



Statutory Audit Policy (2024-25)

Main Document

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Reference

S. No	Reference
1	RBI Circular Ref. No. DOS.ARG/ SEC.8/ 08.91.001/ 2023-24, dated 15.01.2024.

1. Introduction:

Audit is an examination of financial records, information and statements and expressing an opinion that whether financial records are prepared in accordance with statute under which audit is carried out. When the audit is governed by a statute or law, it is categorized under statutory Audit. The Audit will be conducted by an external entity.

A statutory audit is a legally required check of the accuracy of the financial statements and records of the bank. A statutory audit is intended to determine if an organization delivers an honest and accurate representation of its financial position by evaluating information, such as bank balances, financial transactions and accounting records.

During the audit, reports of bank with respect to revenue or benefits, returns on investment, expenditures, and other things can be included in the audit process. The Audit is conducted to assess whether funds have been properly handled and that all records and filings required are accurate. It is a formality intended to help discourage crimes, such as misappropriating funds by ensuring a professional third party routinely scrutinizes various documents.

The policy is prepared based on the RBI Circular Ref. No. DOS.ARG/ SEC.8/ 08.91.001/ 2023-24, dated 15.01.2024.

2. Objective:

- a. To obtain reasonable assurance about whether the financial statements as a whole are free from any material misstatement, and;
- b. To report on the financial statements and communicate as required by the Statutory Auditor in accordance with the audit findings.

3. Scope:

- a. To identify and examine the overall aspects that need to be audited in the bank pertaining to the financial statements.
- b. To ascertain the correctness, sufficiency and reliability of the information and source data.
- c. Disclosure of overall relevant information in the financial statements has been made in accordance with statute and accounting standards.
- d. A detailed study and analysis on the internal checks and accounting system.
- e. Verification of accounting transaction and balances through necessary test on check basis, enquires and verification.
- f. Comparing financial statements with summary of transactions and events recorded in the underlying accounts.

- g. Accessing the consistency of accounting policies that are applied while the financial statements are prepared by the management and disclosure to the effect should be adequate.

4. Audit coverage:

- a. An overall examination of internal controls and system of accounting establishes the satisfaction that recording of transactions is appropriate.
- b. Review of policies, procedures and systems applied to find out material inadequacy or weakness in the internal controls which may lead to fraud and error.
- c. Verification of arithmetical accuracy in the books of accounts with regard to postings, balances, demand and collections etc.,
- d. To ascertain if the proper difference is maintained in revenue and capital nature of transactions.
- e. All Income and Expenditure accounted for pertains to corresponding accounting period.
- f. Checking of supporting documents to establish validity and authenticity of transactions.
- g. Financial statements namely balance sheet, profit and loss account or income and expenditure account are compared with the underlying accounts.
- h. The existence, value, and title of the asset disclosed in the balance sheet are verified.
- i. All the statutory compliances are compiled by the management within the proper time schedule and as per the norms set by the statutory governing body.
- j. Verification of audit reports and inspection reports pertaining to the year.
- k. Reconciliation of balances in various accounts.
- l. Assessment of surplus funds, valuation methods followed in various loans and comment on the methods followed.
- m. Credit appraisal methods followed by the bank, pre-sanction & post-sanction procedures and monitoring of accounts after disbursements. In simple terms, verify whether policies and procedures are being followed as mentioned in the approved policies and procedures.
- n. Identification and review and frauds in the Bank.
- o. Verify whether demand and collection of balances are properly accounted.
- p. Verify whether policies and procedures are followed as per the approved guidelines.

- q. Compliance to previous audit observations.

Detailed Scope and checklist are provided at Annexure – 2 and Annexure - 3 respectively.

5. Appointment of Statutory Auditor:

5.1 Procedure for Appointment of SA:

- a. The bank shall select the Statutory Auditors from the list provided by the NABARD. The eligibility criteria are provided at 5.2.
- b. The selected audit firms' names shall be placed before Audit Committee of the Board/ Board of Management for in principal approval. Later, the same shall be forwarded to Department of Supervision, RBI before July 31st of the reference financial year for prior approval.
- c. The Bank shall obtain a certificate from shortlisted audit firms as per Form B to the effect that the audit firm complies with the eligibility criteria prescribed by RBI. The certificate should be obtained on the letter head of the audit firm with the signature of the Managing partner of the audit firm, under the seal of the said audit firm.
- d. The bank, while recommending the name(s) of the audit firm(s) shall furnish a certificate in the format as per Form C, stating that the audit firm has complied with all the eligibility norms prescribed by RBI.
- e. While approaching RBI for prior approval, the banks shall indicate the total asset size as on March 31st of the previous year (audited figures), attach a copy of Board / ACB resolution recommending names of audit firms in the order of preference, Form B and Form C along with all the documents mentioned therein, to facilitate expeditious processing.
- f. Prior approval from RBI is necessary for fresh appointment, re-appointment or removal of SA.
- g. Prior approval from RBI is necessary for re-appointment of SA annually.
- h. For smooth conduct of the audit, it is preferable that the audit firm to be appointed as SA has proficiency in the local language where the bank is located.
- i. Before commencement of Audit, bank shall sensitize statutory auditors on aspects such as RBI/NABARD regulations, systems and procedures of the bank, expectations and requirements from SAs etc.

5.2 Eligibility Criteria for appointment of Statutory Auditor:

Asset size of the Bank	Minimum no. of Full-time partners (FTPs) associated with the firm for a period of at least three years (please refer to Note 1)	Out of total FTPs, minimum no. of Fellow Chartered Accountant (FCA) partners (s) associated with the firm for a period of at least three years	Minimum no. of FTPs/ Paid CAs with CISA/ISA/DISA qualification (please refer to Note 2)	Minimum No. of years of Audit Experience of the firm (please refer to Note 3)	Out of (5), minimum no. of years of statutory audit experience (Please refer to Note 3)	Minimum no. of professional staff (please refer to Note 4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Above Rs. 15,000 crore	5	4	2	8	2	8
Above Rs 1,000 crore and upto Rs. 15,000 crore	3	2	1	4	1	4
Upto Rs. 1,000 crore	2	1	1*	1#	1#	2

*Preferably 1 FTP/ Paid CA with DISA/CISA/ISA Qualification

#Preferably 1 year experience

- a. Note 1:** There should be at least one-year of continuous association of partner (s) with the firm as on the date of shortlisting (by bank) for considering them as FTPs.

