterprise;
- To ascertain the actual financial conditions and earning of the cooperative societies;
- To detect and prevent the occurrence of errors and frauds;
- To assess how far the cooperative societies have been able to carry on business on sound cooperative lines and secure economic benefit to its members ;and

To examine whether the affairs of the society have been carried on in accordance with the principles of cooperation and the provision of cooperative law (M. Karthikiyan;2007).

2.9. Need for cooperative audit

1. Protection of members; the representatives from among the members are expected to carry on the administration of the society in accordance with the principle of cooperation. For this purpose they have to institute a check system over them. Audit is such check on the representatives in the interest of members.

2. Protection of creditors; audit is needed to know the credit worthiness of cooperative. The creditors know the worthiness only through audit reports and financial statements published by the cooperatives.

3. Protection of investors; cooperatives accept deposits from the members and public. The depositor attaches much importance to audit of accounts of the cooperative. Audit gives them much confidence in the management of the societies and protects their interest by making the actual state of the affairs of the cooperatives known.

4. Prevention of frauds; the accounts are maintained by the accountants and the affairs by the managers of the cooperatives society. Audit acts as a check on those responsible persons, makes them to be regular and efficient in their work, and prevents the occurrence of frauds and errors.

5. Successful management; the cooperatives are chiefly composed of uneducated members. So the danger of their perversion to wrong ends is no means less and handling of money involves certain temptations. These factors call for certain precautions. Auditing is one of such precautions.

6. Maintenance of public image; audit is necessary to maintain the public image. By publishing the financial statements and audit report through the media, the public image of cooperative can be maintained (M. Karthikeyan;2007).

2.10. Features of Cooperative Audit

The cooperative audit include the following points: Adherence to cooperative principles; observance of provisions of Act, rules and bye-laws; valuation of assets and liabilities and verification of cash balance and securities; verification of balances of depositors and creditors; examination of overdue debts and classification of bad debts; personal verification of members and examination of their pass books; discussion of draft audit report with managing committee; audit classification of society; and examination of the working and other prescribed particulars of the society (Sahakara Darpana, 1991).

The application of general, principles of auditing in cooperative society, but also considering the special features of cooperative societies as stated above, cooperative audit is something more than that of normal financial audit. Financial audit is merely an examination book of accounts to ascertain the correctness of financial aspect of the transactions, whereas cooperative audit does not merely end with the arithmetical examination of books and accounts and projection of true and faire financial position of the society. The important aspect in cooperative audit is to ascertain the real effect of its transactions. It means ascertaining the extent to which these transactions have been useful in satisfying the needs of the member and promoting their economic welfare. Thus, it can be conclude that the cooperative audit is a more comprehensive enquiry, than is usually made in the case of other commercial organizations, into affairs of societies to ascertain the correctness of accounts and extent which the activities of the society are useful in promoting the socioeconomic welfare of its member through the satisfaction of their needs in accordance with the principles of cooperation (S. Rajitha Kumar, 2000).

The pioneer cooperatives were formed by local people to meet local needs. Success or failure depended partly on whether or not their objectives had been well chosen, but perhaps even more on the determination and business ability to boards and staffs. There is a number of failures, most of which could have been avoided if timely advice had been available and accepted. In many, though not quite all, countries the first attempt to exercise some control over methods by which cooperative societies conducted their affaires came with passing of a cooperative law. The primary intention was to improve the performance of cooperative themselves and so safeguard

the interest of members, who were assumed to be people of less business experience than those who would normally engage in trading or financial ventures. To a lesser degree, it was intended to safeguard the public, and particular outside persons who had business dealing with the cooperative. In either case, a guarantee that the affairs of cooperative were conducted with certain degree of order and prudence was looked on something which should given in run for the privilege of cooperatives (Shekhar, 2003:).

2.11. Auditing the Accounts of a Cooperative society

A cooperative society is formed under the Ethiopian cooperative No. 147/1998, a proclamation provides that “the appropriate authority shall audit or cause to be audited by a person assigned by it, the account of any society at least once in a year.” It also provides that “the audit report shall be submitted to the general assembly.” The auditor of such society is appointed government body. The following points are to be noted in the audit of cooperative society:

1. The auditor should examine the rules and regulations of the society and see how far the society is being followed.
2. The auditor should examine the internal check system in operation of the society. Discrepancies, if any should be fully noted.
3. The auditor should examine the capital structure of the society and find out the number of its members and their share holdings. He/she should also inspect the minutes of board of directors and general assembly.
4. The auditor should vouch all cash received by the way of share capital with reference to the cash book and registrar of members and copies of the receipts issued to them.
5. The auditor should vouch the receipts of interest and return of loans from the borrowers. Proper records must always be maintained for this purpose. Utilization of loans for the purpose it was generated should be verified.
6. The auditor should examine the cash book for the money borrowed from the banks or other financial institutions with the correspondence and other related documents.
7. The auditor should vouch the loans granted to the borrowers with reference to the agreements.
8. The auditor should vouch the all payments systematically with reference to the related vouchers.
9. The auditor should examine the cash book and verify cash in hand at the end of the fiscal year.
10. The auditor should verify the stock thoroughly.

11. The auditor should verify the investment and examine that they have been made according to prescribed rules (RC Bhatia 2005:199-2003).

2.12. Ethiopian cooperative proclamation and audit

Part four of the cooperative proclamation no. 147/1998 deals with the audit and inspection of cooperative societies in Ethiopia. Article 36, 37 and 38 are dealing with the audit, inspection, keeping audit and inspection results and actions to be taken for losses of property or funds of the society.

Article 36. Audit

The appropriate authority shall audit or cause to be audited by a person assigned by it, the accounts of any society at least once in a year.

- ✓ The audit conducted pursuant to sub-article (1) of this article shall include the examination and verification of overdue debts, if any cash balance, securities and assets and liabilities
- ✓ The audit report shall be submitted to the general assembly (Ethiopian Negarit Gazeta, 1998).

2.13. Departmental set up of cooperative audit in Ethiopia

The federal cooperative agency has got the audit wing under the control of the appropriate authority as per the cooperative proclamation. Under the federal agency there are fourteen regional cooperative promotion bureaus in the country. The regional bureaus are having audit wing in order to control over the woreda level audit wing, which is responsible for conducting auditing the cooperative societies of various types. The woreda cooperative desk is the responsible body for audit process / work at the kebele levels. There is an audit and inspection team under the control of the regional cooperative promotion officers. It comprises of one team leader, auditors, audit assistants, inspectors and inspector assistants. The auditors and inspectors are responsible for conducting audit in all cooperative societies under the control of regional head. The following chart depicts the picture of cooperative audit team at region level.

(Karthikiyan; 2007)

2.14. Audit Procedures

An auditor takes certain steps or procedures when completing an audit. These procedures depend upon the audit engagement and the understanding between the auditor and the board of directors. In general, the auditor attempts to obtain evidence to support recorded figures in the financial statements.

The audit procedures followed depend on the complexity of the tasks to be performed, the type of accounting system, characteristics of the records, and the nature of the cooperative. Examples of procedures include confirming accounts receivable and payable balances, physically inspecting assets, and testing the system of internal control.

The auditor may post the closing and necessary adjusting entries for the cooperative. This service is not an assumed portion of the audit, although it is quite common. In the letter of understanding and the pre-audit meeting, it should be made clear whether this is a service desired by the cooperative.

Auditors will also enter the opening entries for the coming fiscal year if requested.

During an audit, the auditor will not review every transaction entered in the audit year. Rather, the auditor will test a sample of the various transactions. Audit sampling is the use of an audit test on part of the records being examined (i.e., accounts receivable ledger, inventory records, etc.) to derive a conclusion regarding the characteristics of the records as a whole.

The audit test is simply verification that accounting entries have been accurately made and that supporting documentation exists for sample transactions.

Audit risk refers to the possibility that the auditor may unintentionally fail to identify and/or notify the board of seriously misstated financial statements. Audit risk must be taken into account in determining the number and type of audit techniques to be employed on the particular audit that, in turn, will affect the cost of the audit. Thus, the board of directors must understand that cutting costs in contracting for an audit may increase the possibility the audit will fail to uncover seriously misstated financial statements.

The auditor will determine the type and level of sampling to use based on the complexity of the accounting system, the discussions at the pre-audit meeting, and the budgetary limitations imposed for the audit. In conducting the audit, the auditor will be concerned with the audit trail. The audit trail is the complete recording and documentation associated with a single transaction

(journal entry or posting) to source backup (i.e., document). A sound audit trail makes it easy and time efficient to trace a transaction to a source. In conducting the audit, the auditor will examine several audit trails. Faulty audit trails alert the auditor to potential problems .

(M.Karthikiyan;2007).

2.15. Role of Cooperative Auditor

Like audit of other organization, in cooperatives also as soon as the auditor visit the society, he/she should make a careful study of business transactions by the society and collect technical details, if any involved in the business, he/she should obtain a list of books of accounts and other records maintained by the society to familiarize himself with the system of bookkeeping adopted by the internal check system using in the society. A study of past financial audit report last available inspection reports are give a lot of information about the society. In addition to these he/she should go through the by-laws giving general attention and a note drawn, among others, powers and responsibilities of office bearers, duties and responsibilities various members of the staff. All these help the auditor to discharge his/her duties as per the provision of the cooperative society Act (S. Rajitha Kumar, 2000).

