



AUDIT POLICY

VERSION 2.1

**Approved and adopted
on 30-05-2024**



Introduction

Efficient maintenance of accounting records, effective internal controls, modern auditing practices, and the implementation of management accounting techniques are essential for enhancing the operational performance of our cooperative bank and achieving our goals. This policy aims to ensure that our practices align with the guidelines provided by regulatory authorities, identifying suitable measures for improving our current accounting and auditing systems.

Auditing plays a critical role in our operations. It involves an intelligent and thorough examination of our books of accounts and verification of their correctness against relevant vouchers and documents. This ensures that all entries are accurately recorded, constituting a true representation of our transactions. Moreover, auditing ensures that our Profit and Loss account and Balance Sheet are correctly prepared to reflect the true and fair state of the bank's affairs at the end of the year, as well as the profit or loss for the financial year.

This examination goes beyond mere arithmetic checks. It involves ensuring that recorded transactions are genuine, properly authorized, and accurately entered. This comprehensive approach to auditing safeguards the integrity and reliability of our financial statements, underpinning the trust and confidence placed in our institution.



1. Internal Audit and Inspection Policy

In accordance with the recommendations of the Ghosh Committee, our bank is committed to implementing a robust internal audit system. To enhance the credibility and effectiveness of our inspection system in detecting fraud and malpractices, we will take decisive steps to strengthen our inspection and audit mechanisms and improve the quality of our inspection officers.

The Inspection Team shall be formed at the Head Office year on year in consultation with the Board and will be led by a senior officer of proven integrity, who will report directly to the President. Officers assigned to this team must possess substantial experience and exposure, ensuring they are well-equipped to uphold the highest standards of audit and inspection. This structure aims to fortify our bank's internal controls and maintain the highest levels of transparency and accountability.

1.1 Audit Periodicity

Internal audits of the branches shall be conducted at least once every 12 months. These audits will be carried out on a surprise basis to ensure the integrity and effectiveness of the audit process, promoting accountability and adherence to our standards.

1.2 Comprehensive Scope of Audit & Coverage

The scope of internal inspections will be broadened to ensure a thorough examination of the internal control systems at each branch, including the periodic control returns submitted to the controlling office. Internal inspection reports must specifically address any irregularities noted in the Reserve Bank of India's inspection reports.

Inspection and audit officials will critically analyze and conduct in-depth studies of areas prone to corruption and fraud. These areas include, but are not limited to, the appraisal of credit proposals, balancing of books, reconciliation of accounts, settlement of clearing transactions, and premises for any malpractice. This scrutiny will help ensure no improper activities go undetected.

During inspections, internal inspectors must scrutinize the suspense accounts and provide specific instructions for the prompt reversal of entries. Additionally, the bank will ensure that all branches properly follow the system established for recording details of off-balance sheet transactions. These records will be periodically balanced and verified by internal inspectors, who will offer critical feedback.

Proper inventories of dead stock articles and stationery must be maintained and subjected to surprise checks at regular intervals by branch officials and internal inspectors. This policy aims to enhance the robustness of our internal control and



inspection mechanisms, ensuring greater transparency and accountability across all branches.

1.3 Coverage of Internal Audit

Internal inspections will be broadened to ensure a thorough examination of the internal control systems at each branch, including the periodic control returns submitted to the controlling offices. Internal inspection reports must specifically address any irregularities highlighted in the Reserve Bank of India's inspection reports.

Inspection and audit officials are tasked with critically analysing and conducting in-depth studies of areas susceptible to corruption and fraud. This includes the appraisal of credit proposals, balancing of books, reconciliation of accounts, premises for any malpractice, and the settlement of clearing transactions. The goal is to ensure that no malpractices or irregularities go undetected.

During inspections, internal inspectors must scrutinize the suspense accounts and provide specific instructions for the prompt reversal of entries. The bank will ensure that the system established for recording details of off-balance sheet transactions is properly followed by all branches. These records must be periodically balanced, verified by internal inspectors, and accompanied by critical feedback.