For banks with asset size above Rs. 1,000 crore, the FTP's association with the firm would mean exclusive association. The definition of exclusive association will be based on the following criteria:

- i. The FTP should not be a partner (s) in other firm/s.
- ii. She/ he shall not be employed full time/ part time elsewhere.
- iii. She/ he shall not practice in her/ his own name or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under section 2(2) of the Chartered Accountants Act, 1949.
- iv. The Board/ ACB shall examine and ensure that the income of the partner (s) from the firm / LLP is adequate for considering him/ her as full time exclusively associated partner(s).

- b. Note 2: CISA/ISA/DISA Qualification:** There shall be at least one-year continuous association of paid CAs (with CISA/ISA/DISA qualification) with the firm, as on the date of shortlisting, to consider them as paid CAs with CISA/ISA/DISA qualification for the purpose.

- c. Note 3: Audit Experience:** Audit experience shall mean experience of the audit firm as Statutory Central/ Branch Auditor of Commercial banks/ UCBs/NBFCs (including HFCs)/ AIFIs/ Statutory Auditor of StCBs/CCBs/ RRBs. In case of merger and demerger of audit firms, merger effect will be given two years after merger, while demerger will be given effect immediately.

- d. Note 4: Professional Staff:** 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/ stenographers/ computer operators/ secretaries/ subordinate staff etc. There shall be at least one year of continuous association of professional staff with the firm, as on the date of shortlisting, for considering them as professional staff.

e. Additional Consideration:

- i. The audit firm, proposed to be appointed as SA, should be duly qualified for appointment as auditor of a company in terms of section 141 of the companies Act, 2013.
- ii. 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.

- iii. The bank shall ensure that appointment of SA is in accordance with the ICAI's code of ethics/ any other such standards adopted and does not give rise to any conflict of interest.
- iv. If any partner(s) of a chartered accountant firm is a director in the bank, the said firm shall not be appointed as SA.
- v. The auditors should have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree/ complexity of computerisation of the banks.

In case an audit firm (after appointment) does not comply with any of the eligibility norms (on account of registration, death etc., of any of the partner(s) /employee(s), action by Government Agencies/ NFRA/ICAI/RBI/ other Financial Regulators etc.), as stated in e (ii) above, it shall promptly approach the bank with full details. Further, such audit firm shall take all necessary steps to become eligible within a reasonable time and, in any case, the audit firm should be in compliance with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st march and till the completion of annual audit.

In any of extraordinary circumstances after the commencement of audit, such as death of one or more partner(s)/ employee(s), etc., which may render the firm ineligible with respect to one or more of the eligibility norms, the same shall be informed to RBI. RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

5.3 Independence of Auditors:

- a. The bank shall give independence to the auditor throughout the audit period.
- b. The auditor shall be given access to the bank financial statements, transactions, files, information related to the auditing departments/ branches etc., to have in detailed checking of the accuracy of the transactions, data etc.
- c. All the department and Branch staff shall always be available to the auditors and provide data/ information required by the auditor.
- d. The Board/ Audit committee of the Board shall monitor and assess the independence of auditors and conflict of interest, if any, in terms of the relevant statutory/ regulatory provisions, standards and best practices. Concerns, if any, raised by Board/ ACB can be reported to NABARD.

- e. Concurrent auditors of the bank shall not be considered for appointment as SA of the bank. There shall be a minimum gap of one year between completion of one assignment and commencement of the other assignment.
- f. The time gap between any non-audit work (services mentioned in section 144 of the companies Act, 2013, internal assignments, special assignments, etc.) undertaken by the SA for the appointing bank shall be at least one year, both before appointment and after completion of tenure as SA. However, during the tenure as SA, based on the decision of the Board/ ACB, an audit firm may provide such services to the bank which may not normally result in conflict of interest. Special assignments, including those such as (i) Tax audit, tax representation and advice on taxation matters, (ii) audit of interim financial statements (iii) issuance of certificates that are required to be made by the SA in compliance with statutory or regulatory requirements (iv) reporting on financial information or segments thereof, may not be treated as conflict of interest.
- g. The restrictions, as detailed in (e) & (f) above, shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partner(s), as defined in Rule 6(3) of the companies (Audit & Auditors) Rules, 2014.
- h. The bank should be meticulous throughout the audit period and submit all relevant information as required by the Statutory Auditor and always be available as he/she have the authority to report concerns, if any, regarding the conduct of management such as non-availability of information/ non-cooperation by the management etc., to the Board/ ACB and also to NABARD.

5.4 Review of performance of Statutory Auditors:

- a. The Board & ACB shall review the performance of the auditor annually.
- b. The performance of the auditor shall be reviewed by considering the following:
 - i. Adequacy of coverage of audit, quality, clarity of reporting.
 - ii. Timely detection of irregularities and reporting of same in time.
 - iii. Deficiencies in credit appraisal, disbursement, misappropriation of funds, monitoring, reporting of frauds.
 - iv. Misstatement of financial statements.
 - v. Concealment of facts.
 - vi. Reporting of non-compliance to statutory norms.

- vii. Any other areas where SA is incompetent

5.5 Termination of Statutory Auditor:

In case of any serious lapses/ irregularities by the SA, the bank, with approval of Board of Management & Audit Committee of the Board, may request RBI for Premature removal of SA. Prior approval from RBI is necessary for premature removal of SAs. The lapses may include the following:

- a. Failure to detect the fraud or serious irregularities, which comes to the knowledge of bank at a later date or during subsequent audits/ investigations, shall be treated as a deficient service & omission of serious nature. In such case, the Bank s
- b. The auditor should be responsible for concealment of facts/non reporting of serious irregularities or losses/ non reporting of early warning signal etc.
- c. The name of the Audit firm should be informed to IBA/ICAI/ NABARD/RBI.
- d. If any of the information/documents furnished by the auditor is found to be untrue/incorrect, the Bank's offer shall automatically stand cancelled without entertaining any further correspondence.
- e. Deliberate omission of facts, information about disqualification which comes to the knowledge of the bank at a later date.
- f. Any serious acts of commissions, omissions, misconduct, deviations in professional ethics or any other reason bank shall report the same to RBI.