An auditor of cooperative society has the right to receive information from officers, employees, and member including past members regarding any transaction, working and affairs of the society. He/she has the statutory obligation to go deep into the transactions.

Since the primary concern of a cooperative auditor is disclose how far the society has been able to carry on its business on sound cooperative lines, he/she has to go behind the book of the society and evaluate the services rendered by the society to its members in accordance with objectives with which the society has been formed. He/she has to satisfy himself whether the affairs of the society are carried out in accordance with cooperative principles, the cooperative society Acts and rules, by-laws of the society and administrative instruction issued by appropriate authority for time to time. Another important feature of cooperative audit is that it is a kind of administrative audit also. In administrative audit, the actions of management and the transaction of the society as recorded in the books are subjected to close administrative security. So it is the duty of auditor to examine the books of accounts and other records with particular reference to whether the transactions so recorded are within the competence of the management, whether the provision of the Acts, rules and by-laws have been adhered to, by the society, and finally to assess the benefits by the members from the society. As administrative audit

cooperative audit covers a close examination of actions of the management, administration and management funds and how far the objectives laid down in the by-laws are fulfilled. So it is the responsibilities of the auditor disclose serious irregularities both financial and non-financial implications, if any society. The disclosure of irregularities of financial implications include payments that appear to be contrary to law; any amount of deficiency, waste or loss which appears to have been caused by gross negligence or misconduct of any person or officer in performing his duties and any other irregularity observed by the auditors during the course of examination of expenditure or revenue in the recovery of money due. The disclosure of irregularities of non-financial implications includes failure to ensure committee meetings or general meetings. Thus the application of administrative audit in cooperatives is very important as they disclose these types of serious omissions and commissions in their working. The auditor of a cooperative society is trustee of general body and works on behalf of the members and for the members. When any mistake, error or shortcoming his notice, he/she renders practical advice to the management for proper conduct of business and maintenance of accounts. He/she should educate the members about the constructive role of cooperative audit and its contribution in safeguarding the interests (S. Rajitha Kumar, 2000).

2.16. Responsibilities of Cooperative Auditor

Cooperative societies are often managed by a person who does not possess adequate managerial or technical skill. Thus, the duties of an auditor are quite difficult. The main task of auditor of a cooperative society therefore is to point out various irregularities and departure from the provision of proclamation No. 147/1998, by-laws. The auditor in order to perform his/her duties should pay attention to following point while auditing the account of society:

1. He/she should has a complete knowledge of the proclamation that established cooperative society' s proclamation No. 147/1998 and its amendment No. 402/2004 council, of minister regulation No. 106/1998 issued to provide for implementation of proclamation No. 147/1998 and the by-law of the societies or rules framed by the government and societies itself.
2. Draw up of audit programme for the cooperative society and getting the approval from the district audit officer.
3. He/she should thorough examine membership register.
4. He/she should vouch all receipts and payments in usual manner.

5. He/she should verify the existence of assets and liabilities which are actually exist in the balance sheet.
6. He/she should submit audit report to general assembly.
7. He/she should conduct administrative audit of the societies.
8. Since cooperative societies are formed for various purposes an auditor cannot adopt one method of verification to be followed in case of all the different societies The auditor shall submit an audit memorandum duly signed by him on the accounts and profit and loss accounts, balance sheet, the affairs of society and method followed by it examined by him and shall state his audit report in prescribed audit format of audit performance with true and faire view of the society (RUFIP training manual, 2007).

2.17. Appointment of Auditor

The registrar of cooperative societies appoints the auditor of a cooperative institution. As pointed out earlier, the audit of cooperative institution is the statutory responsibility of the registrar/government/. The accounts of every cooperative institution shall be audited once in each year. For the efficient and timely audit of the institutions, the registrar delegates his power in this respect to his subordinates through a special or general order (Rapp,Gallen, 1987).

2.18. Auditing standards and principles

Standards relating to the accounting profession concerns both the professional qualities and judgements exercised by professionals in the performance of their perofessional engagements.

Standards can be developed and become authoritative locally or internationally. International Standards on Auditing [ISAs] are issued by the International Auditing Practices Committee [IAPC]. The IAPC is a standing committee of the Council of the International Federation of Accountnats [IFAC], which was formed in 1977 and is based in New York. IFAC has more than 140 member bodies, representing over 2 million accountants in 103 countries. The standing committees of IFAC deal with ethics, education, financial and management accounting, the public sector, information technology and membership.

The IAPC issues standards and statements on auditing and related services in order to improve the degree of uniformity of auditing practices and related services throughout the world. The IAPC works closely with its memebers and national standard setters in order to gain acceptance of ISAs. It expects its memebers to have due regard for ISAs in setting national standards. Member bodies have increasingly sought to align the national position with the international

position. Standard setters increasingly refer to the international position in their consultative documents as authoritative support for a particular view. The legislation enacted over the last ten years in developing regions such as Central and Eastern Europe, Africa and Pacific Rim, have been developed to conform with international standards.

International auditing and accounting standards do not of course override local regulations. Neither IFAC nor the IASC can compel any organization to comply with international standards nor are there specific sanctions where organizations claim to have complied with international standards but have not done so (Rapp, Gallen, 1987).

2.19. Audit classification

After completion of audit, that is after audited the final accounts and balance sheet, issued by registrar cooperative societies or appropriate authority / Regional cooperative audit officer, the auditor has to classify the society by observing the capital structure, credit and financial stability, management and other service functions of the society as a criteria to make the audit report classification. The credit and financial stability cover the extent of credit provided and the efforts noted in the previous year audit reports, action taken against defaulter, holding meeting, and maintenance of books and accounts or records of the society and how far the management can able to satisfy and fulfil needs and interest of the members of the society. So, the audit classification of the society is aiming to test the financial position and stability and management and administrative efficiency of the cooperative society.

In Ethiopia, the cooperative audit report is classified under four broad categories by measuring the society in terms of the above mentioned criteria, these are: green, blue, yellow and red.

(M. Karthikeyan, 2008).

2.19.1. Financial Audit

The basic form of audit is financial. The cooperative is visited by one or more special qualified persons who proceed to check, item by item, every entry and calculation in the society's books, verifying each entry by reference to receipts, wage records, bank statements and other documents. Having satisfied themselves that the books are correct the auditors will go on to check the value of stocks on hand at the beginning and ending and, after making standard allowances for deterioration and waste in handling, see that they count with the record of goods bought and sold, processed and manufactured during the year. They will also check cash on hand and at the bank. If the auditors are satisfied that all records these records have been correctly kept

and give a true picture of the business with societies have carried out on during the year, they will go on to draw up the balance sheet. They will check the value of assets, making sure the land, building, machineries and vehicles have been properly depreciated; that any investments which the society may have in government or in secondary cooperatives are recorded at their true value; the bad debt written off; stocks are valued at prudent figure, taking into account possible deterioration or changes in price.

If auditors have received all records and explanations they require have succeeded in drawing up statement which satisfies them as full clear and truthful record of the year's operation and present position, the society, they will then make short declaration to that effect and sign it. If the statements, though clear and accurate, reveals unsatisfactory position, they point this out and even indicate the principal source of trouble to much credit to members (ILO 1998:).

2.19.2. Vouching

A voucher is a documentary evidence for supporting transaction in the books of cooperative society's accounts. The act of establishing the accuracy and truth of the entries in the account books is called vouching. It also refers to the auditor of the documentary evidence supporting a transaction is thought to be very careful vouching. Vouching means to confirm an entry in the books of accounts not only with documentary evidence such as agreements, receipts, counterfoils of a receipt book or arranging in books contracts but also verifying that the transaction has been authorized by a competent authority, recorded and entered in the books accounts example verification of entries in the invoice of cash receipts with counterfoils of the receipt book, checking payment, work of receipts issued by the payee (S.K. Basu, 2006:)

2.19.3. Verification

The term verification 'providing the truth' or 'confirmation' an auditor has not only to see the arithmetical accuracy and reveals of transactions in the books of accounts by vouching but has also the assets are recorded in the balance sheet actually exist. The fact there is an entry regarding the purchase of an asset which has been correctly recorded is not proof that the asset is in the possession of the concern on the date of balance sheet. If it is possible that affect the asset had been acquired and necessary entry made in the books of accounts the asset might have been disposed or pledged or mortgaged and no entry had been made regarding these facts in the books of accounts before closing of the financial year. The auditor has also to see whether a particular assets as recorded in the balance sheet on the day of closing the books account exist or not.

