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Kankaria Maninagar Nagrik Sahakari Bank Ltd

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AUDIT POLICY

RBI License No :

UBD GUJ 1194-P Date : 30-12-1995

Audit Class

'A'

Registration No :

12427 Date: 13-10-1973

E-mail Address

banking@kmnsb.com

Board Meeting Date: 31-07-2020

Board Meeting Date: 10-08-2021

Board Meeting Date: 31-01-2024

Resolution No : 40

Resolution No : 30

Resolution No : 24

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Kankaria Maninagar Nagrik Sahakari Bank Ltd. Ahmedabad.

Audit Policy

As recommended by Ghosh Committee and in terms of RBI Master Circular on Inspection and Audit system, UCBs should introduce a sound system of internal audit system in the bank. Accordingly, our bank has prepared Audit Policy. This policy is called Audit Policy of the Kankaria Maninagar Nagrik Sahakari Bank Ltd.

The following types of Audit are to be carried out by bank.

- A. Statutory Audit
- B. Reserve Bank of India Inspection under Section 35 of BR Act, 1949 (AACCS).
- C. Concurrent Audit
- D. Internal Inspection
- E. EDP/IS Audit
- F. Tax Audit
- G. GST Audit (If applicable under GST Act)
- H. Cyber Security Audit (VAPT Audit)

Audit Committee of Board (Apex Audit Committee)-(ACB)

The bank should set up an Apex Audit Committee 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, three or more Directors, one or more of such Directors being Chartered Accountants or persons having experience in management, finance, accountancy and audit system, etc. and at least one management level employee of the bank. The Audit Committee of the Board will carry out the following activities.

- (i) The Audit Committee of the Board should review the implementation of the guidelines issued by RBI and submit a note thereon, to the Board at quarterly intervals.
- (ii) 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.

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- (iii) 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.
- (iv) ACB will evaluate significant IS Audit issues. ACB will review critical issues highlighted by IS Audit and provide appropriate guidelines to the UCB's management.
- (v) ACB will monitor the compliance in respect of the information security review/VA-PT audits under various scope conducted by internal as well as external auditors to ensure that open issues are closed on a timely basis and sustenance of the compliance is adhered to.
- (vi) It should also specially focus on the follow up on:
 - Inter-branch adjustment accounts.
 - Unreconciled issues and long outstanding entries in inter-branch accounts and interbank 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.

A. Statutory Audit.

- a) In terms of RBI letter No. DOS. Co. ARG/ SEC.01/ 08.91.001/ 2021-22 dated April 26, 2021, every UCB has to appoint Statutory Auditors (SA) for the 3 financial years. Accordingly we have to frame policy for the appointment of Statutory Auditor as per RBI guidelines. We have to select Statutory Auditor Firm, CA as our Statutory Auditor for the 3 financial years after prior permission of Reserve Bank of India. Our bank being Tier II bank

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(having deposit of more than Rs.100 crore), the statutory Auditor will carry out audit on quarterly basis and submit quarterly report.

- b) On receipt of quarterly reports from the Statutory Auditor, the bank will send the copy of the report to respective branches for clarification/rectification/compliance to the audit report.
- c) The branch will submit the compliance/rectify the irregularities pointed out by the Auditor and send it to Head Office.
- d) The HO will collect the compliance/rectification reports from all branches and put up before the Audit Committee of the Board for review/approval.
- e) The Inspection Department/HO of the bank will also put up the compliance/rectification reports before the Board for review/approval.
- f) HO will submit the compliance/rectification report to the concerned Statutory Auditor.
- g) The bank also may obtain certificate from the Statutory Auditor in connection with assessable deposit and premium amount paid to DICGCI for the half year in the format prescribed by RBI. The bank will forward the certificate to RBI, Mumbai.
- h) The Statutory Auditor will verify the returns submitted by the bank to RBI with regard to DEA Fund. The bank also may obtain Annual Certificate from the Statutory Auditor in the format prescribed by RBI in connection with returns submitted by the bank to RBI with regard to DEA Fund. This certificate shall be submitted within one month from the date of completion of bank's Statutory Auditor latest by September 30 of the subsequent financial year for which the Annual Certificate is obtained. This certificate in original shall be forwarded in pdf format to dea.fund@rbi.org.in and the hardcopy must reach DEA Fund Cell, Department of Banking Regulation, Reserve Bank of India, Central Office, 12th Floor, Mumbai, within the prescribed timeline.