Whenever the assignment is terminated or relinquishment is permitted, the External Auditors concerned are eligible for audit remuneration only up to the end of previous month/on proportionate basis for which a fully completed report is received. In such cases the bank reserves the right (a) to adjust the same (audit remuneration) towards commission/omission if any or (b) withhold the same for a period of 6 months or till suitable administrative decision is taken whichever is earlier.

Any serious lapse/ negligence in discharging audit responsibilities, conduct issues on the part of the SA or any other matter considered as relevant, shall be reported with the approval of Board & ACB to NABARD within 2 months from the completion of the Audit.

5.6 Tenure and Rotation of Statutory Auditor:

- a. SA shall be initially appointed for a period of one year and shall be reappointed annually for the succeeding 2 years subject to satisfaction of the Board& ACB and eligibility criteria as mentioned at 5.2.

- b. Auditor/ Audit firm shall not be eligible for appointment / re-appointment in the same bank for 6 years (2 tenures) immediately after completion of a full or part tenure.
- c. In case an auditor / audit firm has conducted audit of the bank for part-tenure (one year or two years) and then is not re-appointed for the remainder tenure, it shall not be eligible for re-appointment in the same bank for six years after completion of part-tenure. However, audit firms can continue to undertake statutory audit of other banks.

5.7 Restrictions on number of Banks, an Audit firm can audit in a year:

- a. An audit firm can concurrently take up statutory audit of a maximum of five banks (including not more than one StCB) in a year.
- b. The limit of five banks will be in addition to the limit of 20 Regulated Entities (REs) as prescribed in the 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)' dated 27.04.2021.
- c. Further, in a year, an audit firm cannot simultaneously take up statutory audit of both StCB and CCBs operating in the same state.
- d. In other words, an 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, NaBFID, NHB, EXIM Bank) or RBI), eight Urban Co-operative Banks (UCBs), eight Non- Banking Financial Companies (NBFCs), and five StCBs/ CCBs (including not more than one StCB) in a year.
- e. This limit is subject to the audit firm's compliance with the eligibility criteria and other conditions as prescribed in these guidelines and within the overall ceiling prescribed by any other statute or rules.
- f. For the purpose of these guidelines, a group of audit firms having common partner(s) and/or under the same network shall be considered as one unit and considered for appointment as SA accordingly. The incoming audit firm shall not be eligible if such an audit firm is associated with the outgoing audit firm or is under the same network of audit firms.
- g. Shared/ sub- contracted audit by any other audit firm or by an associate audit firm under the same network of audit firms, is not permitted.

6. Submission of Audit report to Regulators:

Auditor should submit report within 15 working days from the date of completion of the audit. The report shall be placed before Board of Management for prior

approval. Later, the report should be submitted to RBI/NABARD/RCS before 30th June.

7. Reporting system:

- a. On-spot rectifications, if any, shall be rectified by the concerned branches/ departments in the presence of the SA.
- b. On submission of the audit report, IAD department shall forward the observations within 2 days from the receipt of audit reports to all the concerned departments and branches for submission of compliances against observations of SAs.
- c. The compliance shall be submitted by the branches/ department within 7 working days from the receipt of communication from the IAD department.
- d. Department heads in case of HO departments and Branch Managers in case of branches shall act as compliance officers for the respective department/ branch.
- e. Compliance department shall verify the compliances and check with the facts against compliances submitted by the branches/ departments.
- f. The observations and compliances shall be placed before Audit Committee of the Board (ACB) and later, the same shall be placed before Board of Management along with the recommendations/ proceedings of the ACB.
- g. Later, the observations along with compliances shall be submitted to NABARD.

8. Periodicity of the Audit:

Audit shall be conducted once in a financial year.

9. Disclosure norms:

- a. The Board approved Statutory Audit Policy shall be disclosed in the Bank's official website.
- b. The bank shall also disclose on website/ public domain the extent of branch/ business coverage under SA for the respective year and the previous year.

10. Review and Modifications to the Policy:

Taking into consideration of RBI/NABARD guidelines, Managing Director is authorized to make suitable changes to the policy from time to time. Policy will be reviewed annually.

Sd/-
MANAGING DIRECTOR

Annexure I**Guidelines for selection of branches for audit by SAs**

1. Branches selected for audit should cover at least 70% of the total advances outstanding.
2. Top 20% of the branches of the bank to be selected in order of level of outstanding advances should be compulsorily included for audit.
3. Branches where fraud, embezzlements or transactions of a suspicious nature are suspected or have taken place may be taken up for audit, if not covered with reference to (2) above.
4. Branches where the loan, business growth is 50% and more over the preceding year should also be compulsorily taken for audit, if not covered with reference to criteria (2) and (3) above.
5. Actual selection of branches to be taken up for audit should be decided by the Board/ACB considering the above guidelines.
6. While deciding the branches and business coverage, the bank shall interalia consider bank specific characteristics such as degree of centralization of processes, need to address fraud risk and credit risk, adverse report from internal / concurrent auditors, whistle blower complaints, and unusual patterns/ activity shown by internal MIS reports.
7. The bank shall also disclose on its website/ public domain the extent of branch/ business coverage under SA for the respective year and the previous year.

