

(Board Approved Audit Policy)

Audit Policy-2023

Note:

1. As per the recommendations of the Ghosh Committee, a sound system of internal audit needs to be introduced by the Bank. The bank should strive to have an internal audit system. Till such system is established, paragraph on internal audit machinery may be deleted from the model policy.
2. UCBs having asset size of Rs.500 crore and above have to introduce a Risk Based Internal Audit (RBIA). They may replace, the paragraph on internal audit machinery with paragraph on RBIA or a separate RBIA policy may be framed.
3. For policy for appointment of statutory auditor banks may choose a paragraph applicable to them based on their asset size.
4. Make appropriate changes based on the size and branches of the bank.

Introduction

Efficiency in the maintenance of accounting records, effectiveness of internal control, modern auditing practices and introduction of management accounting techniques in the Bank are essential conditions for improving its working to achieve the desired objectives. In this context, an attempt has been made in the present policy to ensure the guidelines provided by our regulatory authorities to find out the suitable measures for the improvement of the existing accounting and auditing systems of the Bank.

Auditor auditing is a critical and intelligent examination of the books of accounts and verification of correctness of accounts with relevant vouchers and documents in order to ensure that the entries in the books have been made correctly so as to constitute a true record of the transactions and that the Profit and Loss account and the Balance Sheet have been properly drawn up so as to exhibit a true and fair view of the state of affairs of the institution at the end of the year and the profit or loss for the financial year ended on that date. Such examination should not be confined to a mere arithmetical check of the books of accounts. It should go beyond the books of accounts to ensure that the transactions recorded there in are genuine, properly authorized and correctly entered.

Internal Audit Machinery

As per the recommendations of the Ghosh Committee, a sound system of internal audit needs to be introduced by the Bank. With a view to strengthening the credibility of the inspection system in detecting cases of frauds/malpractices, steps need to be taken to gear up their inspection/ audit machinery and to improve the quality of officers of the inspection department.

The Inspection Department at the Head Office level should be headed by a sufficiently senior person and proven integrity who should report directly to the Chairman. The officers posted to this department should have sufficient experience and exposure.

Coverage of Internal Audit

The coverage of such inspections should also be made more comprehensive, inter alia, to include a thorough examination of the internal control system obtaining at the branches including the various periodical control returns submitted to the controlling offices.

The internal inspection report should specifically comment, on the position of irregularities pointed out in the inspection report of Reserve Bank of India.

The inspection/audit officials should also critically analyze and make in-depth study of the corruption/ fraud prone areas such as appraisal of credit proposals, balancing of books, reconciliation of inter-branch accounts, settlement of clearing transactions, suspense accounts, premises and stationery accounts during the course of inspections leaving no scope for any malpractices/ irregularities remaining undetected.

The internal inspector should scrutinize the suspense account during inspection /visit and give specific instructions for early reversal of entries.

The bank should ensure that the system evolved for recording the details of off-balance sheet transactions are properly followed by all branches. These records should be periodically balanced and internal inspectors should verify the same and offer critical comments.

Proper inventory of dead stock articles, stationery should be maintained and subjected to surprise check at periodical intervals by the officials of the branch as also internal inspectors.

Compliance with Prudential Norms

Internal auditors should bring out non-compliance with the prudential norms relating to income recognition, asset classification and provisioning for taking suitable action in the matter.

Cheque Purchase Transactions

The internal inspectors should verify all the cheques purchased/discounted beyond the sanctioned limit. They should be asked to conduct a sample checking of transactions.

Supplementary Inspections / Audit

The annual internal inspection may be supplemented by surprise short inspections, revenue audit, credit portfolio audit etc. **in large sized banks**. Surprise short inspection may be carried out by officials at appropriate higher levels to ensure that branch officials are not indulging in mala-fide practices.

Revenue Audit

The reasons of leakage of income unearthed during such audit should be examined in-depth and action taken against the officials responsible for the lapses.