B. Reserve Bank of India Inspection:

- a) Reserve Bank of India carry out inspection under Section 35 of the Banking Regulation Act, 1949(AACS).

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- b) The bank should put up the findings of the inspection report of RBI before the Board of Directors.
- c) The bank should arrange to collect the compliance/rectification to the inspection report from all concerned branches and put up the compliance to Audit Committee and also to the Board.
- d) The Board of Directors shall unanimously resolve that all irregularities, violations of Reserve Bank of India directions guidelines, other deficiencies etc., pointed out in the Inspection Report including the compliance to pending paragraphs of the Inspection Report have been fully rectified/complied with by the bank.
- e) The CEO also should certify that all irregularities, violations of Reserve Bank of India directions guidelines, and other deficiencies etc., pointed out in the Inspection Report have been fully rectified/complied with by the bank.
- f) The bank should submit the compliance to RBI Inspection Report to --
The General Manager, Reserve Bank of India, Department of Urban Bank Supervision, Ahmedabad together with copy of the Board resolution and CEO certificate within the time limit prescribed by RBI.
- g) The bank also should submit further compliance/explanation called for by RBI, if any within time limit prescribed by RBI till closure of the report by RBI.

C. Internal Audit:

Banks shall introduce a sound system of internal audit to strengthen the credibility of the inspection system in detecting cases of frauds/malpractices, to gear up the inspection/audit machinery. The bank shall appoint senior and well experienced officers of the bank as "Internal Auditor". The Internal inspection of the bank will be carried out on monthly basis of all the branches and submit the report to the Branch Manager concerned and to the Head Office also. The branch Manager will ensure the compliance of the irregularities/shortcomings observed by the internal auditor at the earliest and submit it to the Head Office. The HO will submit the Inspection Reports and their compliances of all branches to the Audit Committee of the Board.

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Coverage of Internal Audit:

- a) The Internal Inspector should examine/ include a thorough examination of the internal control system obtaining at the branches including the various periodical control returns submitted to the controlling offices.
- b) The internal inspection report should specifically comment, on the position of irregularities pointed out in the inspection report of Reserve Bank of India.
- c) 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.
- d) The internal inspector should scrutinize the suspense account during inspection / visit and give specific instructions for early reversal of entries.
- e) The banks 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.
- f) 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.
- g) The annual internal inspection may be supplemented by surprise short inspections, revenue audit, credit portfolio audit etc. Surprise short inspection may be carried out by officials at appropriate higher levels to ensure that branch officials are not indulging in malafide practices.
- h) Credit Portfolio Audit: The Internal audit should carry out credit portfolio audit also.

Other Areas of Importance

- The reconciliation of the balances of CSGL accounts and General Ledger of the bank should be periodically checked by the internal audit department.
- In view of the possibility of abuse, purchase and sale of government securities etc. should be separately subjected to audit by internal auditors and the results of their audit should be placed before the Board of Directors once every quarter.
- The audit should scrutinize that:
 - Adherence to the aggregate upper contract limit for each of the approved brokers is within a limit of 5% of total

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transactions (both purchase and sales) entered into by the bank during a year.

- Disproportionate part of the business is not transacted through only one or a few brokers and that aggregate contract limits for each of the approved brokers are not exceeded. The limit should cover both the business initiated by the bank and the business offered/brought to the bank by broker. 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 therefor, should be covered in the half-yearly review to the Board of Directors; and
- The deals have been undertaken in the best interest of the bank.