Verification of liabilities is also important as in the verification of assets. If the liabilities are overstated or understated, the balance sheet will not represent a true and fair view of the state affairs of cooperative society (RC Bhatia, 2005:)

2.19.4. Verification of different Assets

Cash on hand: the verification of cash balance done by actual counting. Balance should be compared with as per book. It is to be noted that in the cases where physical counting is not possible, the auditor should get a certificate signed by the person in-charge to the effect that himself has counted cash balance including notes and coins he has physically verified the accounting of such balance.

Cash at bank: bank balance at the date of the balance sheet verified by means of the examination the entries in the pass book. The cash balance should be checked with the pass book and the two balances agreed by means of reconciliation statement. The auditor should obtain the certificate directly from the banker so as to provide the production of dummy pass book fraudulently. (RC Bhatia, 2005:)

Verification of liabilities and capital

1. Share capital: it should be verified with reference to the corresponding entries in the admission books.

2. Deposits: the amount of deposit should be verified with reference to the confirmation cards received from deposit holders on the date of the balance sheet.

3. Creditors: the amount to suppliers of goods on credit should be verified with the statement of account received from them.

4. Loan from banks: the amount due to the financing bank in respect of principal and amount of interest should be verified with reconciliation statement received from the bank (A.H. Minichamp, 2002).

2.20. Audit Evidence

The term 'audit evidence' refers to information obtained by auditor in arriving at a reasonable conclusions on which he bases his opinion on the financial statements.

Sources of such audit evidence include the accounting system and underlying documentation of cooperative society, its tangible assets, its management and employees, its members, its suppliers and stakeholders who have dealings with, or knowledge of the cooperative society (Shekhar,2003).

2.21. Methods of obtaining Audit evidences

Audit procedures are the actions an auditor taken in acquiring evidences. The use of audit procedures to obtain evidence to corporate accounting data can be illustrated by focusing one type of transactions.

The auditor may inspect the documentary evidence in the client's records. The item received will recorded as increase inventory, and there will a copy of purchase order sent to suppliers and receiving reports to indicate receipt of merchandise the item given up will be recorded as a cash reduction, and there will be probably be cancelled check indicating payment. The transaction will also recorded by the supplier and information can be obtained directly from him if necessary (Atkisson, 1986).

Observation: observation is a universal method of acquiring knowledge. Almost everyone can see, hear, and touch the auditor plans his/her observation to acquire audit evidence by linking of the client's business operations with accounting information. By physically observing phenomena, the auditor gains first hand information of their existence.

The auditor counts cash and securities. Behaviour of operating personnel and functioning of the business in operations are also observed. The observation made from the perspective of their effort on accounting and their implications for auditing (D.R. Carmichael, 1991:88).

Inquiry: the auditor must ask many questions during the course his examination. The question and answer process includes interviewing and obtaining statement in writing from management committee, directors and employees. Explanation of significance variation accounting data is frequently obtained from employees. One (John willam,1991:89).

Confirmation: is a type of inquiry by auditor to obtain a written document from outside companies or individuals on information which the person is qualified to give. The independent party questioned must be reliable and knowledgeable about a subject interest to the auditor. Confirmation is often used as substitute procedure for observation. In some cases, the auditor may need information concerning an item that does not have physical existence, such an obligation owed to the client. Thus an auditor typically confirms account receivable (Carmichael, 1991).

Inspection: it consist reviewing or examining records and documents or physical verification of tangible assets.

Authoritative documents: this document can be prepared either inside or outside of the cooperative society document such as, minute of the board of directors meetings and management committees meetings. Similarly document prepared outside of the cooperative society such as title deeds of building or vehicle, share certificates for investments, contracts and invoices of the suppliers are audit evidences. The ownership of assets can only be ascertained ownership certificate obtained from the appropriate organ of the government

Computation: Check the arithmetical accuracy of accounting record and independent calculation. (RUFIP, 2007).

2.22. Audit Report of Cooperative

Soon after the finalization of audit, the auditor has to prepare the audit memorandum & the audit certificate in the format prescribed by the registrar of cooperative societies.

The audit memorandum is in the form questions. The auditor has to answer the questions with reference to the checking made by him. On completion of the memorandum, it has to be submitted to the authority competent to approve the same. The financial statements have also to be submitted along with the memorandum:

2.23. Audit certificate

On the balance sheet and trading and profit and loss account for the period up to which the accounts have been audited by the auditor, he/she has to state whether his/her opinion or the best of his/her knowledge and information according to the explanations given him whether the accounts as above given all information required by the act give a true and faire view in the case of balance sheet the affairs of the institution at the end of the year up to which the accounts are made up and examined by him and in the case of profit and loss for the year up to which the audit has been completed.

The auditor has to furnish a certificate in the form of report. The certificate contains the following information. Whether he/she has examined the overdue debts, verified the cash balance and securities, and valued the assets and liabilities of the cooperative societies are required by the Act. whether, in his/she opinion the balance sheet is a fully and fair on containing all the necessary particulars and is properly drawn up so as to exhibit a true and fair view the affairs of cooperative society according to the best of his information and explanations given to him and shows as books. Whether he/she has called for any explanation has been given to him/her and has been found satisfactory. Whether return profit and loss account shows a true

balance of financial statements for the year covered by such account. Whether, in his/her opinion, the balance sheet and profit and loss account are drawn up in confirmatory with the law. Whether, in his/her opinion, books of account have been kept by the cooperative societies as required by-law (Shaw, 2004).

As mentioned above, the auditor has to submit the audit memorandum in the prescribed format. On the balance sheet and Income statement for the period up to which the accounts have been audited by the auditor, he has to state whether in his opinion and to the best of his knowledge & Information and according to the explanations given to him whether the accounts as above give all the information required by the Act & give a true & fair view in the case of the Balance sheet the affairs of the institution as at the end of the year up to which the accounts are made up and examined by him and in the case of Income statements the profit/ loss for the year up to which the audit has completed.

2.25. Empirical studies on Cooperative Audit Practices

The findings of audit practices on SACCOs showed that the shortage of auditor, lack of independent office, lack of professional care, lack gathering audit evidence, weak internal control system and lack of responsible and accountable person when major problem is occurred. The board members have not awareness to ward accounting and auditing system and participation in meeting where audit report is presented by auditor. (Yaregal Melesse,2000)

The Audit practices for the past years had undergone various evolutions. In the mid 1980s to early 1990s an Audit function can be regarded as traditional role of auditing as the role of auditors mainly concerned with ensuring the correctness of accounts and detecting frauds & errors.(Leung,2004).

The apparatus member education, participation feedback, representation is a source of loyalty and trust, a site for innovation and a mechanism to enforce close business relations between the members and the cooperative. The tools of accounting, auditing and reporting can make a great contribution.(Fairbairn,2002)

Auditor's independence had a significant effect on audit quality. Without audit service by an independent party, the reliability of financial statements could not be assured. Alim(2007)

Because of the important result of an audit process, the auditor must maintain quality in accordance with the generally accepted auditing standard (GAAS) when accumulating and evaluating the auditing evidence. He/she has to give the audit opinion based on professional

judgment. The auditor is encouraged to have accountability on each part of an audit activity. Therefore, the purpose of an audit activity needs sufficient competent evidences so that it can run successfully. Accountability is defined as social and psychological stimulation done to finalize one's obligation (Cloyd1997).

The nature and history of cooperatives is such that very few people fully understand their structure and operational qualities. Complying with statutory requirements such as audit and rendering financial statements to the registrar has therefore become a tedious, time consuming and expensive matter. Consequently compliance is decreasing, less auditing firms are interested in servicing cooperatives in this manner, those that do are too expensive due to the time they spend researching cooperatives and entrepreneurs are losing sight of the benefits of cooperatives as legally recognized business entity. (Bernd Harms;DGRV, 2008)

The major weaknesses in the existing cooperative audit arrangement are that audit of a large number of cooperatives. In the developing countries remain in arrears, and the audit staffs of the cooperative departments are neither adequate nor often qualified to do a professional job. The basic purpose of audit consequently is largely defeated.(KrishanK.Taimnijan, 1997)

Thus the major problems in the field of cooperative audit, where governments are responsible for the audit of cooperatives, are lack of standardized audit procedures, paucity of well trained government staff and pressure on governments to control public expenditure (and thus reduce staff). in those countries, where audit is the responsibility of the auditing cooperatives, or where cooperatives were allowed to get their books audited from public auditors, lack of skill and familiarity with the working of cooperatives and their books of accounts, and the inability of cooperatives to pay high audit fees, are the major constraints. In many countries in the region, audit of cooperatives is thus either not done every year, or is completed very late. The true financial position and authenticity of transactions therefore remain unknown to members. This is against the spirit of democratic control and even the spirit of prudent business management principles (Krishan K.Taimnijan,

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Research Design

The study employed a descriptive Survey research designs. Using descriptive research design enabled the researcher to investigate factors that affects cooperative audit Practices in selected multipurpose cooperatives in Assosa Woreda. To this end, relevant data were collected carefully using the suitable data collection instruments in order to maximize reliability and validity. The appropriate instruments were employed to obtain appropriate data including Open & Close-end questionnaires and focus group discussion.

