



# THE NIZAMABAD DISTRICT CO- OPERATIVE CENTRAL BANK LTD., NIZAMABAD.

(REGD. No.21494)



## AUDIT POLICY



## Audit Policy

### 1. Introduction

This Audit Policy ("Policy") is established by The Nizamabad District Cooperative Central Bank Ltd. Nizamabad (the "Bank") to ensure the objectivity, effectiveness, and integrity of the audit function. The Policy outlines the purpose, scope, responsibilities, and reporting requirements of audit conducted in the Bank.

### 2. Scope of Audit Policy:

- a. Audit Committee and Audit Department.
- b. Function of Audit Department
- c. Internal Audit / Concurrent Audit
- d. Statutory Audit
- e. Information Systems (IS) Audit
- f. Legal Audit

### 3. Audit Committee (ACB):

Bank shall establish an audit sub committee comprising of board members headed by the vice president of the Bank as the chairman of the committee. The President and the Chief Executive Officer shall not be the members of the audit sub-committee.

### 4. Roles and Responsibilities of the Audit Committee:

- a. The Audit Committee of the Board (ACB) will review the implementation of the guidelines issued by RBI and submit a note thereon, to the Board at quarterly basis.
- b. ACB will provide direction and oversee the operations of the total audit function in the bank. The total audit function will imply the organization, operationalisation and quality control of internal audit and compliance within the bank and follow-up on the statutory audit of the bank.
- c. ACB will review the internal audit and compliance function in the bank, its quality and effectiveness in terms of follow up. It will review the follow up action on the internal audit reports, particularly of "Unsatisfactory" branches and branches marked as critical. ACB will also specially focus on the follow up on:
  - i. Suspense Accounts.
  - ii. Clearing Adjustment Accounts.
  - iii. Statutory Requirements.
  - iv. Systems and Procedures.
  - v. Un-reconciled long outstanding entries in inter-bank accounts.
  - vi. Arrears in balancing of books.
  - vii. Frauds.
  - viii. All other major areas of housekeeping.
- d. Compliance with the Statutory Audit Reports/Concurrent Audit Reports/NABARD inspection reports.
- e. Omission on the part of internal inspecting officials to detect serious irregularities will be viewed seriously.

## 5. Audit Department:

Audit Department shall be constituted by the officials of the bank which shall be headed by the officer of the cadre not less than Assistant General Manager.

## 6. The Roles and Responsibilities of the Audit Department:

The Audit Department, to improve the quality of audit and compliance thereon with statutory guidelines and various policy guidelines of the bank, shall take the following functions.

- a. Assess the internal controls and provide necessary recommendation to the ACB for improvement.
- b. Preparation and execution of audit plan
- c. Deployment of sufficient staff and other resources to ensure the timely accomplishment of all audit work.
- d. Assess the training needs of the staff working in various audit functions and ensure adequate knowledge is imparted.
- e. Analysis the audit reports and submit the observations to the CEO of the bank and ACB.
- f. Ensure timely completion of various audits and inspections.
- g. Liaisoning with the external and internal audit/inspection teams.
- h. Ensure compliance to the observations made in all audits and inspections.
- i. Preparation of audit manual
- j. Preparation and updating the scope of the various audits.
- k. Preparation and updating the formats for Audit and Inspections.

## 7. Types of Audits:

To ensure compliance with the statutory guidelines and considering the requirements of the bank the bank shall conduct the following audits.

- a. Internal Audit/Inspection
- b. Statutory Audit
- c. Information Systems Audit
- d. Legal Audit

## 8. Internal Audit/Inspection/Concurrent Audit:

- a. The Internal Audit conducts independent reviews and appraisals of the Bank procedures and operations. These reviews provide management with an independent appraisal of the various operations and systems of control. The reviews also help to ensure that bank resources are used efficiently and effectively while working towards helping the bank achieve its mission, as directed by the Board. It is the intention of the Internal Audit Department to perform this Service with professional care and with minimal disruption to Bank operations.

### b. Scope of the Internal Audit Function:

The Internal Audit team is responsible for utilizing a systematic, disciplined approach to evaluating and improving the effectiveness of internal controls and is to include the following:

- i. Developing and maintaining a comprehensive audit program necessary to ensure compliance with accounting standards, policies, and procedures necessary to safeguard the bank assets.



- ii. Communicating the results of audits and reviews by preparing timely reports, including recommendations for modifications of management practices, fiscal/business policies, and accounting procedures as justified by audit findings.
- iii. Establishing and maintaining a quality assurance program to evaluate the operations of Internal Audit. Such a program should include the following topics: uniformity of work paper preparation; audit sampling; work paper review; report preparation and review; report communication and issuance; and record retention.
- iv. Internal audit/inspection shall cover all the branches.
- v. **Cash:**
  - Daily cash transactions with reference to any abnormal receipts and payments.
  - Proper accounting of inward and outward cash remittances
  - Expenses incurred by cash payment involving sizeable amount
- vi. **KYC:**
  - Ensure KYC guidelines are being followed scrupulously at all levels.
  - Ensure periodic KYC is obtained.
  - Ensure Risk categorization of the customers
- vii. **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.
  - Examine whether the formalities connected with the opening of new accounts have been followed as per KYC guidelines.
- viii. **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 properly received and 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 fistulisation of the loans and advances and whether there are instances indicative of diversion of funds.
  - 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
  - Verify whether the classification of advances has been done as per RBI guidelines.
  - Verify that instances of exceeding delegated powers have been promptly reported to Controlling/Head Office/Board by the branch and have been got confirmed or ratified at the required level.
  - Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the concerned officials.