D. EDP Audit/Information System Audit (IS Audit)

- a) The bank shall appoint Chartered Accountant as EDP/IS auditor of the bank.
- b) The bank may adopt appropriate systems and practices for conducting EDP/IS audit on annual basis covering all the critically important branches.
- c) Such audits should be undertaken preferably prior to the statutory audit so that EDP/IS audit reports are available to the statutory auditors well in time for examination and for incorporating comments, if any, in the audit reports.
- d) IS audit reports should be placed before the board and compliance should be submitted as early as possible.
- e) EDP Auditor should verify whether the bank has made a formal declaration of system development methodology, programming and documentation standards are followed.
- f) 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
- g) The bank should submit the compliance to the EDP/IS Audit to the EDP/IS Auditor. The compliance to the EDP/IS Audit Report should also be placed to Audit Committee.

E. Concurrent Audit.

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- As recommended by Ghosh Committee and Joint Parliamentary Committee (JPC), all branches of the bank are subjected to Concurrent Audit. 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.
- The bank shall appoint professionally qualified Chartered Accountant (CA) as a Concurrent Auditor of the bank.
- The concurrent auditor and Statutory Auditor should be different persons.
- Serious irregularities brought out in the concurrent audit report should be immediately reported to the Reserve Bank of India, Department of Bank Supervision, Ahmedabad.
- The branch will submit the compliance/rectify the irregularities pointed out by the Auditor and send it to Head Office.
- The HO will collect the compliance/rectification reports from all branches and put up before the Audit Committee of the Board
- The Board should once in a year review the effectiveness of the system and take necessary measures to correct the lacunae in the system.

Scope of Concurrent Audit:

- The concurrent auditor will carry out audit of Head Office and all the nine branches of the bank.
- Concurrent Auditor will carry out audit on on-going basis. It attempts to shorten the interval between a transaction and its examination by an independent person not involved in its documentation. The auditor will carry out substantive checking in key areas rather than test checking.
- Concurrent Auditor has to see whether the transactions or decision taken by the officials of the bank are within the policy parameter laid down by the Head Office/Board of Directors.
- He will also see that the transactions or decision do not violate the instructions or policy prescriptions of the Reserve Bank of India.
- He will also see that the transactions or decision taken by the officials of the bank are within the delegated authority and in compliance with the terms and conditions for exercise of delegated authority.
- The Concurrent Auditor shall report minor irregularities, wrong calculations to the branch Manager on the spot for rectification/compliance and report any serious irregularities, frauds etc., directly to Head Office immediately.
- The Departments/Divisions at Head Office dealing with treasury functions viz. investments, fund management including inter-bank borrowings, bills discount,

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debit/credit card system, call money transactions are subjected to concurrent audit. All branches undertaking such business are subjected to concurrent audit.

- The overall functioning of all branches are subjected to concurrent audit.

Types of Activities to be covered.

The main role of the concurrent auditor is to supplement the efforts of the bank in carrying out internal check of the transactions and other verification and compliance with the procedures laid down. Particularly he should see that the transactions are properly recorded/documented and vouchered. The concurrent auditor may broadly cover the following items:

1) Cash

- Verify daily cash transactions with particular reference to any abnormal receipts and payments.
- Proper accounting of inward and outward cash remittance.
- Expenses incurred by cash payment involving sizable amount.
- Carry out physical verification of cash balance on hand with cash summary book and General Ledger
- Verify the compliance to the RBI Clean Note Policies.

2) Investments

- The concurrent auditor will ensure that the sale and purchase of securities are within the delegated power.
- He will ensure that bank complies the RBI/Head Office/Board guidelines regarding delivery of scripts, documentation and accounting.
- He will ensure that sale and purchase transactions are done at rates beneficial to the bank.
- He will ensure that the securities held in the books of the bank are physically held by it.
- He will verify the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) maintained by the bank and report shortfall in CRR/SLR maintained if any, by the bank.
- 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 custodians statement.
- He will verify whether the bank maintain the deposits with other individual bank and all other banks within the prescribed exposure limit of 5% and 20% of the total deposits of the previous year of the bank.