3.2. Research Approach

The study employed both qualitative and quantitative research approaches as per the requirement of survey research. The qualitative approach was used to capture and describe the background, opinion, and attitude of the respondents regarding auditing practice in multipurpose cooperatives. On the other hand, the use of quantitative approach enabled the researcher to compare, summarize and calculate numerical data on cooperative audit practices.

3.3. Research methods

From the basic research types, the study used descriptive survey research methods .The use of descriptive survey method helped the researcher to investigate factors that challenges cooperative audit practice.

3.4. Sample design

In order to address the objective of the study, qualitative and quantitative data were collected from both primary and secondary sources. For this purpose, non-probability sampling techniques were employed.

3.4. 1. Sampling technique

In order to address the objectives of the study, both qualitative and quantitative data were collected from both primary and secondary sources. Non-probability sampling techniques in line with multi stage sampling techniques were employed. Both the study area and the respondents were selected using purposive non-probability sampling method. This is also sometimes called judgment sampling where respondents are selected because they have knowledge that is valuable

to the research process (e.g. Auditors, Promoters, Board of Directors and Control committees). The Detail of sampling technique to select the study area and the respondents is discussed below:

3.4.2. Selection of study area

As for the selection of the study area, Assosa Woreda is selected as the study area. Assosa Woreda is one of the 20 Woredas of Benshangul–Gumuz Regional State which is found in Assosa Zone and consists of 83 Kebeles. Out of 20 woredas considering the accessibility and the earlier registration of multipurpose cooperatives where only the required information on factors that Challenges cooperative auditing practices in selected multipurpose cooperatives are selected for the study. The Selection of study area (woreda) is based on the following grounds

1. Since the woreda is found in the Capital city of the region, there large numbers of multipurpose cooperatives and beneficiaries relative to the others
2. It consists both strong and weak cooperative societies
3. The woreda had long years of experience in auditing relative to the others

3.4.3. Selection of study units

There are many types of cooperatives in the woreda like Agricultural, Multipurpose, Consumers, Housing, mining and other types of cooperative societies. Multi-purpose cooperative societies are selected through purposive sampling technique from all aforementioned types of cooperative at since; it is the famous and oldest type cooperative in the “Woreda.”

There are 20 multipurpose cooperatives in Assosa woreda. Six multipurpose cooperatives were selected using judgmental sampling method. The selection criteria were those primary multi purposes cooperative that are registered according to the cooperative proclamation at least they involve on different business activities and have established before fifteen years and those cooperative which are audited for five consecutive years. The detail is shown in the following table;

Table 3. 1 profile of selected MPCs

S/n	Name of coop	No of members		Board of Directors	Control Committees	Year of registration	Total member
		Male	Female				
11	Sira wutet	205	41	7	3	1993	246
2	Sira work	314	38	7	3	1993	352
3	Yrtigal fire	292	70	7	3	1993	362
4	Yemesret ediget	345	43	7	3	1992	388
5	Tebabro ediget	206	33	7	3	1994	236
6	Nur-jedid	250	4	7	3	1995	295

Source: Assosa Woreda Cooperative Promotion Desk

3.4.4. Selection of respondents

The study is intended to analyze the factors that challenge Cooperative auditing practices in the selected multipurpose cooperatives. The study respondents were selected from the committees of multipurpose cooperatives, Auditors and Promoters from the Regional and Woreda Cooperative promotion Office. The respondents from committees of the multipurpose cooperatives and auditors and promoters from the woreda promotion bureau will be the key informants.

The details are given in the following table:

Table 3.2 Selection of respondents

S/n	Respondent category	Size of respond	Data collection technique
1	Board of Directors	42	Survey
2	Control Committee	18	Survey
3	Auditors	4	KIS
4	Promoters	2	KIS

The Key informants are: two auditors from Regional promotion office, two auditors and two promoters and were from Assosa Woreda Promotion Office.

Among members, from each sample multipurpose cooperatives the researcher were conducted one focus group discussions with full group (10 members per group) and totally six focus group discussions were conducted so as to analyze their level of awareness, knowledge, understanding, attitudes and perception on challenges of cooperative auditing of their own cooperative society.

3.5. Sources of data

The Data for the organization of this paper were collected from both primary and secondary sources. These include:

3.5.1. Primary data source

The estimation of the study used mainly primary data gathered by means of a structured questionnaire asked to individuals to obtain statistically useful information about a given topic, responded by Regional Auditors, Woreda Auditors & Promoters, Board of Directors and Control Committees. Alongside, focused group discussions were also used with each selected group to grab information regarding the ideas and opinion of the group towards cooperative auditing practices.

3.5.2. Secondary data source

The secondary data were collected from various sources like annual reports, Bylaws, Books, published unpublished reports, journal articles, audit reports, etc. The study used both quantitative and qualitative data.

3.6. Data collection Instruments

The data from primary sources were collected using data collection instruments such as questionnaires and focus discussion groups.

3.6.1. Data Collection methods

Data were collected using different methods. The researcher used the following methods.

3.6.1.1. Questionnaire

Closed-ended questionnaires: In this questionnaire the researcher were used to find out what respondents think about the challenges of cooperative auditing practices of selected multipurpose cooperatives in Assosa woreda.

Open-ended questionnaires: In this method the researcher gathered qualitative aspects.

3.6.1.2. Focus Group Discussion (FGD)

FGD were described as a research approach where by a group of individuals were selected to discussed together, in a focused and moderated manner, the topic under research (Robert et al., 2003). In the focus group discussion, the researcher purposively selected six groups each group consisted of ten members using semi-structured interview were conducted so as to analyze their level of awareness, knowledge, understanding, attitudes and perception on challenges of cooperative auditing of their own cooperative society.

3.7. Data analysis and Interpretation

Analysis is a matter of giving a meaning to the first impression as well as final compilation. Intensive analysis begins after all the data have been integrated into a case study data base or case records. (Merriam, 1998)

Several levels (strategies) of analysis are possible ranging from developing of descriptive account of the finding to developing categories, themes or other concept that interpret the meaning the data in abstract form.(merriam,1998).

Both method of data analysis were used (i.e. qualitative and quantitative data analysis methods were used in the study). Because the research is survey type, which is basically designed to examine the extent of Factors that Challenges cooperative auditing practices in selected multipurpose cooperatives in Assosa woreda; descriptive survey method were employed in this study.

First the data collected using questionnaires were analyzed by using quantitative tools to portray in the form of tables. Second, to analyze the additional data collected by using qualitative methods of analysis.

Chapter Four

4. Analysis, Results and Discussion

4.1 Cooperative audit practices

4.1.1. Audit program

- **Audit program** is detailed plan of the auditing work to be performed and specifying the item and allocating tentative time required.
- It provides a guide in arranging and distributing the work and in checking against the possibility of omissions.

Table 4. 1 Preparation of Audit program by auditors

Preparation of Audit program by auditors		
	Frequency	Percent
Fully	4	100 .00
Total	4	100.00

Source: Survey, 2016

During the survey, all the respondents of the selected auditors said that there is an audit program when they are auditing the multipurpose cooperatives.

According to these respondents or auditors before conducting the audit , they outlines the whole procedures of the audit from beginning until its completion, from the preliminary stage of the audit until the finalization of audit report and certificate and the signatures there on. According to the respondents or auditors in this audit program the following contents are incorporated;

1. Name of the multipurpose cooperatives
2. A review system of the internal check
3. Date of engagement of audit
4. Tentative period of audit work
5. Accounting system followed by the multipurpose cooperatives for recording its financial Statements.
6. Preparation of the audit report
7. Instruction or points of caution as mentioned by previous year's auditors in their reports.

4.1.2. Audit type

According to **O .R. Krishnaswami (1989)**, there are four types of audit. These are concurrent, Interim, test and final. These audit type are important to the cooperative to investigate and examine its financial and non-financial operations.

During the survey along with the annual audit report, all respondents in selected multipurpose cooperatives (executive committees) and all auditors and promoters in selected woreda said multipurpose cooperatives follow final audit. According to respondents the main reason for annual audit are few auditors so that the audit frequency should annually in order to balance the number of auditors and number of cooperatives.

Therefore, this finding indicated that the audit practice in selected multipurpose cooperatives were final audit.

4.1.3. Vouching receipts and Payments in cooperatives

According to FRM De Paula (2001:95), Vouching does not mean merely the inspection of receipts with the cashbook, but includes the examination of receipts with transaction of a business, together with documentary and other evidence of sufficient validity to satisfy an auditor that such transactions are in order, have been properly authorized and are correctly recorded in the books.

Table 4. 2 Auditors vouch Receipts and payments in the cooperatives

Transactions	source documents	Auditors duty	Actions against missing amount
Cash receipts	Cash memos, cashiers, summaries, bank slips	Examine and investigate	Give suggestion and opinion
Cash payments	Cash memos, wage books, wage records, etc	Examine and investigate	Give suggestion and opinion
Petty cash book	Cash memos	Examine and investigate	Give suggestion and opinion

During the survey, all respondents (external auditors) verify assets and liabilities in order to assure the fairness of financial statements in the cooperatives. The detail description is elaborated as follows:

1. Vouching of cash receipts transaction

The selected woreda & regional auditors said that before they carries out the inspection of cash receipts and examines the transactions, he or she should investigate the internal control system of his or her clients (Multipurpose cooperatives). Auditors get the source documents to vouch cash receipts from carbon copies of cash memos, cashier's summaries, bank slips and other sources. According to them after collecting these evidences, investigation and examination takes place in order to reconcile amount cash collected with cashbook balance.

