

**SUCO SOUHARDA SAHAKARI BANK LTD.,
HEAD OFFICE: BALLARI**

AUDIT AND INTERNAL INSPECTION POLICY 2021-22

**MODIFIED POLICY ADOPTED BY BOARD AT ITS METING ON
29.06.2022 VIDE RESOLUTION No. 8**

1. Introduction
2. Audit function machinery of the bank
3. Internal surprise inspection
4. Revenue Audit
5. Credit Portfolio Audit
6. Investment Portfolio Audit
7. Concurrent Audit Systems
8. Audit for Electronic Data Processing (EDP) System
9. Information System (IS) Audit 7
10. Statutory Audit
10. Audit Committee of Board (Apex Audit Committee)

1. Introduction:

In everyday business transactions of the bank, it is necessary to highlight and pinpoint the existence of deviation from set norms and rules in the business of the bank, gross and serious irregularities such as improper credit appraisal, disbursement without observing the terms of sanction, failure to exercise proper post disbursement supervision, even suppression of information relating to unauthorised excess draws allowed, etc. or bring to light frauds. Hence periodically Concurrent Audit, surprise internal inspection, statutory audit, EDP audit, IS audit functions shall be carried out. To guide all these audit functions an audit policy is required hence this policy. The policy is called as **“SUCO SOUHARDA SAHAKARI BANK’S AUDIT AND INTERNAL INSPECTION POLICY”**

2. Audit and inspection function machinery of the bank

Bank should introduce a sound system of internal surprise inspection. With a view to strengthening the credibility of the inspection system in detecting cases of frauds/malpractices, steps need to be taken to gear up the inspection/audit machinery and to improve the quality of officers of the inspection department. The head of the inspection department at the Head Office should be a sufficiently senior person and should report directly to the Audit committee

The implementation of the audit policy guidelines is the prime responsibility of the Head Of AUDIT DEPARTMENT of the bank. The audit department team shall comprise of Chartered Accountants, Retired bank employees, and bank own senior staff.

3. Internal Surprise Inspection:

The internal surprise inspection is to be carried out every month across the bank. At least 10 such inspections shall be planned and executed in a year by audit department.

For this inspection the HOD audit department is empowered to choose the inspecting official whom he feels fit to perform the inspection function from the bank officers Manager and above rank.

Since the inspection is carried out is surprise in nature, the allocation of inspection, selection of the branch or department, date of inspection shall be kept confidential till such inspection commences. The Reports and compliances shall be submitted to the forth coming Audit committee for review. Minutes of audit committee shall be submitted to board for ratification. Apart from this need base Internal surprise inspections may also be conducted.

The scope and check list of the Internal Surprise inspection is provided in ANNEXURE -1.

4. Revenue Audit:

To detect any revenue loss at branches and head office **Quarterly** Revenue audit is to be carried out. The Reports and compliances shall be submitted to the forth coming Audit committee for review. Minutes of audit committee shall be submitted to board for ratification.

SCOPE: All revenue income ad expenditures are to be verified for leakage during the quarter.

5. Credit Portfolio Audit

A system of exclusive scrutiny of credit portfolio with focus on larger advances and group exposures at regular intervals may be introduced. A special scrutiny high value accounts be done **quarterly (All 25lakhs and above loans)**. Similarly the accounts transferred from other branches along with the officials should be subjected to thorough scrutiny during this audit.

All 2 lakhs and above loans sanctioned by cluster committee shall be subjected to **Half yearly credit portfolio audit**.

The summary of the important findings may be submitted to the Audit Committee of the Board.

6. Investment Portfolio Audit :

Bank is required to include the following measures in respect of investment portfolio audit.

6.1 The reconciliation of the balances of SGL transfer forms as per bank's books should be **Quarterly** checked during this audit.

6.2 In view of the possibility of abuse, purchase and sale of government securities etc. should be separately subjected to this audit and the results of their audit should be placed before the audit committee and Board of Directors once in every quarter.

7. 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. It is, therefore, necessary for the bank's management to bestow serious attention to the implementation of various aspects of the system such as selection of branches, coverage of business operations, appointment of auditors, appropriate reporting procedures, follow-up/rectification processes and utilisation of the feed-back from the system for appropriate and quick management decisions.

Concurrent audit of the branches shall be done **every month** using Online Audit Software which will aid audit allocation, generation of audit report, compliance. The Reports shall be submitted to **Audit Committee review Quarterly.**

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: see Annexure 2

8. Audit for Electronic Data Processing System:

Entire domain of EDP activities (from policy to implementation) should be brought under scrutiny of Inspection and Audit Department. The overall control and supervision of these EDP Audit should be vested in the Audit Committee.

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

These may be plugged by:

- strengthening physical, logical and procedural access to system;
- introducing standards for quality assurance and periodically testing and checking them; and
- screening employees prior to induction into EDP application areas and keeping a watch on their behavioral pattern.
- putting in place appropriate control measures to protect the computer system from attacks of unscrupulous elements.

Replacement of manual procedures by computer applications should be done after a parallel run of the system and ensuring that all aspects of security, reliability and accessibility of data.

In order to ensure that the EDP applications have resulted in a consistent and reliable system for inputting of data, processing and generation of output, various tests to identify erroneous processing, to assess the quality of data, to identify inconsistent data and to compare data with physical forms should be introduced.

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.

The EDP audit shall be done once in a year and the report and compliances shall be submitted to Audit committee and the Board of directors for review.

9. Information System (IS) Audit

Bank shall adopt an IS audit policy appropriate to its level of operations, complexity of business and level of computerization and review the same annually

Bank shall conduct IS audit on annual basis covering all the critically important branches .

Such audits should be undertaken preferably prior to the statutory audit so that IS audit reports are available to the statutory auditors well in time for examination and for incorporating comments, if any, in the audit reports.

IS audit reports and compliance should be placed before the Audit committee and Board for review.

10. Statutory Audit :

As per Chapter 5 section 33 of Karnataka Souharda Sahakari Act 1997 each cooperative registered under this act shall get its books of accounts Balance sheet, Profit and Loss accounts audited by an Auditor empanelled and approved by Director of Cooperative Audit.

In adherence to the guidelines issued by RBI vide letter No. RBI/2021-25, Ref: DoS. .CO.ARG/SEC.01/08.91.001/2021-22

DATED April 27, 2021 the recommendation for selection of Statutory Auditor/s is to be done at Annual General Body meeting (AGM) and the same (short listed 2 names) are to be sent for approval / empanelment by RBI.

The Statutory Audit report and compliances shall be placed before Audit committee for review. The minutes of review along with Statutory Audit report and compliances shall be placed before to review recommend the same to AGM for its approval.

11. AUDIT COMMITTEE OF BOARD (ACB):

In order to ensure and enhance the effectiveness of internal audit/inspection as a management tool, it is considered necessary that an Apex Audit Committee should be set up at the Board level for overseeing and providing direction to the internal audit/inspection machinery and other executives. The Audit Committee of the Board of Directors (ACB) may consist of the Chairman and three/four Directors, one or more of such Directors being Chartered Accountants or persons having experience in management, finance, accountancy and audit system, etc.

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.

ACB should 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 all audit functions,