3) Deposits

- The Concurrent Auditor will check the transactions about deposits received and repaid.
- The Concurrent Auditor will carry out percentage check of interest paid on deposits including calculation of interest on large deposits
- The Concurrent Auditor will 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. Verify whether Interest calculated at prescribed rate on paid fixed deposit receipts on random basis (test check)
- Verify the transactions in inoperative accounts and closed accounts
- Verify for Debit balance in Deposit A/cs (other than FDOD) whether interest has been provided there on (List such accounts and report)
- Verify whether Cash Transactions Report submitted to FIU-India on monthly basis.
- Verify whether all required parameters of STR have been captured in the System of the Bank.
- Verify whether the Bank is generating transactions of suspicious nature and forwarding STR to FIU-India
- Verify the amount to be transferred to DEAF, Payment of claim for DEAF amount made to customers

4) Advances

- Ensure that loans and advances have been sanctioned properly (i.e. after due scrutiny and at the appropriate level).
- Verify whether the sanctions are in accordance with delegated authority.
- Ensure that securities and documents have been received and properly charged/registered.
- Ensure that post disbursement, supervision and follow-up is proper, such as receipt of stock statement, instalments, renewal of limits, etc.
- Verify whether there is any mis-utilisation of the loans and advances and whether there are instances indicative of diversion of funds.
- 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 Head Office by the branch and have been got confirmed or ratified at Head Office level.
- Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the officials.

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- Verification of Loan application register and loan account open register (List new loans approved /disbursed / renewed during the audit period)
- Check whether system of pre sanctioned survey and recording of scrutiny note is there and report there on.
- Verify whether post disbursed supervision system is in vogue in the Bank as per guidelines issued by RBI.
- Verify whether nominal members were sanctioned loans above the prescribed limit (i.e. above the limit of Rs.1,00,000/-)
- Verify the compliance to share linking norms and report.
- Check the operational compliance of the loan and report upon.
- Verify Insurance and its register, Stock statement and its register, Visit by Bank and its register, financial statement, audit reports and its register.
- Detailed scrutiny of loan application and documents obtained by the Bank in respect of all type of loans sanctioned / renewed / disbursed during the month and specific detailed report on the shortcoming / deficiencies observed in compliance to instruction issued by the RBI in this regards.

5) Verification of NPA accounts and report thereon:

- Verify whether Bank is following RBI's guidelines for identification of its NPA on ongoing basis.
- Verify Classifying of NPAs, Quality of NPA, Provisioning requirements and Bank's compliance there against.
- Verification of NPAs as on the previous month.
- Report the position of NPAs as on the last date of previous month.
- Recovery in NPA accounts with respect to the accounts identified as NPA in the previous period.
- Other steps taken by branch in such NPA accounts.

6) Housekeeping

- Ensure that the maintenance and balancing of accounts, Ledgers and registers including clean cash and general ledger is proper.
- Ensure prompt reconciliation of entries outstanding in the inter-branch and inter-bank accounts, Suspense Accounts, Sundry Deposits Account, Drafts Accounts, etc. Ensure early adjustment of large value entries.
- Carryout a percentage check of calculations of interest, discount, commission and exchange.
- Check whether debits in income account have been permitted by the competent authorities.
- Check the transactions of staff accounts.
- In case of difference in clearing, there is a tendency to book it in an intermediary suspense account instead of locating the difference. Examine

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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.
- Checking of inward and outward remittances (DDs, MTs and TTs).

7) 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.

8) Verification of Trial Balance as on the last date of the month and as on the previous date of Audit:

- G.L. balances to be verified from last month's closing.

9) Verification of compliance of observations made in the Concurrent Audit reports of previous months:

- Verify compliance to the last concurrent audit report.

10) Report on non-compliance:

- Furnish number and particulars of paragraph of Audit report which were not complied for.
- Verify Bank's Compliance to RBI's Inspection Report, Statutory Auditor's report and EDP report and report the Non-complied observations.

11) Verification of Adhesive, Revenue, Postal stamps:

- Physical verification of Adhesive Stamps, Revenue Stamp and Postal Stamps. Obtain certificate of the same.

12) Verification of Postdated Cheque:

- Checking of postdated cheques on hand with concerned register maintained by the bank.

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13) Verification of Cheque returned register / Tokens / Cheque Book issued register:

- Verification of Cheque returned (Inward and Outward) register and report there on.
- Verification of the tokens on hand and report on mission tokens, if any.
- Verification of the stock of blank cheque books / draft books and F.D. Receipts (if it is computer generate stationary, check the control thereof) and verify with the stock shown in the register and report.
- Verification of the Cheque Book issued register and newly issued cheques books.