2. Vouching cash payments transactions

All the respondent auditors said that, vouching Cash payment is takes place during audit in multipurpose cooperatives. According to the auditors , the objectives of vouching cash payment transactions are to see that the payment were properly authorized; Ascertain that they were entered under their appropriate head of accounts in the cash books; ensure the payments made were exclusively and wholly for the multipurpose cooperatives and are a proper business charge; determine that the payments stated to have been made are supported by the required documentary evidence and ascertain the closing cash and bank balance accurately. Auditors get source documents to vouch any payments from cash memos, wage book, wage records, job cards, and counter fails of checks, salaries register, and appointment letters, invoice, agreements, and letters of contracts, and others.

3. Vouching of petty cash book items

The auditors should ascertain that the system of petty cash is maintained on the imprest system (Float or revolving fund) and note the amount of imprest should be consistent and in line with the requirements of the society, it should not necessarily to be rigid.

4. Vouching of outstanding assets and liabilities

All the respondent auditors said that, vouching of outstanding assets and liabilities is takes place during audit in multipurpose cooperatives. According to Ravinder Kumar Virender Sharma (2001:137), outstanding assets and liabilities mean an expenditure which has been incurred during the current year but the benefit of which will be reaped in the coming year. Outstanding assets can be classified in to three categories:

- A. accrued income or income receivable
- B. Prepaid expenses,
- C. Deferred revenue expenditures

According to Assosa woreda Auditor's office (2016), the main and fundamental objective of vouching of outstanding asset is to form an independent opinion as to whether or not various items of outstanding assets are truly and fairly stated in the balance sheet.

Like the outstanding assets, outstanding liabilities should be adjusted in the profit and loss account otherwise the final accounts will not reveal the true position of financial state of multipurpose cooperatives affairs because the profit and loss computed without including outstanding liabilities will be incorrect.

Auditors faced challenges

According to all respondents (auditors) during vouching of receipts and payments auditors faced the following challenges: absence of professional accountant, lack of sufficient source documents, mixing of payments source documents with receipts it leads to time consuming to identify documents, absent of record on time and handling large amount of cash on hand rather than opening a bank account and operating through check.

Action against the missing amount

According to all respondents (auditors) most of the cooperatives missing transactions in one way or in other way; so that in order to avoid such situations auditors give suggestions and opinions to those who prepared financial statements in order to correct the mistakes.

One can conclude that the auditor's duties are highly related with payments and receipts of assets and liabilities. Therefore, auditors used the required source documents to examine and investigate multipurpose cooperatives activities. Beside to this the actions of auditors are only giving Suggestions and opinions in order to correct errors if any rather than directly take measurements about mistakes. In addition, due to poor operation of multipurpose cooperatives auditors faced challenges during vouching.

4.2.4 Verification and Valuation of balance sheet and income statement

According to Ravinder Kumar and Virender Sharma (2001), the term “Verification” implies providing the truth or confirmation. To “verify” means to ascertain whether the actual facts are in conformity with those reported or asserted.

Financial statement audit contains balance sheet, trial balances, and loss and profit statements and bank reconciliation should incorporate. Balance sheet audit , which means Verification of items appearing in the balance sheet and the profit and loss accounts instead of conducting a thorough examinations of entries in the books of original entries with help of supporting and

relevant documents. An auditor should also verify the profit or loss from the profit or loss accounts since profit or loss is one of the items appearing in the balance sheet. Without careful and critical review of profit and loss account, auditors will not be able to report in the balance sheet perfectly.

Table 4. 3 Verification and valuation of balance sheet

Transactions	Source documents
Current assets	Cash memos, cashiers summaries, bank slip
Petty cash	
Cash in bank	Outstanding check, deposit check
Supply	Purchase invoice, purchase requisition
Accounts receivable	Credit notes, promissory note
Fixed assets	
Building	Purchase invoices, cost of purchase or purchase requisitions
Machines	
Liabilities	
Current liabilities	
Members contributions	Personal ledger , pass book
Undistributed profit	Profit and loss statement
Account payable	Personal ledger , loan purchase invoice

Source: based on the survey data, 2016

Method of verifications and auditors duties

According to all respondents (woreda & regional auditors) said that the method to verification and valuation of financial statement in cooperatives is as follows:

Existence or occurrence _ auditors deal with whether assets and liabilities of the multipurpose cooperatives exist at a given date, and whether recorded revenue and expenses transactions have occurred during a given period.

The auditors concern about his category of assertion relates primarily to the overstatement of financial statements components through the inclusion of items that do not exist or the effect of transaction that do not occur.

Completeness_ Auditors check whether all transactions and accounts that would be presented in the financial statements are so included. They check whether Unrecorded assets, liabilities, transactions, events or undisclosed items during the period by using vouching and routine checking methods.

Right and obligation_ Auditors deal with assets are the rights of multipurpose cooperatives and liabilities are the obligation of multipurpose cooperatives at a given date.

Valuation and allocations_ Auditors concern with whether the assets, liabilities, revenues, and expense component have been included in financial statement at appropriate amount has been determined in conformity with GAAP and is free of mathematical or clerical errors.

Presentation and disclosure_ auditors check whether particular components of the financial statements are properly classified, described and disclosed.

According to the respondents of all selected multipurpose cooperatives respondents said that the above method of verification and valuation is applicable in their cooperatives.

From the above result, it can be concluded that auditors applied the five financial statement assertions like other business in cooperatives.

4.2.5 Audit report and classification

According to S.K. BASU (2006), on completion of audit work, the auditor issues a written report containing his or her opinion and submits report with relevant details to the board of directors.

Table 4. 4 Preparation of Audit Report

Audit report preparation by auditors	Yes		No		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Prepare audit report	4	100	0	0	4	100
Content of audit report briefly stated	3	73.9	1	26.1	4	100
Audit Classification	0	0	4	100	4	100
Submission for approval	4	100	0	0	4	100

Source: based on the survey data, 2016

- ❖ All auditors prepare audit report on completion of audit work,
- ❖ Majority of the auditors wrote content of audit, but audit classification not performed by auditors.
- ❖ All of the respondents submit their report for approval to audit and inspection team leader.

The report should classify based on the criteria, which is established by Ethiopian federal democratic republic cooperative agency commission multipurpose cooperatives promotion.

Therefore, the detail of classification elaborated in the following table:

Table 4. 5 Criteria for audit report classification

Measurement	Kind of audit report	Color	Rank certification
Above and equal to 70%	Unqualified	Green	high satisfactory
50_69%	Qualified	Blue	Satisfactory
30_49%	Adverse	Yellow	Below satisfactory
1_29%	Disclaimer	Red	Unsatisfactory

Source: BGRS cooperative promotion bureau, 2010

According to **BGRS** cooperative promotion office, auditors should express their opinion about the fairness of financial statements of multipurpose cooperatives by using the color of green, Blue, yellow and Red. But in the region auditors failed to do these because of insufficient number of auditors and audit manual in the region.

Therefore, the above analysis indicated that even if there are criteria or standard in which auditors express their opinion about multipurpose cooperatives performances in order to evaluate their efficiency and effectiveness operations.

4.2.6. Routine checking

100 %(18) of the respondents routine checking within the multipurpose cooperatives performed through control committees.

Multipurpose cooperatives have routine checking practices in which the multipurpose cooperatives ready themselves to the external auditors through control committees.

According to Ethiopian federal democratic republic cooperative agency commission multipurpose cooperatives promotion proclamation number 007\97, Article 69 sub sections (1-7) says control committees shall be elected from the general membership at the annual general meeting. The control committee shall consist of three members who must not be employees of the society's or serving in the management committee or any other committees of the societies. The term of the Control committee shall be three years no more than 2 consecutive terms may be served.

The supervisory committee members shall choose among their number a chairman and a secretary. The secretary of the control committee shall prepare, maintain, and keep custody of the records of all actions taken, including written evidence of any audits performed by the control committees. Conditions for elections shall be the same as those of the members of the management committee.

Annual general meeting shall set the minimum qualification requirements for the members of the control committee. Provided, that at least one of the members shall have adequate bookkeeping, accounting, auditing or financial management knowledge.

Without intervening in the administrative functions subject to its control and supervision, the control committee is responsible for the society's compliance and internal control and oversight. It is also responsible for the truth and accuracy of the society's financial conditions and for making sure that, the society's administrative practices and procedures are adequate to safeguard the members and the societies' rights and interest.