Proper inventories of dead stock articles and stationery must be maintained and subjected to surprise checks at regular intervals by both branch officials and internal auditors. This policy is designed to enhance the thoroughness and effectiveness of our inspection and audit processes, ensuring the highest standards of transparency and accountability across all branches.

1.4 Compliance with Prudential Norms

Internal auditors must identify and report any non-compliance with prudential norms related to income recognition, asset classification, and provisioning, ensuring appropriate corrective actions are taken.

1.5 Cheque Purchase Transactions

Internal auditors are required to verify all cheque purchases and discounted transactions that exceed the sanctioned limit. They should also conduct sample checks of these transactions to ensure adherence to established guidelines.

1.6 Supplementary Inspections and Audits

In addition to the annual internal inspection, the bank will conduct supplementary surprise inspections, revenue audits, and credit portfolio audits, particularly in larger



branches. Surprise short inspections will be carried out by officials at higher levels to ensure that branch officials are not engaging in any malpractices.

1.7 Revenue Audit

During revenue audits, any instances of income leakage must be thoroughly investigated. Appropriate actions will be taken against officials responsible for these lapses to prevent future occurrences.

1.8 Credit Portfolio Audit

A dedicated system for scrutinizing the credit portfolio will be introduced, focusing on larger advances and group exposures. This audit will aim to identify and address serious irregularities such as improper credit appraisal, disbursement without adhering to terms of sanction, inadequate post-disbursement supervision, unauthorized excess withdrawals, and fraudulent activities. This comprehensive review will help in maintaining the integrity and efficiency of our credit operations.

A special scrutiny of high value accounts should be done along with executives/officials including Chief Executive Officer. The summary of the important findings may be submitted to the Audit Committee of the Board.



2. Investment Portfolio Audit

2.1. Reconciliation and Review

The Investment Portfolio Audit Policy mandates regular reconciliation of account balances with other banks, institutions, and SGL (Subsidiary General Ledger) transfer forms etc. This process will be conducted independently from the internal audit department / by internal investment team only to ensure objectivity and thoroughness. The reconciliation process will be conducted on a periodic basis, with detailed reports generated to verify the accuracy of the bank's records against external statements

2.2. Audit of Government Securities Transactions

The investment team will be tasked with the separate audit of the purchase and sale of government securities. The following measures will be implemented to ensure a comprehensive and effective audit process:

Quarterly Reporting: The results of these audits will be compiled into detailed reports and presented to the Board of Directors every quarter. These reports will include insights on compliance, performance, and any discrepancies identified during the audit process.

2.3. Compliance Measures for Brokers and Transactions

The audit will encompass stringent compliance measures to regulate transactions with approved brokers and ensure prudent financial practices. The key aspects of this compliance include:

Upper Contract Limit: The audit will verify adherence to the aggregate upper contract limit for each approved broker. This limit is set at 5% of the total transactions (both purchases and sales) executed by the bank during the financial year or such other limits as may be prescribed by RBI from time to time. Any deviations from this limit will be documented, and corrective actions will be recommended.

Distribution of Transactions: The audit will ensure that transactions are not disproportionately conducted through a single broker or a few brokers. This is to prevent over-reliance on specific brokers and to maintain a diversified and balanced transaction portfolio. The aggregate contract limits for each approved broker will be regularly monitored and enforced.

Half-Yearly Reviews: The compliance with aggregate contract limits and distribution of transactions will be subject to a half-yearly review. The review shall also consist of review of the investment policies, updating needed or made, if any, compliance of transactions with the Investment policy etc. This review will be documented and



submitted to the Board of Directors, providing a comprehensive overview of broker activity and compliance status.

Best Interest Deals: The audit will critically assess whether all deals have been conducted in the best interest of the bank. This involves evaluating the fairness, transparency, and competitiveness of each transaction, ensuring that the bank's financial interests are prioritized.

2.4. Additional Audit Focus Areas

Risk Assessment: The audit will include a risk assessment of the investment portfolio, identifying potential risks and recommending mitigation strategies. This will help in maintaining a resilient and secure investment strategy.