Form B
Eligibility Certificate from (Name and Firm Registration Number of the firm)
A. Particulars of the firm:

Asset size of the Bank as on 31 st March of previous Financial Year (audited figures)	Number of Full-time partners (FTP)s associate d* with the firm for a period of 3 years	Out of total FTPs, no. of FCA partner(s) (FTP)s associate d* with the firm for a period of 3 years	Number of FTPs/ Paid Cas with CISA/ISA/DI SA Qualification	Number of years of Audit Experience #	Out of (5), minimum no. of years of statutory audit experience in StCBs/CCBs	Number of professional staff
(1)	(2)	(3)	(4)	(5)	(6)	(7)

*Exclusively associated in case of asset size id more than 1,000 crore.

#Details shall be furnished in the following format:

Name of the Bank	Type of bank (whether commercial bank/UCB/NBFC (including HFCs)/ AIFI/StCB/CCB/RRB)	Year wise audit undertaken (Ascending order)	Specify type of audit (whether statutory central audit (SCA)/ Statutory Branch Audit (SBA) of Commercial Bank / Statutory Audit of (UCBs/NBFCs (Including HFCs)/ AIFI/StCB/CCB/RRB)

B. Additional Information:

- Copy of the latest constitution certificate of the recommended audit firms.
- Whether the firm is a member of any network of audit firms or any partner (s) of the firm is a current partner in any other audit firm? If yes, details thereof.
- Whether the firm has appointed as SA by any other StCB/CCBs in the current financial year? If yes, details thereof.

- iv. Whether the firm has been debarred from taking up audit assignments by any regulator/ Government agency? If yes, details thereof.
- v. Details of disciplinary proceedings etc., against firm/ any partner of the firm by any Financial Regulator/ Government agency during last three years, both closed and pending.

C. Declaration from the firm:

The firm complies with all eligibility norms prescribed by RBI regarding appointment/ re-appointment of SA of StCBs/CCBs. It is clarified that neither I nor any of partner (s)/ member (s) of my / their families (family will include spouse, children, parent, brothers, sisters or any of them who are wholly or mainly dependent on the Chartered Accountants) or the firm/ company in which I am / they are partners/ directors have been declared as a wilful defaulter by any bank/ financial institution. It is confirmed that the information provided above is true and correct.

Signature of the Partner

(Name of the partner)

Date:

Form C

A. Certificate to be submitted by the Bank regarding eligibility of audit firm proposed to be appointed / reappointed as SA

1. The Bank is desirous of appointing/ reappointing M/s _____ Chartered Accountants (Firm Registration Number _____) as Statutory Auditor (SA) for the financial year _____ for their 1st/2nd/3rd year and therefore has sought the prior approval of RBI as per the Section 30 (1A) of the Banking Regulation Act, 1949.
2. The Bank has obtained the eligibility certificate on all criteria of eligibility as prescribed in 5.2 of the policy on **Eligibility Criteria for appointment of Statutory Auditor, from (Name and Firm Registration Number of the firm)** proposed to be appointed/ reappointed as Statutory Auditor of the Bank for FY _____, along with relevant information, in **Form B** of the policy.
3. The firm has no past association/ association for _____ years (between FY _____ and FY _____) with the bank as SA and for _____ years (between FY _____ and FY _____) with the bank for non-audit work.
4. The Bank has verified the said firm's compliance with all the eligibility norms prescribed by RBI for appointment of SA of the bank.

B. Additional Information:

1. Name of the Statutory Audit Firm with Firm Registration Number (FRN) for last six years:

S.No	Name of the Audit Firm	FRN	Financial year of Audit

2. Copy of the Constitution Certificate of the Audit Firm of the previous Financial Year

Signature

(Name and Designation)

Date:

Annexure-2**Audit Coverage and Detailed Scope:****1. Capital:**

- a. Share capital from member societies, individuals and Govt. and shareholding of Govt. in the total capital; change of position from the previous year.
- b. System followed for share-linking to borrowings by member societies / borrowers.
- c. Arrears in collection of share capital from affiliated institutions/individuals
- d. Net-worth as percentage to total assets, Capital to Risk weighted Assets Ratio (CRAR) and computation thereof;

2. Assets:**A. Advances:****1. Credit Appraisal:**

Loan policy, new schemes introduced, System of appraisal of loan/ credit proposals and its adequacy thereof; overextended position, and adequacy of security obtained.

2. Sanctioning / Disbursement

System of receipt and disposal of loan applications, Delegation of powers/authority at various levels; adherence to authorized limits; allowing of drawals during unrenewed period; whether funds are disbursed under sanctioned limits after complying with terms and conditions of sanction, exposure limits to individuals, sectors and exposure to outside cooperative fold, etc. Review of advances including enhancement of limits and renewal of loan facilities, irregularities found in sanctioning and disbursement.

3. Documentation

- a. System of ensuring that documents are executed as per the terms of sanction.
- b. Defects in documentation and suggestions to avoid such defects.
- c. System of documentation in respect of joint/ consortium advances
- d. Renewal of documents/Time-barred documents
- e. Acknowledgement of debts
- f. Custody of documents and system of keeping the same
- g. Maintenance of document register

4. Review/ monitoring / supervision

- a. Periodic balance confirmation
- b. Receipt of regular information, Stock/Book Debt statements, Balance sheet, etc.

- c. System of scrutiny of the above information and follow-up by the bank to ensure compliance with credit discipline.
- d. System of periodic physical verification or inspection of stocks, equipments and machineries and other securities.
- e. Insurance cover for stocks and its adequacy-Timely renewal of policies
- f. Inspection reports of bank officials and follow-up thereon.
- g. Overall monitoring of advances through maturity/ age/ industry-wise analysis.
- h. Computation of DCB as on June every year as per guidelines of NABARD

5. Large Advances

Comments on (i) adverse features in respect of large advances considered significant and requiring management's attention, (ii) Compliance with exposure norms relating to advances as per the exposure norms stipulated by NABARD/ RBI /provisions of Cooperative Societies Act. (iii). Review of the large advances by the Board of Directors and follow up action taken

6. Foreign Exchange Bills

Foreign bills negotiated under letters of credit including pre and post-shipment credit, whether the debits and credits are permissible under the rules, whether inward/outward remittances have been properly accounted for, adherence to the guidelines issued by the RBI regarding the above operations, violations of FEMA, if any.