The following are the powers and duties of the Control committee:-

- ❖ Evaluate programs of the society
- ❖ Check the minutes of the management committee and general meetings for policy .
- ❖ Confirm cash regularly and reconcile it with the records;
- ❖ Check bank account monthly and their reconciliations;
- ❖ Make passbook audits;
- ❖ Check loan applications and note the exceptions, if any;
- ❖ Verify the societies investments in banks, and in various institutions;
- ❖ Check delinquent loans among the management the concerned are informed;
- ❖ Check dividends/interest on share/savings and loan interest payment;

On the contrary, evidences obtained from focus group discussion indicated that all the above powers and duties of the control committee (article 69 sub sections (1-7) are practicing partially in the multipurpose cooperatives. This result indicated that there is lack of responsibility in control committee to apply their duties and powers. Therefore, in general there is no routine checking mechanism in the multipurpose cooperatives.

4.3 Audit challenges

In this part based on the basic questionnaires challenges of auditing such as responsible bodies, government support, due professional care, appointments, performances, audit control system analyzed in this study. The detail description based on the respondents' feedback elaborated as follows:

During the study based on the respondents' feedback, major audit challenges that brought on the side of multipurpose cooperatives itself and selected woreda auditors are elaborated as follows:

4.3.1 Types of Audit Report

The performance of multipurpose cooperatives is measured by audit report that is prepared by auditors. The following table indicates type audit report in selected multipurpose cooperatives during the year 2014.

Table 4. 6 Types of Audit report received based on performance in selected multipurpose cooperatives

Name of Cooperatives	kind of audit report
Sira wutet	Qualified
Sira work	Qualified
Yetigil fire	Adverse
Yemesret ediget	Adverse
Tebabro ediget	Qualified
Nur-jedid	Adverse

Source: 2014 MPCs Audit Report

As we can understand, from the above table the three selected multipurpose cooperatives (Sirawutet, Sira work, and Tebabro ediget multipurpose cooperatives) their audit report is qualified. The main reason for this according to them, they have better internal control, and accounting record system as compared to the others. On the other hand, Yetigil fire, Yemesret ediget and Nur-jedid multipurpose cooperatives said that their audit report is adverse. According

to the respondents, this is due to Lack of trained manpower especially in the area of cooperative accounting, Lack of proper account and record keeping, weak internal check and lack of responsibility among the members, particularly executives.

From this, one can conclude that poor account keeping, recording system and weak internal check are the causes of poor audit performance in the cooperatives.

4.3.2. Submission of audit report

Table 4. 7 Audit report is presentation on the annual meeting of the general Assembly

Yes		No		Total	
Frequency	Percent	Frequency	Percent	frequency	Percent
42	100	0	0	4 2	100

Source: Survey Data, 2016

According to all respondents (BDs), audit report is submitted to the general assembly as per proclamation No 97 Article 36-39. During the meeting, those who members are not comfortable with the report they can able to ask the audit promotion bureau to be re-audited in order to examine more evidence. So, one copy of the report given to the multipurpose cooperatives and the other copy is given to the audit promotion bureaus. According to the auditors, there is an audit report challenge during the annual meeting.

Members are not fully aware about cooperative audit and they do not ask during the meeting rather simply accepted what it said. On the other hand, information obtained from (FGD) revealed that members do not know well how what cooperative audit means. Beside to this, before submitted to the annual audit, the post audit activities through audit team and inspections do not practice.

One can understand from the above analysis members awareness is one of the challenges of cooperative audit.

4.3.3 Responsible Bodies to Audit Multipurpose cooperatives

All respondents (selected woreda & regional auditors) along with evidences that gathered from focus group Discussion (FGD) said that the managements are responsible to audit the society; because they are the prominent stakeholders. But they do not ask the cooperative promotion bureaus to be audited.

According to the cooperative proclamation, each and every society should be audited at least once in a year. There is no such a regular audit system or they are failing to follow the legal provision, this is because, multipurpose cooperatives are perceived that auditors are faultfinders and if the auditors get some faults, cooperatives are liable to that mistake.

According to them (selected woreda & regional auditors), there is an accounting system adopted by the government. But it is not exercised due to, the selected cooperatives have not such an employee or accountant and they have no knowledge in maintaining the accounts of the society. As they said that, the most serious issue in the society at present, the auditor is responsible for the preparation of the account balances, trial balances, financial statements and audit report. This is a big exercise for the auditor appointed by the cooperative promotion office. The auditor is admitting or engaging this work as part of their work, due to lack of accounting knowledge of the society's accountant. The auditors are playing Dual role one as an auditor of the cooperative and another role is an accountant of the society.

According to Andrew bibby (2006), Good cooperative governance goes hand in hand with effective member empowerment and healthy internal democracy. Beyond this a number of concrete actions are taken to ensure that leaders who are honest and properly accountable oversee cooperatives. As we can understand from this analysis lack of responsibilities and accountabilities, lack of proper account keeping system, poor cooperative governance and poor internal democracy are the main causes of audit challenges in selected multipurpose cooperatives.

4.3.4. Auditors due professional cares in Cooperatives

Auditors are failed to exercise due professional cares in 71 %(32) of the enforcement Cases and to maintain an attitude of professional skepticism in 60 %(27) of the cases.(Mark S. Beasley, Joseph V.Carcello and Dana R.Hermanson 2000).

“Due professional care should be used in conducting the audit and in preparing the audit report.”(GAS (1994 revision). Beside to the above literature evidences auditors due professional care challenges according to the respondents’ response elaborated in the following table as follows:

Table 4. 8 BDs opinion on Auditors due professional cares

Basis of evaluation	Yes		No		Percentage
	Frequency	Percent	Frequency	Percent	Total
Qualified & experienced	25	60	17	40	100
Follow procedure & locating mistakes	25	75	11	25	100
Gather reliable and effective evidence	29	70	13	30	100

Source: Survey data, 2016.

1. Qualification and well experience

During the study time, 40% (17) of the selected multipurpose cooperatives respondents said that, the auditors do not exercise that amount of care, which a reasonably prudent auditor would exercise in the same or similar circumstances. Beside to this they are not qualified in the area of cooperatives and also they do not have cooperative accounting background.

According to the respondents of selected multipurpose cooperatives, some auditors are not generally knowledgeable about professional standards relating to fraud, their attitudes are, at best mildly positive toward the idea of cooperative department being a primary party in detecting fraud within the cooperatives.

On the contrary, 60% (25) of the selected multipurpose cooperatives respondents said that there are, some auditors who perform well and full responsible.

According to the respondents even if some auditors in woreda are not professional and qualified in the area of cooperative accounting, they are able to exercise their profession through experience in which they understanding and reading the cooperative proclamation and bylaw.

From this, it can be possible to conclude that to some extent there are lack of responsibility with poor qualified cooperative profession created audit challenges in cooperatives.

2. Follow procedure _ locating mistakes

During the survey, 75%(31) of the selected multipurpose cooperative respondents said that auditors use auditing procedures for obtaining evidences from documentations such as book of original entry, general and subsidiary ledgers, related accounting manuals and informal and

memorandum records , such as sufficient competent evidential matter work sheet and reconciliation.

During the survey, all the auditors are said that the management of the cooperative is not careful to keep the things ready in a systematic way i, e vouchers are not serially numbered in a separate file, stock valuation reports not along with certificate. The management is also not willing to submit information's and explanations required by the auditor. All vouchers| detailed lists regarding suppliers, customers etc are not to be prepared in advance and kept ready, duly signed for the use of the auditor.

On the contrary, 25% (11) the respondents (selected multipurpose cooperatives) said that auditors do not use supporting information through the application of inspection, observation and confirmation. They are relying on verification conducted earlier by the society and valuation arrived at. But such verification statement is accomplished by a report containing age wise classification of stock and also quantity damaged or obsolete, if any.

The above finding indicated that the auditors followed financial procedures rather than other supporting information due to the above mentioned difficulties. This creates audit challenges in cooperatives and a means of mistake skepticism.

3. Gather reliable and effective evidence

As it observed from the above table, 70 %(29) of the respondents of the selected multipurpose cooperatives said that auditors do gather especially accounting data of the multipurpose cooperatives. On the other hand 30 %(13) the respondents said that gathering accounting data is not sufficient so that auditors do not gather audit evidences sufficiently as well as competency.

Therefore the above analysis indicated that there are challenges that related to due professional care such as lack of audit profession in cooperative, following one way of audit procedures and one way of data gathering mechanisms.

4.3.5. Audit control system

Multipurpose cooperatives faced an audit control system challenges (John P. Higgins, Jr. Chair, 2007). Along with this fact, audit control challenges in cooperatives according to respondents elaborated as follows;

Table 4. 9 Audit control system

Audit control system	Responses		Total Number	Percentage
	Yes	No		
Internal control	18	-	18	100
Internal audit		18	18	100
Internal check	-	18	18	100

Source: Survey data, 2016

Internal control system

The American institute of certified public accountants (AICPA) defined as, “Internal control is, a processes of, designed by the company’s board of directories, management and other personnel, to provide reasonable assurance regarding the achievement of objectives”.

As we can understand from the above table, 100%(18) the respondents said that they have an internal control system, which is established by the management in order to carry on the multipurpose cooperatives activities to safeguard its assets, and secure as far as possible accuracy and reliability of its records.