Regulatory Compliance: The audit will ensure that all investment activities comply with relevant regulatory requirements and guidelines. Any non-compliance issues will be promptly addressed and rectified.

Performance Analysis: The audit will analyse the performance of the investment portfolio, assessing the returns and evaluating the effectiveness of the investment strategies employed. This will provide valuable insights for future investment decisions.



3. Concurrent Audit System

3.1. Introduction and Purpose

In line with the recommendations of the Ghosh Committee and the Joint Parliamentary Committee (JPC), the introduction of a concurrent audit system is crucial for ensuring adherence to prescribed systems and procedures, and for the timely detection and prevention of lapses and irregularities. The concurrent audit system serves as an early-warning mechanism for the bank, helping to identify and prevent fraudulent transactions at the branch level.

3.2. Implementation and Management

To ensure the effective implementation of the concurrent audit system, the bank's management must focus on several key aspects:

Selection of Branches: The bank shall conduct the concurrent audit for all the branches for risk assessment and operational compliance in line with the circulars and notifications provided by RBI from time to time in this regard.

Coverage: The scope of the concurrent audit will be comprehensive, covering all critical areas of branch operations. The additional areas may be prescribed by the Board / CEO based on the requirement of the board for assurance and also in line with the directions from RBI during their inspections.

Appointment of Auditors: Qualified Chartered Accountants will be appointed to conduct the concurrent audits. Their selection will be based on their expertise, experience, and integrity and the said CA shall be eligible for the audit as per the RBI guidelines.

Reporting Procedures: A structured reporting procedure will be established to ensure timely and accurate reporting of audit findings.

Follow-up and Rectification: A robust follow-up mechanism will be in place to address and rectify any irregularities or lapses identified during the audit.

Feedback Utilization: The feedback from the concurrent audit system will be utilized for informed decision-making and continuous improvement of bank operations and shall be reviewed by the Board in their meetings on a monthly basis and provide necessary instructions based on the same.

3.3. Annual Review

The Board of Directors will review the effectiveness of the concurrent audit system annually. This review will include an assessment of the system's ability to detect and



prevent irregularities, as well as its overall impact on operational efficiency. Any identified weaknesses will be addressed with necessary corrective measures.

3.4. Concurrent Audit Scope

The broad features / scope of the concurrent audit system are outlined in **Annex I** to ensure uniformity across the bank's operations. These features include:

Investment Certification: Concurrent auditors will certify that the investments held by the bank as of the last reporting Friday of each quarter, as reported to the Reserve Bank of India (RBI), are indeed owned/held by the bank. This certification will be supported by physical securities or custodians' statements.

Reporting Serious Irregularities: Any serious irregularities identified in the concurrent audit report must be immediately reported to the concerned department for prompt action.

Independence of Auditors: Chartered accountants or audit firms engaged in internal or concurrent audit assignments with the bank must not undertake statutory audit assignments during the same period. Firms must relinquish their internal or concurrent audit roles before accepting any statutory audit / other assignments within the same year to maintain independence and avoid conflicts of interest.



4. Information System (IS) Audit

4.1. Introduction

As the bank adopts advanced technologies such as electronic banking, electronic money, and debit cards, it recognizes the associated risks. To mitigate these risks and ensure secure operations, the bank will introduce a comprehensive Information Systems (IS) Audit.

4.2. IS Audit Policy

4.2.1. Adoption and Review of IS Audit Policy:

The bank will adopt an IS audit policy tailored to its operational scope, business complexity, and level of computerization as may be decided by the Board from time to time.

This policy and scope will be reviewed regularly and updated in accordance with the guidelines issued by the Reserve Bank of India (RBI).

4.2.2. Frequency:

The bank will implement systems and practices to conduct annual IS audits for the entire bank with all the branches and areas that are critically important based on the nature and volume of business. The audits shall be conducted once every 2 years or such other immediate frequency as may be mandated by RBI from time to time.

These audits will evaluate the effectiveness of the bank's information systems and identify potential vulnerabilities.