7. Coverage of crop loans under Crop Insurance

The following need to be examined:

- a. Whether all the loanee farmers and crops have been covered as per the guidelines of Agricultural Insurance company of India (AICI).
- b. Whether premium is remitted to the insurance company in time
- c. Amount of claims preferred
- d. Amount of claims settled by AICI
 - i. Of (c) above those pending adjustment at the bank level
 - ii. How much is adjusted to the loan accounts

8. Imbalances

No. of PACS with imbalances, imbalance in principal A/c and interest A/c of the DCCB, percentage of imbalances to total loans & advances outstanding. Reasons for the same and likely impact on the bank. Steps taken by the bank to reduce imbalances.

B. Investments:

1. System of assessing surplus funds, purchase and sale of investments, delegation of powers, reporting systems, etc. Whether investments have been earmarked towards reserve funds?
2. System relating to Subsidiary General Ledger (SGL) /Bankers Receipts (BRs); control over SGL/BRs outstanding at the year end and their subsequent clearance; reconciliation of the balances of SGL transfer forms as per bank's books should be checked.
3. Purchase and sale of government securities, etc. should be subjected to audit and the results of their audit also covering delay in collection of interest on investments, profit and loss incurred due to trading government securities – placing related information before the Board of Directors
4. Audit of the treasury operations should include:
 - a. Adherence to the aggregate upper contract limit of 5% of total transactions (both purchase and sales) for each of the approved brokers entered into by the bank during a year. Whether part of the business is transacted through only one or a few brokers, the extent and modalities. The limit should cover both the business initiated by the bank and the business offered/brought to the bank by broker. Besides, whether the business put through any individual broker or brokers in excess of the limit of 5% of total transactions entered into by the bank during the year with the reasons thereof, covered in the half-yearly review to the Board of Directors.
 - b. Controls over investments, including periodic physical verification / reconciliation of investments with Demat A/Cs, books / records.
 - c. Checking of the periodical collection of interest on investments.
 - d. Valuation methods and changes in mode of valuation of securities compared to previous year; shortfall and provision thereof as per extant guidelines of RBI/NABARD. Whether amortisation of premium is done properly.
 - e. Whether provisions of the /State Cooperative Societies Act / Rules / Bye-laws as also investment policy/guidelines of RBI/NABARD are followed for investment in SLR/Non-SLR investments and other related aspects.

C. Other Assets:

Comment on the status of 'other assets' including depreciation policy and their valuation and provision made therefore.

Whether the bank retained non-banking assets beyond the specified/extended period, and reasons there for.

D. Non-Fund Business

Policy, procedure, income, service charges covering lockers, safe deposit vaults, Letter of Credit (LCs), Guarantees issued etc., and violations, if any with reference to guidelines issued by NABARD/RBI on the subject.

E. Application of Prudential Norms:

Verify the adoption/application of Income Recognition, Assets Classification and Provisioning norms by Cooperative banks as per the guidelines issued by RBI/NABARD from time to time.

The auditors must also issue a certificate to the effect that the implementation the prudential norms is satisfactory or otherwise and, the shortcomings, if any, should be duly listed out.

The auditors are required to specifically comment on the following:

a. Income recognition

- i. Whether the bank recognized income as per instructions in vogue
- ii. The total amount of income derecognised (cumulative)
- iii. The amount of derecognised income recovered during the year
- iv. The procedure followed by the bank for accounting derecognised income.

b. Asset Classification : The following may be examined and commented upon.

- i. Whether the norms for Assets classification in respect of all assets and the provisioning norms have been complied with by the Cooperative banks? If not, the divergence observed in classification and the extent of provisions required.
- ii. Extent of NPAs, amount required to be provided for and the amount actually provided for by the Cooperative banks.
- iii. Movement of NPAs
- iv. Effectiveness of the system for compiling data relating to the impaired advances, system for charging of interest and making provision to unrealized interest taken to P & L a/c, ascertaining the realisable value of securities and the possible realisation from guarantors; assessment of the efficacy of rehabilitation programmes, provisions/ write-offs and appropriateness of authority thereto, recovery procedure, including that relating to suit-filed and decree accounts.
- v. NPA management strategy of the bank

F. Management Appraisal:

- i. Functioning of Elected Board, Composition, Committees, their oversight, corporate governance, professionalisation of management, regularity in conduct of meetings, issues discussed in the meetings, defaulting Directors, if any, violations of bye-laws by the Directors, disqualification of Directors, etc. In case, Administrator is in-charge of the Bank, comments may be made on the performance of the Administrator.
- ii. Competence of CEO in managing the bank and in implementation of policies in conformity with the guidelines issued by GoI/RBI/NABARD
- iii. Competence of second line management, specific job chart, recruitment policy, training and HRD plans, rotation of staff, accountability, etc

G. Earning Appraisal:

- i. Analysis of variations in major items of income and expenditure compared to previous year, with important ratios.
- ii. Losses arising due to mismanagement
- iii. Funds flow statement as on balance sheet date vis-a-vis the previous year
- iv. Effect of any change in the accounting policies on profit/ loss for the year.
- v. Carry out test check of application of interest rates on various advances/ borrowings as also on deposits and comment on revenue loss, if any incurred by Cooperative banks due to inappropriate application of prescribed interest rates.
- vi. Whether overdue interest is taken to P & L A/c and if so, whether corresponding provision is made. Bank must mention the extent of overdue interest out of the interest receivable.
- vii. Whether the bank has written back excess provision, if any, to P&L account.
- viii. Whether the bank has made adequate provision for impaired credits and erosion in other assets and liabilities.
- ix. Whether allocation of net profit is done as per the provisions of B.R act/ State Cooperative Societies Act/bye-laws and whether prior permission was obtained for withdrawal of any amount from reserves.
- x. Whether the bank earned operating profit and the extent the operating profit covers provision required to be made
- xi. Whether the bank earned net profit and if not reasons for the same. Where the net profit, if any is made after making full provision and whether the bank is in a position to contribute to Reserves and declare dividends.
- xii. Any system for revenue audit to find income leakages
- xiii. Comment on the system of Transfer Price Mechanism

H. Liquidity Management:**1. Cash:**

Examine and comment on the system of monitoring of cash at branches and its management, fixation of retention limits at branches and their compliance/violations, insurance cover and adequacy including for cash-in-transit, system and procedure followed for physical custody of cash, etc.