**ix. 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, commission and exchange.
- Check whether entries in income/expenditure accounts have been permitted by the competent authorities.
- Check the transactions of staff accounts.
- In case of difference in clearing/account with other bank, there is a tendency to book it in an intermediary suspense account instead of locating the difference. Examine the daybook to verify as to how such differences have been adjusted. Such instances should be reported to Head Office 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 investigate reasons for return of those instruments.
- Checking of inward and outward remittances.

**x. 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.
- Verification transactions related to lockers.
- Where any branch has poor performance in certain areas or requires close monitoring in housekeeping, loans and advances, the internal auditors may carry out intensive checking of such areas.
- Internal 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 internal auditors should give reasons, therefore.
- Internal auditors may themselves identify problem areas at branch level/bank and offer their suggestions to overcome them.

**c. Periodicity of Internal Audit:**

The periodicity of the internal audit of the branches should be every Month.

**d. Coverage of Internal Audit:**

The internal audit shall cover the verification/scrutiny of the following areas:

- i. Verification of Cash, Gold.
- ii. Verification of Reconciliation of Sundries, Inter Branch accounts, balances with other banks.
- iii. Verification of credit portfolio.
- iv. Verification of investment portfolio.
- v. Verification income leakage.



- vi. Verification of Dead stock articles.
- vii. Verification of legal action coverage against loan overdue cases.
- viii. Compliance with prudential norms.



## 9. Statutory Audit:

### a. Scope of Statutory Audit:

The statutory audit will encompass a comprehensive examination of the Bank's financial statements, including:

- i. An opinion on the truth and fairness of the Bank's financial statements prepared in accordance with applicable accounting standards.
- ii. Verification of the Bank's compliance with the provisions of the BR Act and other relevant laws and regulations.
- iii. Scrutiny of the Bank's adherence to sound banking practices and regulatory guidelines.
- iv. Examination of the Bank's internal control framework and risk management practices.

### b. Frequency:

The statutory audit shall be conducted annually for the period of financial year.

### c. Reporting

- i. The reporting of the financial statements and annexures shall be in accordance with the disclosure norms given by the RBI.
- ii. The statutory auditors will submit a detailed audit report to the Bank's Management and Board of Directors.
- iii. The audit report will include the auditor's opinion on the financial statements, significant audit findings, and recommendations for improvement.
- iv. The Bank will submit the statutory audit report to the Reserve Bank of India (RBI) within the stipulated timeframe.
- v. The audited financial statements shall be published in one of the high circulated newspapers before 30<sup>th</sup> June of each year after due approval of General Body.

### d. Communication and Follow-up

- i. The Bank will discuss the statutory audit report with the auditors to gain a clear understanding of their findings and recommendations.
- ii. Management will prepare a plan to address the audit observations and implement the recommendations within a defined timeframe.
- iii. The Bank will communicate the corrective action plan to the Board of Directors.

### e. Confidentiality:

The Bank and the statutory auditors shall maintain confidentiality regarding information obtained during the audit process, except for disclosures mandated by law or regulatory requirements.

## 10. IS Audit:

The bank has adopted a separate board approved IS audit policy.



## 11. Legal Audit:

### a. Objectives

The primary objectives of the Legal Audit are:

- i. To evaluate the Bank's adherence to all applicable laws and regulations.
- ii. To identify and assess potential legal risks and liabilities.
- iii. To recommend improvements to strengthen the Bank's legal compliance framework.
- iv. To ensure the Bank's legal affairs are managed effectively and efficiently.

### b. Scope

The Legal Audit will encompass a comprehensive review of the Bank's legal activities, including but not limited to:

- i. Loan documentation and credit processes where loan amount exceeds Rs. 1 Crore (Other than PACS).
- ii. Deposit account agreements and KYC compliance.
- iii. Regulatory compliance with RBI guidelines and other banking laws.
- iv. Contractual agreements with vendors, service providers, and other parties.
- v. Legal opinions and advice received by the Bank.
- vi. Ongoing litigation and dispute resolution processes.
- vii. Corporate governance practices.

### c. Reporting

The Legal Audit report will be submitted to the Bank's Management and Board of Directors. The report will include:

- i. A summary of the audit methodology and scope.
- ii. Findings on the Bank's compliance with legal and regulatory requirements.
- iii. Identification of potential legal risks and liabilities.
- iv. Recommendations for corrective actions and improvements to the legal compliance framework.
- v. A timeline for implementing the recommendations.

### d. Frequency

Legal Audits will be conducted periodically, at least once in a year or more frequently as deemed necessary by the Management or Board.

### e. Confidentiality

All information obtained during the Legal Audit will be treated as confidential. The Legal Audit report will be circulated only to authorized personnel within the Bank.

**12. Appointment of Auditors:**



**a. Internal/concurrent Auditors:**

Bank shall appoint internal auditors/concurrent auditors from the bank's internal staff with the approval of the Chief Executive Officer.

**b. Statutory Auditors:**

- i. The RBI has given detailed guidelines on appointment of statutory auditors vide its circular RBI/2023-24/113 Ref.No.DOS.ARG/SEC.8/08.91.001/2023-24.
- ii. The Statutory auditors shall be short listed from the panel of auditors provided by NABARD for every financial year.
- iii. The Short-listed auditors shall be submitted to the RBI with the approval of the General Body.
- iv. Upon receipt of approval from the RBI, bank shall appoint statutory auditor for the period of 1 year.
- v. The appointment of statutory auditor shall be completed by 1<sup>st</sup> July of every year.

**c. Legal Auditors:**

The bank shall appoint, with the approval of the board, a qualified and experienced legal professional or team, either internal or external to the Bank as legal auditors.

**13. Review and Update**

This Policy will be reviewed and updated periodically to reflect any changes in the statutory guidelines, or best practices for statutory audits in the banking sector.



*[Handwritten Signature]*

**Chief Executive Officer**