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AUDIT PRACTICES AND PROBLEMS ON SELECTED SAVING AND CREDIT COOPERATIVES IN SOUTH WOLLO ZONE, AMAHARA NATIONAL REGIONAL STATE

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ABSTRACT

The people faces audit problems particularly the selected saving and credit cooperatives and other external users. Number of recommendation are given for the the auditors to know their weaknesses and strength in order to take improvements for their future careers like Signal to their audit teams that providing high quality audit services is a top audit priority and that the office does not view such services as a commodity; the office can do this by emphasizing the importance of audit quality in training programs and annual performance re-views, Encourage all personnel to maintain an attitude of professional skepticism that focuses on the importance of the auditor's role in protect-ing the public interest and maintaining strong capital markets. Beside to this the number of auditors with sufficient training in each sub Woreda should increases in order to balance the number of co-operatives so that there are graduated students those who have taken the course cooperative accounting along with its legal system, therefore, the government has to train this manpower collaborate with cooperatives to solve the chal-lenges. Cooperatives have to prepare their financial statement on time through cooperative accounting system that focus on transactions. It should provide a complete audit or transaction trial for each transaction.

KEYWORDS

audit practices, audit problems.

INTRODUCTION

The aim of this paper is to give some information from well experienced countries about audit practices to the cooperatives and to throw new light on the above mentioned problems and discuss them from different angles (appointments, due professional cares, program, routine checking, vouching receipts and payments, verification and valuation, audit report classification and audit control system).

Today it is quite clear that saving and credit cooperatives are facing serious and fundamental problems. Issues at the center of such problems such basic concepts as the nature and aim of cooperatives, as well as its structural and the principles on which it operates.

Saving and credit cooperatives were formed as social organizations and did not operate their cooperatives as businesses. (ILO, 1995).

A second problem, 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 saving and credit cooperatives still existed so that this condition was creating gap between the management and external auditors (updated: D.de Jong, 2006)

Cooperative societies have no internal auditors because of their limited financial capacity. Thus the absence of internal auditor in each primary cooperatives create difficulty to control day to day activities and ready to 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 staff 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 avoid different problems, challenges and to keep fund of the society, there are unsolved problems. So, the study tries to identify major problems and good practices of cooperative auditing based on selected saving and credit cooperatives in South Wollo Zone.

OBJECTIVES OF THE STUDY

The researcher, so, has inspired to investigate problems in cooperative auditing practices in the selected saving and credit cooperatives.

The **general objective** of the study is to investigate the **problems** of cooperative auditing practices in selected saving and credit cooperatives in south Wollo Zone.

SPECIFIC OBJECTIVES

1. To study the audit practices in selected saving and credit cooperatives in south Wollo Zone.
2. To investigate the problems related to audit of selected saving and credit cooperatives in South Wollo Zone.
3. To identify mechanisms to overcome the problems of cooperative auditing practices in the selected study units.

METHODOLOGY

METHODS OF DATA COLLECTION AND SAMPLING

STUDY DESIGN

The survey would conducted on woreda promoters, audit and inspection case team, senior and junior auditors, members and key informants of selected saving and credit cooperatives in south Wollo zone.

SAMPLING

Since the study objective is to investigate **problems** of cooperative auditing practices. A representative sample is taken from the woredas of south Wollo administrative Zone. **Cluster** sampling procedures were followed along with **purposive** sampling in order to select the study area and respondents.

SELECTION OF RESPONDENTS

The study is intended to analyze the problems of Cooperative auditing practices in the selected saving and credit cooperatives. The study respondents were selected from the committees of saving and credit cooperatives; Woreda audit promotion bureaus and the members of the saving and credit cooperatives. The respondents from **committees** of the saving and credit cooperatives and **auditors** and **promoters** from the woredas promotion bureaus were the **key** informants. The **members** as a group of the saving and credit cooperatives were used for **focus group discussion (FGD)**.

SOURCES OF DATA

The organization of this paper was based on two sources (primary and secondary sources). The main source of primary data were the questionnaire has closed and open-ended questions from the respondents and interview (FGD). Besides, secondary data was collected from Books, published and unpublished reports, journal articles, audit reports, etc.

DATA COLLECTION

The researcher had gathered data from the respondents through both open-ended and closed-ended questionnaires.

METHOD OF DATA ANALYSIS

Both method of data analysis was used (i.e. qualitative and quantitative data analysis methods would used in the study). Because the research is survey type, which is basically designed to examine the extent of problems of cooperative auditing practices in selected saving and credit cooperatives in south wollo zone; descriptive survey method was employed in this study.

RESULTS AND DISCUSSION**COOPERATIVE AUDIT PRACTICES****AUDIT PROGRAM**

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

On the contrary, 100% (25) of the respondents of the saving and credit cooperatives said that since the auditors that came from each woredas are constant, the full audit program contents do not set and revised each year. As result of these the saving and credit cooperatives simply accept whatever any content including in the program because of dependency of audit fees from the government.

On the other hand, auditors doing the audit program through experience rather than drafting and modifying the content each year. As we can understand from the responses of the saving and credit cooperatives respondents, audit program, which is designed by auditors, is constant procedures from year after year.