2. Statutory Liquidity Ratio (SLR) /Cash Reserve Ratio (CRR) Requirements - System of Ensuring Compliance:

- i. System of compiling and monitoring Demand and Time Liability (DTL) position.
- ii. Records maintained for the above purpose
- iii. System of ensuring compliance, penalties paid, if any and review of the position by CEO/Board
- iv. Violations, if any in the maintenance of CRR/SLR, details thereof and reasons for the same

3. Repayment of Borrowings:

Comment on 'Maximum Borrowing Power', various types of borrowings availed, high-cost borrowings, if any approving authority for borrowings; Whether the bank had defaulted in repayment in respect of borrowings made, number of occasions, reasons therefore, maintenance of Due Date Register.

4. Deposits:

- i. Comment on as to whether bank has laid down norms / guidelines for conduct and operation of inoperative accounts and violations, if any; over-drawal, if any and allowing draws against unrealized cheques; delay in paying matured deposits; obtaining necessary declarations wherever required; comments on adherence to KYC norms.
- ii. Whether there were any unusual large movements in aggregate deposits held by HO / Branch at the year-end and window-dressing.
- iii. Whether the bank has correctly assessed the deposits for coverage under insurance (DICGC) and whether premium is worked out correctly and remitted the same timely.
- iv. Comment on composition and the growth of deposits and the extent of low-cost deposits; new deposit schemes.
- v. Opening and operation of FCNR and other non-resident accounts, whether the debits and credits are permissible under the rules, whether inward/outward remittance have been properly accounted for, ensure

- adherence to the guidelines issued by the RBI regarding the above operations, violations of FEMA, if any. Irregularities if any, in repayment of deposits
- vi. Whether the bank reported the information as per Anti- Money Laundering (AML) guidelines

I. Systems and Controls:

1. Written guidelines / instructions on loans and advances covering appraisal, issue of sanction letters, follow up, etc.
2. Manual on accounting policies; Accounting policies – their conformity with Accounting Standards; time taken to finalise accounts; Any major observations on branch returns and process of their consolidation in final statements of accounts
3. Compliance to disclosure norms
4. **House-keeping:**
 - a. System of monitoring the position of balancing of General Ledger and other books / including reconciliation of control and subsidiary records, whether the bank or auditor has finalised the accounts.
 - b. Balancing of drafts payable, DD paid without Advice, Bills payable. Periodical
 - c. Physical verification of security forms (Cheque Books, FDRs, DD, MT, etc.) and follow up action.
5. **Inter-branch Reconciliation.**
 - a. Comments on the system / procedure and records maintained.
 - b. Procedure followed for remittance of funds, TT discounting, etc.
 - c. Test checks for any unusual entries put through inter – branch / Head office accounts.
 - d. Position of outstanding entries; system for locating long outstanding items of high value
 - e. Steps taken or to be taken for bringing the reconciliation up-to-date
6. **Inter bank accounts Reconciliation:**

Balances with other banks (including Apex Bank) – observations – on outstanding items in reconciliation statements. Provision required for long pending unreconciled portion.
7. **Suspense Accounts, Sundry Deposits, Etc.**
 - a. System for clearance of items debited/ credited to these accounts.
 - b. Test check for any unusual entries under these heads.
 - c. Long pendency in these accounts, reasons therefore; provision required if, any

8. Long pending items in balance sheet and their position

A list of long pending items in balance sheet may be examined and the measures taken by the bank for squaring off the same

9. Branch Inspections:

- a. System of branch inspections: frequency; scope / coverage of inspection; System of internal audit, concurrent audit/ revenue audit and reporting. Arrears, if any in inspections/audit to be mentioned.
- b. System of follow-up of these reports; position of compliance.
- c. Supervision and monitoring the functioning of DCCBs (in case of Apex banks)

10. Management information system (MIS) :

- a. The efficacy of MIS maintained by the bank
- b. Comment on regularity of receipt of internal returns
- c. Comment on content and regularity of submission of various statutory returns including Off-Site Surveillance System (OSS) returns and other external returns.

11. Fraud prevention, Monitoring and Control

- a. Observations on major frauds, misappropriations, embezzlements, etc discovered during the year under audit covering modus operandi, action taken, recovery efforts, etc.
- b. Monitoring, review, incidence of thefts, robberies, dacoits. Reporting of frauds to NABARD
- c. Provision required, if any
- d. Preventive measures to avoid recurrence of frauds, etc.

12. Risk Management Systems

- a. Comment on risk Profile of the bank viz. Liquidity risk, credit risk, exposure risk, interest rate risk and operational risk faced by bank supported by ratio analysis
- b. Comment on systems and procedures for identifying, managing and mitigating risks and also default monitoring mechanism.

13.Asset Liability Management (ALM) System:

COMMENT ON THE ALM MECHANISM PUT IN PLACE BY THE BANK. COMMENT ON THE FUNCTIONING OF ALCO COMMITTEE. COMMENT ON THE GAPS/MISMATCHES, ANALYSIS AND GENERATION OF REPORTS.

14.Vigilance Arrangements:

- a. Implementation of Vigilance guidelines and systems as per guidelines of NABARD-Working of Vigilance Cell
- b. Irregularities/inadequacies in the vigilance arrangements

J. Compliance:

- i. **Functioning of Audit Committee of Board-** System for taking timely follow-up action on the observations and suggestions made in the inspection reports of NABARD, statutory auditors and those submitted by the Internal Inspection Department, Vigilance Cell and internal auditors; including concurrent auditor, timeliness and effectiveness of timely follow-up action on guidelines, circulars, etc. issued by NABARD/RBI; overseeing and providing direction as also discharge of other duties/ responsibilities of the Committee may be commented upon.
- ii. **Comment on compliance with important provisions of the** B.R. Act, 1949 (AACS), B.R Act, 1934 and provisions of State Cooperative Societies Act and bye-laws.
- iii. Compliance to IT Act and other laws in force.