On the other hand, all the respondent auditors said that inapplicability of internal control created an obstacle to external auditor rather than facilitates them to assure accurate and reliable information when they are auditing.

Internal audit

Internal audit is an independent appraisal activity within an organization to review the operations and records as to service for managements and specially assigned staff (AICPA) do it.

As we can see from the above table all the selected multipurpose cooperatives respondents said that there is no an internal audit in their cooperative, but there are volunteer groups selected from control committee members as internal audit who perform internal audit functions. These control committees are not professionals regarding to cooperative audit. According to the respondents, the main reason to establish an internal audit is because of their limited capital and weak financial position of their societies.

Internal check

Along with internal control system, internal check is present in multipurpose cooperatives in the form of continuous control audit committee carried on by the staff itself.

According to Ravinder Kumar (2001) internal check means, practically a continuous internal audit carried on by the staff itself, by means of which other members of the staff independently check the work of each individual.

However, as we can observe from the above table, all the selected multipurpose cooperatives respondents said that there is no internal check. According to them, insufficient number of workers in their cooperative is the main reason for this absenteeism.

The above analysis revealed that lack of quality audit control system provides insufficient services to the users.

4.3.6. Auditor’s familiarities with multipurpose cooperatives accounting

66 %(12) of respondents (selected multipurpose cooperatives) said that, auditors are familiar with cooperative accounting. According to them even, most of the auditors in the selected multipurpose cooperatives used Prepare the accounting practice for their audit purpose because of no trained accountant.

On the other hand 34% (6) of the respondents said that, auditors are not familiar with cooperative accounting. According to them this is because some auditors have not cooperative accounting profession back ground and experience. Cooperative accounting is formulated for the simplicity and easy understanding of the members for the cooperatives but still not fully applicable for multipurpose cooperatives due to lack of trained man power in the area of this field.

Table 4. 10 Auditor’s familiarity with multipurpose cooperatives rule and procedures

Respondents responses	Proper knowledge of relevant law	
	Number	percent
Agree	12	66
Strongly agree	-	-
Disagree	6	34
Strongly disagree	-	-
Total	18	100

Source: **Survey data, 2016**

Therefore, the above findings indicated that the proclamation 147/91 is mostly applicable by the auditors for the time being.

4.3.7. AKUAP results FGD among members

Members of the selected multipurpose cooperatives were asked to reveal their opinion on the awareness, knowledge, understanding, attitude and perception (AKUAP) on audit practices and challenges of their multipurpose cooperatives. They revealed their opinion on this issue. The following table presents the consolidated results out of the FGD conducted among members of five selected multipurpose cooperatives.

Table4. 11 AKUAP of members

Issues	Awareness	Knowledge	Understanding	Attitudes	Perception
Accounting system	4	4	4	4	4
Audit classification	4	4	4	4	4
Participation in meeting where audit report is present	4	4	4	4	4
See and observe audit report	1	2	2	2	2
Transparency	2	2	2	1	2

Source: Survey data, 2016

Values: 1. high 2. Moderate 3.low 4. Very low

As we can observe from the above table AKUAP of members towards accounting system, audit classification and participation in meeting, where audit report is present is very low. On the other hand, due to the principles of cooperatives (openness), see and observe audit report and transparency are averagely moderate. Therefore, one can conclude from the above analysis even if openness is present in the multipurpose cooperatives, members AKUAP towards cooperative audit generally very low.

Chapter Five

5. Summary, Conclusion, and Recommendations

5.1 Summary

In many country, like Malaysia and India is a statutory function of the government services, others like Australia and Germany the services provided by cooperative federations, in United kingdom multipurpose cooperatives audited through certified public accountants while in Italy and Philippines multipurpose cooperatives getting the services through their own independent cooperative audit office which is organized by themselves. In Ethiopia the audit practices services on the hand of the government.

Even if cooperatives get services from the government, there are a lot of challenges that observed during the study such as shortage of auditors, lack of due professional care and absent of independent cooperative audit office, weak internal control. Thus the main purpose of this study was to explore how those multipurpose cooperatives in Assosa Woreda were practiced their audit services and what factors of challenges they faced. In the cause of this audit, an attempt was made to answer the following basic questions.

- i. What type of audit multipurpose cooperatives follow?
- ii. How do auditors vouch receipts and payments?
- iii. What are the major factors that challenge cooperative audit practice in the multipurpose cooperatives? etc.

Among the 20 woredas of BGRS, Assosa woreda that have been good accessibility to collect data & which have different types of both Strong and weak cooperatives were selected. From the woreda six primary multipurpose cooperatives were selected depending on their experiences and well organization that assisted to show the real audit practices and challenges during the study. 66 respondents participated in the study, which constituted 48 key informants (committees & BDs) 4 auditors, 2 promoters, 6 focus group discussions. The questionnaires that were dispatched for respondents had two parts: in which the first part were on assessing how audit practices looks like while the rest were on identifying the reasons to why the multipurpose cooperatives suffered audit services challenges.

The data collected was analyzed based on the respondent's response and the secondary sources. The analysis made warrants the following findings:

5.1.1 Audit practices on multipurpose cooperatives

The study was conducted on multipurpose cooperatives, like any other businesses there is an audit program, verification and valuation, vouching activities is takes place. The internal audit practice is carried out through control committees while the external audit practices takes place through audit promotion bureaus.

5.1.2 Audit challenges

5.1.2.1 According to the study the following are factors that challenges cooperative audit challenges

- ❖ **Shortage of auditors-** was mentioned as one of the cause of audit challenges in multipurpose cooperatives. Auditors were not able to discover the number of multipurpose cooperatives even annually. This is due to in proportion number of auditors to multipurpose cooperatives.
- ❖ **Lack of due professional care-** the other reason that the respondents agreed up on as a core cause for multipurpose cooperatives audit challenge was lack of due professional care. The respondents revealed that auditors are doing through their experiences rather than trained how they practiced their professions in the cooperatives.
- ❖ **Absence of Uniform audit standards among auditors-**according to the survey auditors are not used uniform audit standards.
- ❖ **Absence of adequate auditing manual** – as the respondent said because there is no adequate manual in the hand of all auditors and cooperatives, auditors are suffered to discharge their profession and also committees of the cooperatives have not sufficient awareness on cooperative audit practice.
- ❖ **Lack of adequate audit training** –as the respondent said there is no adequate training on auditing both for auditors and multipurpose cooperatives committee members to create awareness.
- ❖ **Lack of Accountability & Responsibility to the society-** as the survey shows there is lack of accountability & responsibility on both the auditors and multipurpose committees to the society.

5.2 Conclusion

Based on the findings some main points particularly challenges which is the cause of poor audit result in the selected multipurpose cooperatives either in the side of the selected multipurpose cooperatives itself or on the side of the cooperative audit office in woreda put in the form of summary. The points are listed as follows:

- ❖ .Majority of the respondents follow audit procedures in order to conduct audit of cooperatives based on experience that they got from another field of audit rather in cooperative societies,
- ❖ The survey result indicates that in preparation of audit report all the respondents prepare audit report after conducting audit activities,
- ❖ Majority of the respondents state the contents of audit report.
- ❖ With regard to classification of audit report all auditors were not classify audit report of the cooperative society, but regarding submission for approval all auditors submit their work.
- ❖ The survey result indicates that there is no professional accountant in selected multipurpose cooperatives, no adequate number of auditors and auditing manuals.
- ❖ the cooperatives are not regularly audited;
- ❖ The training is not appropriate for all auditors to apply for cooperative societies audit activities that majority of the respondents not apply the training in practice.
- ❖ All auditors properly practiced all financial audit activities i.e. vouching, verification and valuation of assets and liabilities.
- ❖ To get audit evidence the auditors perform their own techniques which they got from experience and education.

To sum up, the above challenges directly or in directly affects the financial and non-financial aspects and audit practices within the cooperatives and outside the cooperatives those who need the information for further investigation.

5.3 Recommendations

Based on the findings of the study, the following recommendations are suggested to avoid factors that challenge cooperative audit practice.

- ❖ The regional bureaus attempts should be made to encourage exchange of expertise and experience, training materials and guiding manuals to the woreda expertise.
- ❖ The regional or the woreda level office should prepare practically applicable training to audit staff in the region.
- ❖ Auditors should have the knowledge and ability of auditing the cooperatives based on applicable standards.
- ❖ Auditors should maintain their professional integrity and ethical values.
- ❖ Auditors should follow uniform audit standard procedure(GAAS)
- ❖ Auditor should adherence cooperative proclamation with cooperative audit practice.
- ❖ The cooperative society should have qualified accountants for keeping their accounts properly.
- ❖ The auditor should review the purpose, scope. Processes, methods and techniques followed, while auditing of cooperatives in the region.
- ❖ It is necessary that attempts are made in right earnest to standardize the auditing processes and procedures; and suitable checklists and Performa need to be designed for cooperative auditors.
- ❖ The existing arrangements for training and development of cooperative auditors and ensuring a high degree of professionalism among cooperative auditors need to be reviewed, areas of weakness identified and remedial steps initiated in the woreda.
- ❖ Exposure of the research shall go a long way in building the required confidence and develop; it will in turn help concerning body to desired changes in the existing arrangement for auditing of cooperatives in the woreda.