VERIFICATION AND VALUATION OF BALANCE SHEET AND INCOME STATEMENT

According to Ravinder Kumar and Virender Sharma (2001:147), 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.

TABLE 1: VERIFICATION AND VALUATION OF BALANCE SHEET

Transactions	Source documents
Current assets	
Petty cash	Cash memos, cashiers summaries, bank slip
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, 2012

METHOD OF VERIFICATIONS AND AUDITORS DUTIES

According to all respondents (sub woredas auditors) Said that the method to verification and valuation of financial statement in cooperatives is as follows: Existence or occurrence, Completeness, Right and obligation, Valuation and allocations Presentation and disclosure

Duties related to verification and valuation elaborated as follows:

To verify petty cash auditors doing test for evidence of arithmetical check on petty cash records, examine evidence of independent check of petty cash balance and test petty cash vouchers for approval. Cash in bank also verified through bank reconciliation in order to check the amount of cash in bank reconcile the book of the society.

Saving and credit cooperatives purchase supplies for operational either in cash or in account. In this case the auditors verify purchase invoice and purchase requisitions how much amount of quantity purchased, unit price and from whom it purchased, who ordered and approved.

The other part of assets is receivables form members'. Auditors verify the amount of receivables that will be collected from members through promissory notes in which the maturity value, maturity date, interest and proceed should be examined and evaluated by auditors. On the other hand, fixed assets like building and machinery are verified through purchase invoice and their initial costs by considering this and their initial costs by considering this, auditors valued the book value of fixed assets through straight-line depreciation methods.

Table indicated that there are liabilities mostly current liabilities such as member contribution, account payable and undistributed dividend. Likewise, assets the auditor's duty each liability elaborated as follows:

Auditors verify members' contribution in which total amount of money paid by new members during registration not only this but also date of registration, amount paid, by whom it was paid is verified and valued correspondence with personal ledgers.

Sometimes saving and credit cooperatives purchase items on account without immediate payment. In this situation, the auditors verify how much amount of quantity purchased, from whom it was purchased; when it will be paid should also checked through purchase and credit invoices.

The other type of liability indicated in table is undistributed dividend. According to all respondents (auditors), investigating and evaluating whether 70% of the surplus distributed to the members based on their participation. This is verified through financial statements of saving and credit cooperatives with personal ledgers.

According to the respondents of all selected saving and credit 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.

PROBLEMS FACED DURING VERIFICATION AND VALUATION

According to auditors, they have faced several problems when doing verification and valuation along with the absence of sufficient source documents. These are the lack of existing and recurrence of assets and liabilities at a given date, transferability of account receivables and payable (dividend) from year to year and the depreciation expenses of fixed assets exceeds the book value of that assets. In order to tackle these problems from the saving and credit cooperatives, auditors give suggestions, ways, methods and opinions to the members.

From this analysis, one can understand that above problems generated due to lack of trained labor that records transactions on time and attached source documents on its own separate files.

AUDIT REPORT AND CLASSIFICATION

According to S.K. BASU, 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.

The report classified based on the criteria, which is established by Ethiopian federal democratic republic cooperative agency commission saving and credit cooperatives promotion. Therefore, the detail of classification elaborated in the following table:

TABLE 2: 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: Amahara national regional cooperative promotion bureau, 2012

According to Amahara National regional cooperative promotion office, auditors express their opinion about the fairness of financial statements of saving and credit cooperatives by using the color of green, Blue, yellow, and Red.

The above analysis indicated that there are criteria or standard in which auditors express their opinion about saving and credit cooperatives performances in order to evaluate their efficiency and effectiveness operations.

PERFORMANCE AUDIT PROBLEMS

The performance of saving and credit cooperatives is measured by audit report that is prepared by auditors. The following table indicates performance audit problems in saving and credit cooperatives.

TABLE 3: AUDIT REPORT CLASSIFICATION BASED ON PERFORMANCE IN SELECTED SAVING AND CREDIT COOPERATIVES

Name of sub woredas		Achievement	kind of audit report	color	rank certification
Dessie Zuria	Dibbile ager saving and credit cooperative	50_69%	qualified	White blue	Satisfactory
	Dade kuyu saving and credit cooperative	39_40%	Adverse	Blue	Below satisfactory
	Dadji saving and credit cooperative	30_49%	Adverse	Blue	Below Satisfactory
Kalu woreda	Selam saving and credit cooperative	30_49%	Adverse	Blue	Below satisfactory
	Kalu saving and credit cooperative	50_69%	qualified	White Blue	Satisfactory

Source: Based on Survey Data, 2012

As we can understand, from the above table the three selected saving and credit cooperatives (dade kuyu, dadji and selam saving and credit cooperatives, their audit report is adverse and their certificate below satisfactory (30_49%). 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.

On the other hand, dibbile agere saving and credit cooperatives from Dessie Zuria Woredas and kalu saving and credit cooperatives from kalu woredas said that their audit report is qualified and their certificate is Satisfactory for the previous consecutive years.