K. Audit of Computerised Operations:

All co-operative banks having fully/partially-computerised operations should ensure to comply with the following norms and auditors may comment on the same.

- i. Availability of competent personnel, segregation of duties of programmer and persons operating the system, existence of physical, logical and procedural access to system; standards for quality assurance and periodically testing and checking them; formal declaration of system development methodology
- ii. Programming and documentation standards to be followed by the bank, in the absence of which quality of system maintenance/improvement might suffer, contingency plans/procedures in case of failure of system/Disaster management system, Manual of instructions for their inspectors/auditors and its periodical updation.
- iii. If services of outside computer agencies are engaged whether "clause of visitorial rights" in the contract, has been incorporated so as to have the right

to inspect the process of application and also ensure the security of the data/inputs is ensured while entrusted to such outside agencies.

- iv. Auditors may also comment on (wherever applicable) automation and computerization process and policy for the same. Progress made during the year under review, critical area of operations not covered by automation, number of branches covered by computerisation and extent of computerisation, volume of business computerized, suggestion if any.
- v. Arrangements for system/IT audit
- vi. Issues connected with maintenance of ATMs-Cash replenishment, security and monitoring etc.
- vii. Comment on working of various technology driven products and services e.g. Smart cards, credit cards, if any

L. Preparation/Implementation of DAP & MOU Executed and Revival Package, etc.:

- i. Performance under the Development Action Plan and MoU executed, system of monitoring the achievements, etc.
- ii. Implementation of Revival Package-utilisation of amounts received under the GOI package and adherence to various guidelines issued by NABARD in this regard
- iii. Verify implementation of schemes like Interest Subvention, Debt Waiver & Relief etc., and whether benefits have been extended to borrowers
- iv. Any other matter/adverse developments in the functioning of the banks, which, the auditor considers significant, should be brought to the notice of management.

Annexure -3**Checklist:**

The following paragraphs list the matters, which the branch auditors of banks are expected to comment upon in their long form audit reports. The list is illustrative and not exhaustive.

I. ASSETS:**1. Cash:**

Cash balances at branches and whether the same exceeded the limits fixed by H.O significantly. Does the branch hold adequate insurance cover for cash and cash in-transit? Is cash maintained in effective joint custody of two or more officials, as per instructions of the Head Office? Have the authorised officials of the bank checked the cash balances at the branch at periodic intervals?

2. Balances with Banks:

- a. Were balance confirmation certificates obtained in respect of outstanding balances as at the year-end and whether the aforesaid balances have been reconciled? If not, the nature and extent of differences be reported.
- b. Observations on the reconciliation statements may be reported in the following manner?
 - i. Cash transactions remaining unresponded (give details);
 - ii. Revenue items requiring adjustment / write-off (give details);
 - iii. Old outstanding balances remaining unexplained/ unadjusted for over one year (give year-wise details).
- c. In case, any item deserves special attention of the management, the same may be reported.

3. Investments:

Has the Branch kept money at call and short notice or purchased/ sold investments during the year? If so, whether instructions/ guidelines, if any, laid down by Head Office/Controlling Authority have been complied with? Whether the securities held in the books of the branch are physically held by it?

4. Advances:

(The answers to the following questions may be based on the auditor's examination of all large advances and a test check of other advances. In respect of large advances, all cases of major adverse features, deficiencies, etc., should be reported. In respect of other advances, the auditor may comment upon the relevant aspects generally, along with instances of situations giving rise to his reservations or adverse remarks. For purposes of the above, large advances are

those in respect of which the outstanding is in excess of 1% of the aggregate advances of the branch or Rs. 1 lakh, whichever is less).

a) Credit Appraisal:

- i. Whether in any cases the branch has not obtained loan applications in appropriate forms prescribed by the Head office during the year?
- ii. Has the branch complied with the procedures / instructions of Head Office regarding preparation of proposals for grant/ renewal of advances, enhancement of limits, etc.?
- iii. What are the major shortcomings in credit appraisals?

b) Sanctioning / Disbursement:

- i. Any cases of credit facilities having been sanctioned beyond the delegated authority or limit of the branch? Are such cases reported to higher authorities?
- ii. Whether disbursements made under credit limits without complying with the terms and conditions of the sanction?

c) Documentation:

- i. Whether credit facilities were released by the branch without execution of all the necessary documents? If so, give details of such cases.
- ii. Whether deficiencies in documentation, value of security and inspection thereof or any other adverse features such as frequent/ unauthorized overdrawing beyond limits, inadequate insurance coverage, non-registration of charge, etc. were noticed?

d) Review/ monitoring/ supervision:

- i. Whether the branch followed the procedure laid down by the Head Office for periodic review of advances including periodic balance confirmation / acknowledgement of debts?
- ii. Method of charging interest in respect of agricultural advances- whether interest is capitalised and if so, at what periodicity
- iii. Are the stock/ book debt statements and other periodic operational data and financial statements, etc., received regularly from the borrowers and duly scrutinized? Is suitable action taken on the basis of such scrutiny in appropriate cases?
- iv. Indicate the cases of advances to non-corporate entities with limits beyond Rs.10 lakh where the Reserve Bank of India guidelines with regard to compulsory audit have not been complied with.
- v. Has the inspection or physical verification of security charged to the Bank been carried out by the branch as per the procedure laid down by the Head

office? Whether securities and documents have been received and properly charged/registered?