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Appendixes

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
Department of Accounting and Finance (MBA)
Research questionnaires for academic purpose

Dear respondent,

The objective of these Questionnaires is to gather firsthand information that will help to assess “Factors that **challenges** cooperative Auditing practices in Selected Multipurpose Cooperatives in Assosa Woreda.”

This study is undertaken as a partial requirement for the completion of the Degree of Masters in **Accounting and Finance**.

All data and information that will be gathered through these Questionnaires will be used for the sole purpose of the research and remains confidential. Therefore, you are kindly requested to respond to the questions with utmost good faith, freely and to the best of your knowledge. There is no need to write your name on the Questionnaires.

Thank you in advance for your time and kind cooperation.

Seid Yasin Mohammed

Interview Questioner for Mpcs Board of Directors

1. A. Name of your cooperative: _____
B. Gender: 1. Male 2. Female
C. Education: 1. Illiterate 2. Read & writes 3. Primary cycle 4. Junior
5. High school 6. Others
2. When your Mpcs registered? _____
3. When was your Mpcs started? _____
4. What are the objectives of your cooperatives? _____

5. What are the functions of your cooperatives? _____

6. Do your cooperatives follow the internal control system? 1. Yes 2. No
6.1 If yes, list down _____

- 6.2 If No, Specify _____
7. Do you follow internal audit? 1. Yes 2. No
7.1 If No specify _____
8. Who is responsible to audit your cooperative? 1. Members
2. Management 3. Government 4. Board of directors
9. Do you think that auditing is important in cooperative?
1. Agree 2. Disagree 3. Strongly Agree 4. Strongly Disagree
If others, specify _____
10. The support of Government in your cooperative regarding to audit?
1. Very High 2. High 3. Medium 3. Low 4. Very low
10.1 If you say Low, why?

10.2 If you say high, in what aspect? _____

11. Are auditors qualified, well experienced, and independent to audit your cooperative?

1. Yes 2. No

11.1 If No, what are the reasons? _____

12. Do the auditors have relevant knowledge about cooperative proclamation and By law?

1. Agree 2. Strongly Agree 3. Strongly Disagree

If other specify _____

13. Do the auditors understand the internal control structure of multipurpose cooperatives?

1. Agree 2. Strongly Agree 3. Disagree 4. Strongly disagree

13.1 If you Disagree Specify _____

14. Do auditors familiar with the cooperative accounting?

1. Agree 2. Strongly Agree 3. Disagree 4. Strongly disagree

14.1 If No, specify _____

15. Do auditors have ability to provide competent suggestions for improving financial, accounting practices? 1. Yes 2. No

15.1 If Yes, List down some of the points _____

15.2 If No, What are the reasons _____

16. Do the auditors attempt to obtain sufficient and reliable evidence to support recorded figures in the financial statements? 1. Yes 2. No

16.1 If No, what is the reason _____

17. Are auditors applying due professional care during auditing? 1. Yes No

17.1 If No, Justify _____

18. How frequent your cooperatives audited?

1. Regularly 2. Sometimes 3. Annually 4. Never audited

18.1 If it is regular how frequent? _____

18.2 If it is not regular what is the reason for such irregularity? _____

18.3 If never audited what are the reasons? _____

19. Which audit type your cooperative follow?

1. Final 2. Test audit 3. Interim 4. Concurrent

If other specify _____

20. Do you request the auditors to certify your income, expenditure, interest rate, valuation of inventory etc? 1. Yes 2. No

20.1 If Yes, how many times? 1. Regularly 2. Sometimes 3. Annually

If other specify _____

20.2. If No, what are the reasons you don't ask? _____

21. Do the auditors follow the prescribed format for the audit report and audit certificate?

1. Yes 2. No

21.1 If yes, what points include in the format report and certificate?

21.2 If No, what are the reasons?

22. What type of audit report received from auditor during audit?

1. UN qualified 2. Adverse 3. Qualified

4. Disclaimer 4. if others _____

23. Is the audit report officially announced during the annual (general assembly) meeting?

1. Yes 2. No

23.1 If No, Specify _____

14.1 If Yes, in what aspect _____

15.2 If no, Specify _____

16. How do you vouch receipts and payments in cooperative societies?

Item	Transactions	Source Document	Auditors duty	Action against missing amount	Problem faced
1	Cash receipt				
2	Cash payments				
3	Petty cash book				
4	Personal Vs. impersonal ledger				
5	Outstanding assets and liabilities				
6	Others assets				
7	Salary or wage expense				
8	Perdiem expense				
9	Utility expenses				
10	Sales				
11	Other income				
12	Other expenses				
13	Purchase				

17. Do you value the assets and liabilities of cooperatives?

1. Yes 2.No

17.1. If yes, fill the following table:

Assets & Liabilities	Verification method	Source document to be verified	Method for depreciation	Auditor's duty	Action against missing amount	Problem faced
Fixed						
Current						
Intangible						
Share capital						
Loans						
Bills payable						
Proposed dividend						
Contingent liability						

17.2. If no what are the reasons of lack of verification and valuation?

18. Do you verify the assets and liabilities of cooperatives? 1. Yes 2. No

18.1. If say yes, Q18 fill the following table

Assets /liabilities	Verification methods	Source documents to be verified	Auditor duty	Action against missing amount
Cash on hand				
Cash at bank				
Stock				
Furniture				
Building				
Accounts payable				
Proposed dividend				
Loans				
Others liabilities				
Share capital				
Social fund				
Reserve fund				
Donation fund				

19. Do you gather sufficient and reliable evidence when you conduct audit in the cooperative societies? 1. Yes 2. No

19.1. If yes, what are? _____

20. Do you think cooperative accounting system applicable?

1. Agree 2. Disagree 3. Strongly agrees 4. Strongly disagrees

5/ No opinion _____

21. Do you know cooperative proclamation articles regarding audit?

1. Yes 2. No

22. If yes what are those articles.....

.....
23. Do you apply the audit procedure according to cooperative proclamation article 36?

1. Yes 2. No

23.1. If No reason out.....

24. Do you apply the audit procedure according to cooperative proclamation article 37?

1. Yes 2. No

24.1 If yes what are?.....

.....
25. Are the accountants and control committees discharge their duties and responsibilities properly during the time of audit? 1. Yes 2. No

26. Do you apply the audit procedure according to cooperative proclamation article 38?(No1-3)

1. Yes 2. No

27. Do you face any challenge during auditing? 1. Yes 2. No

27.1. If yes specify? _____

28. For what kind of problem do you follow cooperative proclamation?

29. Do you get government support for improving your skills?

1. Yes 2. No

29.1 If yes what are?

.....
30. Do you think the institutional structure is functioning for appropriate cooperative audit system?

1. Yes 2. No

31. Is there prescribed audit report format in cooperatives? 1. Yes 2. No

32. What are classifications of audit report? Specify?

33. Are audit report of Cooperatives approved by audit and inspection team leader?

1. Yes 2. No

Checklist Questionnaires for control committees

Name of Coop.

- 1. Gender: 1. Male 2. Female
- 2. Education: 1. Illiterate 2. Read & writes 3. Primary cycle 4. Junior 5. High school
- 6. Others
- 3. Do you follow internal control? 1. Yes 2. No
- 4. If say yes, Q1 which type of internal control in your Cooperatives. Please tick marks

Internal audit		
Internal check		
Organizational Controls		
Segregation of Duties		
Authorization and Approval Procedure		
Arithmetical accuracy		
Visual Controls		

- 5. If say no, Q1 tick marks for all reasons
 - 1. Lack of awareness about internal check 2. Lack of staffs
 - 3. Others please specify _____

- 6. Who is responsible to Audit of cooperatives?
- 7. What are the roles of control committee for cooperatives?
- 8. Who is the appropriate authority sign and approve the audit report?
- 9. Do you respect ethics in discharging duties and responsibilities? Specify?
- 10. Is the audit report officially announced during annual meeting of Cooperative?
- 11. What are the procedures that control committees follow?
- 12. What kind of problem face for auditors during audit of cooperative?
- 13. Accountants have taken any formal training regarding to accounting and finance?
- 14. Are there operational manuals detailing instructions for accounting, recording operations and preparation of financial statements and practice cooperative guidelines?
- 15. Audit results of Cooperatives are open and easily accessible to everyone?

SEMISTRUCTURE QUESTIONNAIRES TO INTERVIEW MEMBERS (FGD)

AKUAP Issues	Awareness	Knowledge	understanding	Attitude	perception
Accounting system					
Audit practices					
Audit report					
Audit certificate					
Audit classification					
Participation in meeting when audit report present					
See and observe audit report					
Participation in audit report					
Transparency					
Audit problem					

Values: 1. high 2. Moderate 3.Low 4. Very Low

THANK YOU FOR YOUR KIND COOPERATION!