Credit Portfolio Audit

To highlight and pinpoint the existence of gross and serious irregularities such as improper credit appraisal, disbursement without observing the terms of sanction, failure to exercise proper post-disbursement supervision, even suppression of information relating to unauthorized excess withdrawals allowed, kite flying in bills and cheques, etc. or bring to light frauds, a system of exclusive scrutiny of credit portfolio with focus on larger advances and group exposures at regular intervals needs to be introduced in the Bank.

The accounts transferred from other branches along with the officials should be subjected to thorough scrutiny during the internal inspection. The summary of the important findings may be submitted to the Committee of the Board.

Other areas of importance

Investment Portfolio Audit

The following measures in respect of investment portfolio audit are:

The reconciliation of the balances of accounts with other Banks/Institutions/SGL/CSGL transfer forms as per bank's books should be periodically checked by the internal audit department.

Purchase and sale of government securities etc. should be separately subjected to audit by internal auditors (and in the absence of internal auditors and the results of their audit should be placed before the Board of Directors once every quarter.

The bank should put in place a detailed investment policy.

Concurrent Audit System

As per the recommendations of the Ghosh Committee, introduction of concurrent audit at large and exceptionally large branches of the bank to serve as administrative support and to help in adherence to prescribed systems and procedures and prevention and timely detection of lapses/irregularities.

Concurrent Audit based on the recommendations of the Joint Parliamentary Committee (JPC), which enquired into stock markets command matters relating hereto has to be implemented.

The concurrent audit system is to be regarded as part of a bank's early-warning system to ensure timely detection of irregularities and lapses, which helps in preventing fraudulent transactions at branches. It is, therefore, necessary for the bank's management to bestow serious attention to the implementation of various aspects of the system such as selection of branches, coverage of business operations, the appointment of auditors, appropriate reporting procedures, follow-up/rectification processes and utilization of the feed-back from the system for appropriate and quick management decisions.

The Board should once in a year review the effectiveness of the system and take necessary measures to correct the lacunae in the system.

The broad features of concurrent audit system are given in Annex1 to ensure some uniformity in the systems.

The concurrent auditors shall certify that the investments held by the bank as on the last reporting Friday of each quarter as reported to the Reserve Bank of India are actually owned /held by it as evidenced by physical securities or the custodian's statement. The certificate should be submitted to the Reserve Bank of India, Bengaluru within thirty days from the end of the relative quarter.

The concurrent auditors should specifically verify compliance to the instructions contained in RBI circular UBD.BPD.SUBNo.5/09.80.00/2003-04 dated 28 April 2004 regarding transactions in Govt. Securities.

Serious irregularities brought out in the concurrent audit report should be immediately reported to the Reserve Bank of India, Bengaluru.

Chartered Accountants / audit firms associated with the bank for internal / concurrent audit assignments should not undertake statutory audit assignment during the same period. The firms associated with internal / concurrent audit should relinquish the internal / concurrent audit before accepting the statutory audit assignment during the year.

Audit for Electronic Data Processing System:

The Bank should introduce EDP audit system on perpetual basis.

The EDP audit cell should be constituted as part of their Inspection and Audit Department in the bank; if independent Inspection & Audit Department is not created, the Bank should create a dedicated person/group of persons, who can perform functions of an EDP Auditor. Entire domain of EDP activities (from policy to implementation) should be brought under scrutiny of Inspection and Audit Department. The overall control and supervision of these EDP Audit Cells should be vested in the Audit Committees. Financial outlay as well as activities to be performed by EDP department should be reviewed by senior management at periodical intervals.

The following guidelines while carrying out EDP Audit may also be taken care of:

- * A team of competent and motivated EDP personnel may be developed in order to take care of a possible exodus of key personnel. EDP auditors' technical knowledge should be augmented on a continuing basis through deputation to seminars/conferences, supply of technical periodicals and books etc.
- * Duties of system programmer/designer should not be assigned to persons operating the system. System person would only make modifications/improvements to programs and the operating persons would only use such programs without having the right to make any modifications. In order to bring about uniformity of software used by various branches/offices there should be a formal method of incorporating change in standards of software and it should be approved by senior management. Inspection and Audit Department should verify such changes from the view-point of control and for its implementation in other branches in order to maintain uniformity.