14) Verification of fixed assets / dead stock articles:

- Verify whether all newly purchased Fixed assets / dead stock articles have been entered into fixed assets register and whether amount capitalized.
- Whether the Fixed assets / dead stock articles have been marked / painted.
- Whether physical verification has been done by the branch and, any discrepancies / deficiencies noticed has been reported and adjusted in books (on Yearly basis)

15) Deposits (Savings / Current / Term) Account Opening Forms:

- To Verify Account Open register in respect of all the deposit accounts opened during the month.
- Verify whether KYC guidelines issued by the RBI strictly adhered in the saving / Current and other deposit accounts opened during the month.
- To verify that whether the forms are complete in all aspects.

16) GST Tax:

- Whether GST recovered during the month has deposited to the concerned Govt. department within the prescribed time limit.

17) T.D.S.:

- Whether Tax deducted at source by the Bank during the month has deposited to the concerned Govt. department within the prescribed time limit (Restricted to payment of Tax deducted by the Bank to Govt.

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department within the prescribed time limit / no verification about deduction of tax at prescribed rate of otherwise)

18) Reconciliation:

- Verify reconciliation of bank accounts with other banks and report on the unreconciled and outstanding balance, age wise.
- Verify reconciliation of Head Office with Branches, Report on unreconciled entries and entries outstanding over 1 month.
- Pay slip A/c / DD / TT / Funds in transit – check all un-reconciled a/cs and report on the same.
- Expired or Matured Bills / LC / Guarantee – report on the same if uncleared.

19) Internal Control System – Balancing of Books:

- Whether Bank is balancing its ledgers with G.L. on monthly basis.
- Verify balances of all Advance Ledgers and Deposit Ledgers with the respective balances in General Ledger.

20) DICGC Premium: (Half Yearly)

- Verify whether the premium on total deposits as on 31 March and 30 September paid on due dates.
- Verify whether all liabilities included, while arriving at total deposits as per DICGC Act.
- Verify whether premium calculated at prescribed rate and credited to DICGC within the prescribed time limit.

21) Operational Issues: (Quarterly)

- Verify whether there are any abnormal changes in any of the balances of GL and comment there on.
- Verify Bank's House- keeping area
- Verify Bank's Asset Liabilities Management.

22) Customer Service:

- Verify Bank's adhering to RBI's instructions regarding customer service followed by the Bank, and grievance redressal mechanism for quick resolution of complaints; services offered to physically handicapped customers.

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- Verify whether the Bank has hold meetings of its Customers at frequent intervals and has taken appropriate steps to solve their complaints / implemented the suggestions received in the meetings.

F. Tax audit

- Tax audit of the bank will be carried out on yearly basis (financial year) by Chartered Accountant (External Auditor) as appointed by the Board.

G. GST Audit

- As per GST Act, GST Audit of the bank will be carried out on yearly basis (financial year) by Chartered Accountant (External Auditor) as appointed by the Board (if applicable under the GST Act).

H. Cyber Security Audit (Vulnerability Assessment/Penetration Testing (VA/PT))

Reserve Bank of India has, vide its circular DCBS.CO.PCB.Cir No.1/18.01.000/2018-20 dated October 19, 2018 prescribed some basic cyber security Framework for UCBs. Further, RBI, vide its circular DOS.CO/C SITE/BC.4083/31.01.052/2019-20 dated December 30, 2019 has formulated a comprehensive cyber security Framework for UCBs based on a graded approach.

As per criteria prescribed, we fall under Level II. It was therefore, decided to conduct periodically Vulnerability Assessment/Penetration Testing (VA/PT) of internet facing web/mobile applications, Servers and network components throughout their lifecycle (pre-implementation, post implementation, after changes etc.). Vulnerability Assessment/ Penetration testing of public facing system as well as other critical applications should be conducted by professionally qualified (CISO qualified) team. VA/PT audit shall be conducted atleast once in every six months.

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