- vi. Has the branch identified and classified advances into Standard / Sub-standard / Doubtful/ Loss Assets in line with the norms prescribed by RBI/NABARD? (The auditor may refer to the relevant Head Office instructions for identification of non-performing assets and classification of advances).
- vii. If disagreed with the branch classification, give details of such advances with reasons.
- viii. Whether cases where the Board or Controlling Authority has authorised legal action for recovery of advances or discontinuance of application of interest on doubtful advances or recalling of advances but no such action was taken by the branch were noticed?
- ix. Have all irregular, sticky/ sick advances been reported to the Controlling Authority promptly? Also state whether any rehabilitation programme in respect of such advances has been undertaken, and if so, the status of such programme.
- x. Are appropriate claims for insurance and subsidies, if any, duly lodged and settled? If not, indicate the number of cases and the amounts involved. Also check whether the branch has credited the amounts to the concerned
- xi. Check whether the letters of credit issued by the branch are within the delegated
- xii. power and whether they are for genuine trade transactions,
- xiii. Check the bank guarantees issued, whether the same have been properly worded and recorded in the register of the bank. Whether they have been promptly renewed on the due dates.
- xiv. List the major deficiencies in credit supervision.

5. Other Assets:

a) Stationery and Stamps:

Does the system of the bank ensure adequate internal control over issue and custody of stationery comprising of security items (Term Deposit Receipts, Drafts, Pay Orders, Cheque Books, Traveller's Cheques, Gift Cheques, etc.)?

b) Suspense Accounts/ Sundry Assets and other items:

- i. Does the system of the bank ensure expeditious clearance of items debited to Suspense Account? Details of old outstanding entries and the reasons for delay in adjusting the entries may be ascertained?

- ii. Does the scrutiny of the accounts under various sub-heads reveal balances; which are not recoverable in the opinion of auditor and would require a provision / write-off? If so, give details thereof.
- iii. Does your test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved.

II. LIABILITIES:**1. Deposits:**

- i. Check the transactions about deposits received and repaid.
- ii. Percentage check of interest paid on deposits, including calculation of interest on large deposits. Also check the deposits made by PACS and calculation of interest thereon.
- iii. Whether the procedures connected with the opening of new accounts have been followed as per RBI instructions?

2. Bill payable, Sundry Deposits, etc.:

- i. The number of items and the aggregate amount of old outstanding items pending for three years or more may be obtained and reported under appropriate heads. Does the scrutiny of the accounts under various sub-heads reveal old balances? If so, give details thereof.
- ii. Does test check indicate any unusual items in these accounts? If so, report their nature and the amounts involved.
- iii. Check cheques returned/bills returned register and look into reasons for return of those instruments. Checking of inward and outward remittances (DDs, MTs and TTs).
- iv. Verify cheques purchased/discounted beyond the sanctioned limit on a sample basis.

III. FOREIGN EXCHANGE TRANSACTIONS:

Foreign bills negotiated under Letters of Credit (LCs), FCNR and other non-resident accounts, whether the debits and credits are permissible under the rules, whether inward/outward remittance have been properly accounted for. Ensure adherence to the guidelines issued by RBI regarding the above operations, statements to be submitted, etc.

IV. PROFIT AND LOSS ACCOUNT:

- i. Has the test-checking of interest revealed excess/ short credit of material amount? If so, give details thereof.
- ii. Has the branch complied with the Income Recognition norms prescribed by RBI? (The auditor may refer to the Head Office instructions regarding charging of interest on non-performing assets).

- iii. Has the test check of interest on deposits revealed any material discrepancies?
- iv. Are there any divergent trends in major items of income and expenditure, which are not satisfactorily explained by the branch? If so, the same may be reported. For this purpose, an appropriate statement may be obtained from the branch manager explaining the divergent trends in major items of income and expenditure.
- v. Indicate the effect of changes, if any, in accounting policies on the items of income and expenditure. (The auditor may refer to the instructions of the Head Office regarding changes in accounting policies).

V. INTERNAL CONTROLS:

1. Books and Records:

- a. Does general scrutiny of the books of accounts indicate whether the same have been properly maintained, with balances duly inked out and authenticated by the authorised signatories?
- b. Indicate the position relating to balancing of the books examined-maintenance and balancing of accounts, Ledgers and registers including Clean Cash and General Ledger

2. Reconciliation of Control and Subsidiary Records:

Have the figures of the control and subsidiary records been reconciled as at the year-end? If not, the last date up to which such figures have been reconciled should be given under the respective heads, preferably in the following proforma:

Head of Account Balance as at 31.3....

(specify date) Reconciled upto

As per General

Ledger As per Subsidiary

Ledger

3. Inter-branch Accounts:

- a. Indicate the date upto which reconciliation in various accounts pertaining to inter-branch transactions (e.g., Demand Drafts paid/ payable) is available with the branch. A year-wise break-up of outstanding entries in the inter-branch accounts, together with a statement of the reason for their remaining outstanding and the steps being taken by the management in respect thereof, should be obtained from the management and reported in the following format:

Year Debits

Credits

No. of entriesAmount
(Rs.)No. of entriesAmount
(Rs.)

Statement of reasons:

Statement of steps being taken by the management:

- b. Does your test check indicate any unusual entries put through inter-branch/ Head Office accounts? If so, report their nature and the amounts involved.
- c. Are long outstanding items of high value identified regularly and action taken thereon?
- d. Reconciliation of entries outstanding in the inter-branch and inter-bank accounts, Suspense Accounts, Sundry Deposits Account, Drafts Accounts, etc.

4. Frauds:

Furnish particulars of frauds discovered during the year under audit at the branch, modus operandi together with your suggestions, if any, to minimise their recurrence.

5. Previous inspection/audit Reports:

In framing the audit report, whether the major adverse comments arising out of the latest reports of the previous auditors, concurrent auditors or internal auditors/inspections, or in inspection report of NABARD have been considered? State various adverse features persisting in the branch though brought out in these audit/ inspection reports.

VI. MISCELLANEOUS:

- a. Does the examination of the accounts indicate possible window dressing?
- b. Comment on clearing operations
- c. Details of off-balance sheet transactions and whether they are properly followed by all branches. Also comment on non-fund-based business undertaken by branch.
- d. Supervision arrangement- extent of supervision of PACS by the branch
- e. Are there any other matters, which could be brought to the notice of the management or the central statutory auditors?
- f. Auditors may themselves identify problem areas at branch level/bank and offer their suggestions to overcome them.