The main reason for this according to them, they have better internal control, and accounting record system as compared to the others. 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.

SUBMISSION OF AUDIT REPORT

According to all respondents, 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 saving and credit cooperatives and the other copy is given to the audit promotion bureaus. According to the auditors, there is an audit report problem 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 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 member’s awareness is one of the main problems of cooperative audit.

RESPONSIBLE BODIES TO AUDIT SAVING AND CREDIT COOPERATIVES

All respondents (selected woredas 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, saving and credit cooperatives are perceived that auditors are faultfinders and if the auditors get some faults, cooperatives are liable to that mistake. Therefore, primary saving and credit cooperatives are not willing and are not responsible to ask auditors to audit.

According to them (selected woredas auditors), the accounting system adopted by the selected cooperatives is not good. It is not in accordance with Double entry system; even if it has given all the details of the business transaction during the audit period. This is due to, some of the selected cooperatives; they do not have such an, employee or accountant and they have no knowledge in maintaining the accounts of the society. They said also the source documents are not entered in the first cashbook, then recording in appropriate ledgers, journals are not followed. Regarding the cash receipts, they said, at present these are prepared by the cashier, but not preparing daily, they are accumulating for a week or 10 days, then one day they are preparing all vouchers by the cashier, without authorization of his or her superior.

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.

AUDITORS DUE PROFESSIONAL CARES IN COOPERATIVES

“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 problems according to the respondents’ response elaborated in the following table as follows:

TABLE 4: AUDITORS DUE PROFESSIONAL CARES ACCORDING TO SAVING AND CREDIT COOPERATIVES

Basis of evaluation	Yes		No		Percentage Total
	number	percent	number	percent	
Qualified &experienced	10	40	15	60	100
Follow procedure & locating mistakes	7	30	18	70	100
Gather reliable and effective evidence	10	40	15	60	100

Source: Based on survey data, 2010.

From the above table one conclude that, even if, the government gives free audit services to the saving and credit cooperatives but the auditors are not sufficiently trained or equipped to carryout audit tasks related to cooperative by law and requirements and also they are failed to follow procedures for locating mistakes and gathering reliable and effective information.

AUDITOR'S FAMILIARITIES WITH SAVING AND CREDIT COOPERATIVES ACCOUNTING, PROCEDURE AND BY-LAWS

100 %(25) of respondents (selected saving and credit cooperatives) said that, auditors are not familiar with cooperative accounting. Not only auditors but also accountants do not know what cooperative accounting means and how it is applied in the cooperatives. According to them even, the selected saving and credit cooperatives most of them used double entry bookkeeping system. Auditors give suggestions to the saving and credit cooperatives to use double entry when they are preparing their financial statements because auditors use double entry system.

The main reason of this fact is that, there are no qualified accountants and auditors who did take cooperative account as a course. Therefore, they are doing whatever they know from their experience.

As we can understand from the responses of the respondents, auditors due professional care with familiarity of cooperative accounting system, all respondents said that auditors have no know how what cooperative accounting means and how to apply during the audit processes. Cooperative accounting is formulated for the simplicity and easy understanding of the members for the cooperatives but still not applicable for saving and credit cooperatives due to lack of trained man power in the area of this field.

TABLE 5: AUDITOR'S FAMILIARITY WITH SAVING AND CREDIT COOPERATIVES RULE AND PROCEDURES

Respondents responses	Proper knowledge of relevant law	
	number	percent
Agree	5	20
Strongly agree	-	-
Disagree	20	80
Strongly disagree	-	-
Total	25	100

Source: based on survey data, 2012

As we can observe the above table, 20 %(5) of the respondents said that auditors know cooperative by laws through experience. Even if; they did not learn cooperative legal system as a course, they are reading and using as a reference material during their performance. On the other hand, 80%(20) of the respondents said that since they are using like other businesses, auditors do not know the right cooperative bylaws, procedures and rules even the accounting system and emphasis only the accounting documents rather than the non-financial audit aspects in which the performance, rule, and regulation included. Therefore, the above findings indicated that the proclamation 147/91 is not fully applicable by the auditors for the time being.

RECOMMENDATIONS

Based on finding result the researcher put some of the recommendations, which assists those who faced audit problems particularly the selected saving and credit cooperatives and other external users. This recommendation is also important to the auditors to know their weaknesses and strength in order to take improvements for their future careers.

- Signal to their audit teams that providing high quality audit services is a top audit priority and that the office does not view such services as a commodity; the office can do this by emphasizing the importance of audit quality in training programs and annual performance reviews.
- Encourage all personnel to maintain an attitude of professional skepticism that focuses on the importance of the auditor's role in protecting the public interest and maintaining strong capital markets.
- Beside to this the number of auditors with sufficient training in each sub Woreda should increases in order to balance the number of cooperatives so that there are graduated students those who have taken the course cooperative accounting along with its legal system, therefore, the government has to train this manpower collaborate with cooperatives to solve the challenges.
- Cooperatives have to prepare their financial statement on time through cooperative accounting system that focus on transactions. It should provide a complete audit or transaction trial for each transaction.

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