- * Major factors which lead to security violations in computers include inadequate or incomplete system design, programming errors, weak or inadequate logical access controls, absent or poorly designed procedural controls, ineffective employee supervision and management controls.

These may be plugged by:

- Strengthening physical, logical and procedural access to system;
 - Introducing standards for quality assurance and periodically testing and checking them;
 - Screening employees prior to induction into EDP application areas and keeping a watch on their behavioral pattern.;
 - Putting in place appropriate control measures to protect the computer system from attacks of unscrupulous elements.
- * Replacement of manual procedures by computer applications should be done after a parallel run of the system and ensuring that all aspects of security, reliability and accessibility of data.
 - * In order to ensure that the EDP applications have resulted in a consistent and reliable system for inputting of data, processing and generation of output, various tests to identify erroneous processing, to assess the quality of data, to identify inconsistent data and to compare data with physical forms should be introduced.
 - * The bank should make a formal declaration of system development methodology, programming and documentation standards are to be followed, compliance should be verified by EDP Auditors.
 - * Contingency plans/ procedures in case of failure of system should be introduced/tested at periodic intervals. EDP auditor should put such contingency plan under test during the audit for evaluating the effectiveness of such plans.
 - * While engaging outside computer agencies, banks should ensure to incorporate the "clause of visit or i al rights" in the contract,so as to have the right to inspect the process of application and also ensure the security of the data/inputs given to such outside agencies.

Information System (IS) Audit

The Bank has adopted technology and has been offering electronic banking, electronic clearing/funds transfer, electronic money, debit cards etc. to its customers. In view of the above and having regard to risks emanating from adoption of technology, there is a need to introduce IS Audit in the Bank.

In view of this, the Bank

- (i) Needs to adopt an IS audit policy,
- (ii) Needs to adopt appropriate systems and practices for conducting IS audit on annual basis covering all the critically important branches(interim softnature and volume of business).
- (iii) Such audits should be undertaken preferably prior to the statutory audit so that IS audit reports are available to the statutory auditors well in time for examination and for incorporating comments, if any,in the audit reports.
- (iv) IS audit reports should be placed before the Board and compliance should be ensured within the time frame as outlined in the audit policy.

Audit Committee of Board

The Board of Directors of the Bank has to ensure timely review and action on the findings of statutory inspection/audit reports and submission of the compliance reports thereto. Timely follow-up action on the findings of inspection 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 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 Chartered Accountant or persons having experience in management, finance, accountancy and audit system, 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 there on, 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" branches and branches classified by the bank as extra-large branches. It should also specially focus on the follow upon:
 - Inter-branch adjustment accounts.
 - Un reconciled long outstanding entries in inter-branch accounts and inter-bank accounts.
 - Arrears in balancing of books at various branches.
 - 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.

POLICY ON APPOINTMENT OF STATUTORY AUDITORS (UCBs with total assets up to Rs1000 crore)

A. Appointment of Statutory auditors:

Reserve Bank of India vide their circular No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27,2021 have issued guidelines for appointment of statutory of Urban Co-operative Banks.

1. The Norms on Eligibility, Shortlisting and Selection of Statutory Auditors

The Eligibility norms (as advised by Reserve Bank of India) are as under:

- i. The audit firm shall have a minimum of two full-time partners (FTPs) associated with the firm for a period of at least three years, of which at least one should be fellow Chartered Accountant (FCA) Partner associated with the firm for a period of at least three years.
- ii. There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as full-time partners.
- iii. The firm should have minimum six years of Audit Experience and eight professional staff. The audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of - 5

Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFIs. Professional staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audits but excludes typists/stenos/computer operators/ secretaries/subordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm as on the date of shortlisting for considering them as professional staff for the purpose.

- iv. The priority will be given to firms having at least one Full Time Partners/ Paid CAs with CISA/ISA Qualification.