4.2.3. Timing of IS Audits:

IS audits should preferably be conducted prior to the statutory audit. This ensures that IS audit reports are available to statutory auditors in a timely manner, allowing them to examine and incorporate relevant comments in their audit reports.

4.2.4. Reporting and Compliance:

IS audit reports will be presented to the Board of Directors. Compliance with the findings and recommendations of the IS audit must be ensured to be submitted within one month of the report being placed before the board.



5. Audit Committee of Board (ACB)

The Board of Directors statutory inspection/add follow-up action on the timely review and action on the findings of the compliance reports thereto. Timely reports and guidelines, circulars etc. issued by RBI as also the internal audit/inspection, etc. is considered desirable to tone up the overall functioning and operational efficiency of the banks.

- In order to ensure and enhance the effectiveness of internal audit/inspection as a management tool, it is considered necessary that an Apex Audit Committee should be set up at the Board level for overseeing and providing direction to the internal audit/inspection machinery and other executives of the Bank.
- The Audit Committee of the Board of Directors (ACB) may consist of the Chairman and three/four Directors, one or more of such Directors being Professional Director or persons having experience in management, finance, accountancy and audit systems etc. This also implies that the bank needs to constitute wherever necessary, its board with an adequate number of such professionals
- The Audit Committee of the Board should review the implementation of the guidelines issued by RBI and submit a note thereon, to the Board at quarterly intervals.
- The other duties/ responsibilities of the Audit Committee of Board (ACB) are as follows:
 - ACB should provide direction and oversee the operations of the total audit function in the bank. The total audit function will imply the organization, operationalization and quality control of internal audit and inspection within the bank and follow-up on the statutory audit of the bank and inspection of the Reserve Bank.
 - As regards internal audit, ACB should review the internal inspection/audit function in the bank - the system, its quality and effectiveness in terms of follow up. It should review the follow up action on the internal inspection reports, particularly of "unsatisfactory" items. It should also specially focus on the follow up on:
 - Frauds.



- All other major areas of housekeeping.
- compliance with the Statutory Audit Reports/concurrent Audit Reports/RBI inspection reports.
- omission on the part of internal inspecting officials to detect serious irregularities should be viewed seriously.
- Periodical review of the accounting policies/systems in the bank with a view to ensuring greater transparency in the bank's accounts and adequacy of accounting controls.



6. Policy for Appointment of Statutory Auditors

This policy is made in compliance with the guidelines issued by Reserve Bank of India vide circular No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27th April 2021.

As per the extant norms of Reserve Bank of India, an Audit firm preferably with full time partners or full time CAs having CISA/ISA qualification or at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of shortlisting can be appointed as Statutory Auditor of the bank.

6.1. Eligibility

The Audit Firm to be eligible for appoint as Statutory Auditor shall fulfil the following eligibility norms:

6.1.1. Basic Eligibility:

An Audit firm preferably with full time partners or full time CAs having CISA/ISA qualification or at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of shortlisting can be appointed as Statutory Auditor of the bank.



6.1.2. Additional Eligibility:

- 6.1.2.1. The audit firm, proposed to be appointed as SCAs/SAs for Entities, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- 6.1.2.2. The audit firm should not be under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.
- 6.1.2.3. The bank shall ensure that appointment of SAs is in line with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.
- 6.1.2.4. If any partner of a Chartered Accountant firm is a director in any Public Sector Bank (PSB), the said firm shall not be appointed as SA of any PSB. Further, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SA of any of the group entities of that Entity.
- 6.1.2.5. The SA of the firm should have a fair knowledge of the functioning of the co-operative sector and shall preferably have working knowledge of the language of the state in which the UCB/branch of the UCB is located.

6.1.3. Tenure and Rotation

- 6.1.3.1. Banks will appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, the banks can remove the audit firms during the above period only with the prior approval of the concerned office of RBI (Department of Supervision), as applicable for prior approval for appointment,
- 6.1.3.2. An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other Entities.