NOTE:

1. If any shortlisted audit firm undergoes change in its constitution after the date of shortlisting, the audit firm will take all necessary steps to become eligible within a reasonable time and in any case, audit firm should be complying with above norms before the following events:
 - (a) Appointment of the audit firm by the Bank as SA. For this, the audit firm while giving consent to the Bank for appointment may ensure that it complies with the norms.
 - (b) Before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit. In case any audit firm (after appointment) does not comply with any one of the norms (on account of resignation, death etc. of any partners, employees etc), it may promptly approach the Bank with full details. The Bank in turn will approach RBI.
 - (c) The firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of Kannada.
 - (d) An audit firm would not be eligible for reappointment in the Bank for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firm can continue to undertake statutory audit of other Entities

II Procedure for selection and appointment of Statutory Auditors

- a. The audit firms have to submit a certificate, along with relevant information as per Form B to the RBI circular referred to above to the effect that they comply with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment of SA of the Bank, under the seal of the audit firm.
- b. Based on the above parameters, Bank will prepare a list of shortlisted audit firms. Willingness in writing from the above shortlisted audit firm(s) will be obtained to accept the assignment of Statutory Audit work of the Bank. At the time of obtaining the willingness letters from such shortlisted audit firms, there will be no commitment on the part of our Bank to allot the Statutory Audit work to the auditors and such shortlisted audit firms are free to give similar willingness to multiple banks/UCBs, if approached by them. The list of shortlisted audit firms will be placed before Board. The Board will approve five audit firm(s), in order of preference. The number of audit firms approved should be adequate enough, to take care of the situation, where some firms may not give consent.
- c. On due approval by the Board, our Bank will approach the audit firms to obtain their consent in writing strictly in order of preference. The audit firm should give their consent in writing for consideration of appointment in our Bank for the particular year and the subsequent continuing years subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability. If the approached audit firm does not give consent, the bank will approach the next audit firm in order of preference for obtaining consent till the time the number of audit firms which have given the consent equals to two for the particular year.

The consent letter should clearly state that the selection of the audit firm as Statutory Auditor is subject to approval of RBI and any force majeure events and, in such cases, the audit firms will not have any claim against our Bank and RBI. The appointment of SA is subject to complying with the stipulated norms on eligibility and guidelines issued by RBI from time to time. The audit firm should declare that consent is given for maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and eight NBFCs during a particular year. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. The consent given by an audit firm will be treated as irrevocable and request, if any, from audit firms for changing the bank, after giving its consent to our bank will not be entertained.

c. The list of such selected firms who have given consent for appointment as statutory auditors in our Bank will be placed before the Board for their concurrence before it is forwarded to RBI for final approval.

III Other Guidelines:

1. In order to protect the independence of the auditors/audit firms, Bank will make the appointment of SA for a continuous period of three years subject to the firms satisfying the eligibility norms each year. Bank will not remove the audit firm during the above period without the prior approval of the Reserve Bank of India.

IV Undertakings/Declarations to be obtained from firm

Following declarations /undertakings will be obtained from the firm selected

1. At the time of acceptance of appointment as Statutory Auditor of our Bank, the firm has to relinquish any internal assignment allotted to them in our Bank. Their associate firms or sister concerns are also disqualified for inter audit or for any special assignment of our Bank.
2. A suitable undertaking from the firm to the effect that the Audit will be carried out by their own staff and they will not subcontract the audit work.
3. None of the disqualifications under section 141 of the Companies Act, 2013 applies to them and they are qualified for appointment as Statutory Auditors of the Bank.
4. The audit firm is not under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.
5. There are no adverse remarks/ disciplinary proceedings pending/ initiated against the firm / any of its partners/proprietor on the records of ICAI, which would make them ineligible for appointment as auditors.
6. None of the partners or their spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them or the Firm/ Company in which they are partners/ Directors are not indebted to our Bank. Further, they have not been declared as wilful defaulters by any Bank or financial institution.
7. Associate firms or sister concerns of Statutory audit firm is disqualified for internal assignment where the main firm/partners are allotted Statutory Audit in a particular year.

V. Number of Assignment: One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and eight NBFCs during a particular year. The limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm.