6.1.4. Audit Fees and Expenses

- 6.1.4.1. The audit fees for shall be decided in by the board and the auditors form time to time on mutual agreement in line with the applicable statutory guidelines in this regard.



- 6.1.4.2. The audit fees for shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, identified risks in financial reporting, etc.

6.1.5. Publishing and Appointment Procedure

- 6.1.5.1. This audit policy shall be hosted on the official website / public domain.
- 6.1.5.2. The procedure for appointment shall be strictly in confirmation to the procedure laid down in the Annexure II of the said circular no. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27th April 2021 or such other succeeding circulars as may be issued by RBI from time to time.



Annex- 1

Note on Concurrent Audit

1. Introduction

A system of Concurrent Audit should be introduced all the branches to serve as administrative support to branches help in adherence to prescribed systems and procedures and timely detection of lapses/irregularities.

2. Scope of Concurrent Audit

- Concurrent audit is an examination, which is contemporaneous with the occurrence of transactions or is carried out as near thereto as possible. It attempts to shorten the interval between a transaction and its examination by an independent person not involved in its documentation. There is an emphasis in favour of substantive checking in key areas rather than test checking.
- A concurrent auditor may not sit in judgment of the decision taken by bank/branch Manager or an authorized official. However, the auditor will necessarily have to see whether the transactions or decisions are within the policy parameters laid down by the Head office/Board of Directors, they do not violate the instructions or policy prescriptions of the Bank and that they are within the delegated authority and in compliance-with the terms and conditions for exercise of delegated authority.

3. Coverage of Business/Branches

The suggested coverage shall be all the branches.

4. Types of Activities to be covered

- The main role of the concurrent audit is to supplement the efforts of the bank in carrying out simultaneous internal check of the transactions and other verifications and compliance with the procedures laid down. In particular, it should be seen that the transactions are properly recorded/documented and vouched. The concurrent auditors may broadly cover the following items:
 - o Cash
 - Daily cash transactions with particular reference to any abnormal receipts and payments.
 - Proper accounting of inward and outward cash remittances.
 - Proper accounting of currency chest transactions (if any), its prompt reporting to Reserve Bank of India
 - Expenses incurred by cash payment involving sizeable amount.



- Investments
 - Ensure that in respect of purchase and sale of securities, the branch has acted within its delegated power having regard to its Head Office instructions.
 - Ensure that the securities held in the books of the branch are physically held by it,
 - Ensure that the branch is complying with the RBI/Head Office/board guidelines / Investment Policy regarding BRs, SGL forms, delivery of scrips, documentation and accounting
 - Ensure that the sale or purchase transactions are done at rates beneficial to the bank.
- Deposits
 - Check the transactions about deposits received and repaid.
 - Percentage check of interest paid on deposits may be made, including calculation of interest on large deposits
 - Check new accounts opened. Operations in new Current/SB accounts may be verified in the initial period itself to see whether there are any unusual operations. Also examine whether the formalities connected with the opening of new accounts have been followed as per RBI instructions.
- Advances
 - Ensure that loans and advances have been sanctioned properly (i.e. after due scrutiny and at the appropriate level).
 - verify whether the sanctions are in accordance with delegated authority.
 - Ensure that securities and documents have been received and properly charged/registered.
 - Ensure that post disbursement, supervision and follow-up is proper, such as receipt of stock statement, instalments, renewal of limits, etc.
 - Verify whether there is any miss-utilization of the loans and advances and whether there are instances indicative of diversion of funds.



- Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are for genuine trade transactions.
 - Check the bank guarantees issued, whether they have been properly worded and recorded in the register of the bank. Whether they have been promptly renewed on the due dates.
 - Ensure proper follow-up of overdue bills of exchange.
 - Verify whether the classification of advances has been done as per RBI guidelines.
 - Verify that instances of exceeding delegated powers have been promptly reported to Controlling/Head Office/Board by the branch and have been got confirmed or-ratified at the required level
 - Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the concerned officials.
- Housekeeping
- Ensure that the maintenance and balancing of accounts, Ledgers and registers including clean cash and general ledger is proper.
 - Ensure prompt reconciliation of entries outstanding in the inter-branch and inter-bank accounts, Suspense Accounts, Sundry Deposits Account, Drafts Accounts, etc. Ensure early adjustment of large value entries.
 - Carryout a percentage check of calculations of interest, discount, commission and exchange.
 - Check whether debits in income account have been permitted by the competent authorities.
 - Check the transactions of staff accounts.
 - In case of difference in clearing, there is a tendency to book it in an intermediary suspense account instead of locating the difference. Examine the day book to verify as to how the differences in clearing have been adjusted. Such instances should be reported to Head Office/Board of Directors in case the difference persists.
 - Detection and prevention of revenue leakages through close examination of income and expenditure accounts/transactions.
 - Check cheques returned/bills returned register and look into reasons for return of those instruments.



- Checking of inward and outward remittances (DDs/RTGS/EFT/IMPS).
- Other items
 - Ensure that the branch gives proper compliance to the internal inspection/audit reports.
 - Ensure that customer complaints are dealt with promptly
 - Verification of statements, HO returns, statutory returns.
- Other broad Areas of audit shall include:
 - Thorough verification of advances and the documentation thereof.
 - KYC and CKYC compliance
 - Lockers
 - Proper system of handover
 - Staff accountability
 - Pigmy collections
 - Reporting to credit bureaus
 - Compliance under CERSAI
 - IT related compliance
 - Compliance with TDS and GST
 - Following of hierarchy
 - Pending compliance of previous reports
 - Policies of the bank
 - Reconciliations
 - High Value transactions
 - Reporting and periodical compliance to RBI

The aforesaid list is illustrative and not exhaustive. The board may, therefore, add other items to the list, which in its opinion are useful for the purpose of proper control of the branch operations in the form of instructions in their meetings.

The items that are mandatory to be covered as per any the notifications / circulars / guidelines issued by RBI from time to time or by virtue of instructions by RBI during the inspections or as a part of the inspection reports shall be automatically added to this list on such issuance without requiring any modifications to this policy.



5. Appointment and Remuneration of Auditor

- The concurrent audit shall be done by the external auditors (professionally qualified Chartered Accountants) as may be decided by the Bank. The terms of their appointment and remuneration to be paid may be fixed by the bank within the Broad guidelines approved by the Board and/or by the Registrar of Co-operative Societies of the State concerned.
- The audit firms will be responsible for any omissions or commissions in respect of transactions seen by them. In case any serious act of omission or commission is noticed in the working of the concurrent auditors, the bank may consider terminating their appointment and a report may be made to the Institute of Chartered Accountants of India for such action as they deem fit under intimation to RBI/RCS.
- The concurrent auditors shall be appointed on a yearly basis for each of the branches and shall not be appointed for a period of not exceeding three terms of one year each for one branch. They shall be rotated between branches or the new firm may be appointed after the expiry of the term.

6. Reporting System

- The concurrent auditors may report the minor irregularities, wrong calculations etc. to the Branch Manager for an on-the-spot rectification and reporting compliance.
- If these irregularities are not rectified within a reasonable period- of time say a week, these may be reported to the head office.
- If the auditors observe any serious irregularities, these should be straight away be reported in the audit report.
- The auditor to lay emphasis on the propriety aspect of the audit. Banks may institute an appropriate system of follow-up of the reports of the concurrent auditors. There must be a system of annual review of the working of concurrent audit.

7. Conclusion

While instituting the concurrent audit system, the attempt should be to integrate the same with other systems of internal audit/inspections, which are already in existence. One of the drawbacks hitherto has been non-integration of the different systems of internal audit and inspections and lack of response to audit objections/qualifications. It is necessary that the entire system of audit, inspection and their follow-up is properly documented and the performance of the integrated audit system is reviewed from time to time.



Adopted and approved by the Board of Directors in their meeting dated **30-05-2024**
Effective from **01-06-2024**

Signatures

CEO

Chairman Audit Committee

President, On behalf of the Board of Directors