VI Relinquishment of the internal assignments, if any: In the event of acceptance of the appointment as Statutory Auditor of the Bank, all the internal assignments of the Auditor in our Bank, if any, will stand withdrawn.

VII Remuneration: The Remuneration to the SA for Audit, TA/DA and other incidental expenses will be paid as per the guidelines issued by RBI from time to time. Efforts to be made to keep TA/DA and other incidental expenses at minimum possible in line with RBI guidelines.

VII Removal: An audit firm appointed as Statutory Auditor may be removed during its tenure with the prior approval of the Reserve Bank of India. The Board of Directors of the Bank will be the competent authority to recommend removal of any SA to RBI.

The modification/changes, if any, made by RBI in norms/criteria/procedure from time to time shall construe to be part of our policy.

Annex-1

Note on Concurrent Audit

1. Introduction

A system of Concurrent Audit should be introduced at large and exceptionally large branches to serve as administrative support to branches, help in adherence to prescribed systems and procedures and -7

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 there to 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 audit or may not sit-in judgement of the decision taken by bank/branch Manager or an authorised 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 may be as under:

- The Departments/Divisions at the Head Office dealing with treasury functions viz. investments, funds management including inter-bank borrowings, are to be subjected to concurrent audit. In addition, all branch offices undertaking such business, as also large branches and dealing rooms have to be subjected to continuous audit.
- The problem branches, which are continuously getting poor or very poor rating in the bank's annual inspection/audit and where the house keeping is extremely poor, may be covered.
- Bank may also include additional branches at its discretion on the basis of need that is its professional judgment about the overall functioning of 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:

- 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 size able 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 regarding SGL/CSGL 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 to stock statement, instalments, renewal of limits, etc.
 - Verify whether there is any mis-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 their required level
 - Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the concerned officials.
- Foreign Exchange transactions
- House keeping
 - 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.
 - Carry out 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.
 - Check in go inward and outward remittances (DDs/RTGS/NEFT/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.

- The aforesaid list is illustrative and not exhaustive. The bank 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 context of volume of transactions in the large branches, it may not be always possible for the concurrent auditors to do a cent percent check. They may, therefore, consider adopting the following norms:

- In certain areas, such as off balance sheet items (LCs and BGs), investment portfolio, foreign exchange transactions, fraud prone/sensitive areas, advances having outstanding balances of more than Rs. 5 lakhs, if any unusual feature is observed, the concurrent auditors may conduct cent percent check.

- In the case of areas such as income and expenditure items, inter-bank and inter-branch accounting, interest paid and interest received, clearing transactions, and deposit accounts, the check can be restricted to 10 to 25 percent of the number of transactions.

- Where any branch has poor performance in certain areas or requires close monitoring in housekeeping, loans and advances or investments, the concurrent auditors may carry out intensive check in gof such areas.

- Concurrent auditors may concentrate on high value transactions having financial implication for the bank rather than those involving lesser amount, although number-wise they may be large.

- If any adverse remark is required to be given, the concurrent auditors should give reasons therefore.

- Concurrent auditors may themselves identify problem areas at branch level/bank and offer their suggestions to overcome them.

5. Appointment and Remuneration of Auditor

* The option to consider whether the concurrent audit should be done by the external auditors (professionally qualified Chartered Accountants) or its own staff may have be decided by the Bank. In case bank decides to appoint external auditors for the purpose, 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(external), 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.

* In case the bank prefers to entrust the audit to its own officers, the bank has to ensure that these officers are well experienced and of sufficient seniority in order to exercise necessary independence and objectivity while conducting concurrent audit. It would be desirable and necessary to rotate the auditors, whether internal or external, periodically. Progressively, it may be considered whether reliance on external auditors may be reduced as soon as requisite skills for audit work are developed by the proper selection and training of officers from within.

6. Reporting System

--The concurrent auditors may report the minor irregularities, wrong calculations etc. to the Branch Manager for a non-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 reported to Head Office immediately. The auditor will have 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 draw backs 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.

APPROVED IN THE BOARD MEETING HELD ON 12.01.2023 VIDE RESOLUTION NO. 13

PRESIDENT

GENERAL MANAGER /CEO