



SUCO SOUHARDA SAHAKARI BANK LTD.,

INSPECTION POLICY FOR 2025-26

(Risk Based Internal Audit & Concurrent Audit)

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**AUDIT DEPARTMENT
H O : BALLARI**

INSPECTION POLICY OF THE BANK FOR THE YEAR 2024-25

Contents

I.	FRAME WORK.....	4
1.0	Introduction.....	4
1.1	Objectives.....	4
1.2	Scope.....	4
1.3	Authority to Approve / Modify the Inspection Policy.....	5
1.4	Approach.....	6
1.5	Functional independence of Inspection functions:.....	7
1.6	Role & Responsibilities of an Inspecting Officer:.....	9
II	INSPECTION PROCESS.....	11
2.0	Introduction.....	11
2.1	Sampling Technique.....	11
2.2	Annual Audit Plan.....	12
2.3	Performance Evaluation of Risk Rating Systems.....	12
2.4	Risk Assessment Methodology.....	12
2.5	Reporting.....	13
2.6	Evaluation of risk of the Branches/ Offices.....	16
2.7	Appeals in respect of Risk Rating of Branches /Offices:.....	17
2.8	Risk Rating Matrix.....	17
2.9	Evaluation and Awarding of Risk Rating:.....	20
2.10	Off Site Risk Rating of Branches.....	21
2.11	21
2.12	Periodicity.....	21
2.13	Types / Systems of Internal Audit & Inspection.....	23
2.14	System of RBIA of Branches / Service Units.....	27
2.15	System of RBIA of Departments.....	29
2.16	29
2.17	Concurrent Audit of Branches/	
2.18	Continuous Audit.....	33
2.21	Inspection of critical segments.....	33
2.22	Inspection of Outsourcing Activity.....	35
2.23	Management Audit.....	35
2.24	Audit of risk management controls, processes and systems.....	43
2.25	Inspection – Compliance / Closure.....	44
2.26	Role of Departments.....	46
2.27	Communication:.....	46

2.28	Audit Resources	47
2.29	Norms for revising the Checklists	47
III.	OTHER ASPECTS	47
3.0	Audit Committee of the Board	47
3.1	Audit Committee of Executives	48
3.2	Verification of OTM Alerts	48
3.3	Cluster Audit	49
3.4	Short Inspection	49
3.5	Empanelment Of External Concurrent Auditors (ECAs)	50
3.6	Review of Inspection Policy	50

INSPECTION POLICY OF THE BANK

There are no changes in the Inspection Policy approved by the Board in its meeting held on 13-8-2022, which was reviewed last reviewed by the Board , in the Meeting held on 10-6-2023.

FRAME WORK

1.0 Introduction:

Periodical inspection of the branches/offices of the Bank is an important management tool for appraisal of the internal control systems and business performance. The role of inspection and audit has enlarged to risk identification and suggestion of risk mitigating steps. The focus of internal audit has been shifted to a larger extent to capture the application and effectiveness of risk assessment /management procedures and critical evaluation of adequacy and effectiveness of internal control systems. With this revised approach, the Bank has moved to risk focused auditing along with transaction testing of branches & service units with effect from 01.11.2022

Under this approach the branches are awarded a composite risk rating.

1.1 Objectives

The overall objective of Internal Inspection is to aid the Bank in achieving efficiency and effectiveness in all its operations. Towards this end, internal inspection shall provide the Management with analysis, appraisals, observations and recommendations concerning the activities audited / verified. This should extend to financial as well as other operational areas, to provide both protective and constructive services.

1.2 Scope

- 1.2.1 The Risk-Based Internal Audit, on the other hand, will undertake an independent risk assessment of branches, which is also useful for the purpose of formulating a Risk-based Audit Plan. It will not only identify the current risks but also anticipate potential risks to provide suitable steps to mitigate risks.
- 1.2.2 The primary focus of risk-based internal audit will be to provide reasonable assurance to the Top Management about the adequacy and effectiveness of the risk management and control framework in the Bank's operations.
- 1.2.3 The Risk-based Internal Audit shall have transaction audit, with a focus on identifying the areas of risk which will enable the Bank to move towards controlling, managing and mitigation of identified risks.
- 1.2.4 The extent of transaction testing shall be determined based on the risk assessments of each unit. Similarly, the frequency of risk assessment exercise shall depend on the level of risk - higher the risk shorter the interval and vice-versa.
- 1.2.5 The assessment shall inter-alia cover the Business Risks and Control Risks.
- 1.2.6 The scope of the Risk Based Internal Audit of the branches shall include and cover the following:

- a. Evaluate the adequacy, existence and degree of adherence to Bank's Policies, procedures and sound business practices and make recommendations for change as appropriate.
- b. Evaluating and appraising the adequacy and application of accounting, financial, data processing, administrative and operating controls;
- c. Ascertaining that Bank's assets are accounted for and safe guarded.
- d. Ascertaining the reliability and timeliness of Management Information
- e. Performing Special Reviews for the Audit Committee and Management.
- f. Identification of loss making Assets, Revenue Leakages and Apprising the Controllers.
- g. In the light of Risk Based Supervision (RBS) as a part of the 'Operational Risk Management', the Inspection System shall aid in identifying and assessing Risk Areas while reporting the findings.
- h. Random transaction testing to review and report exceptional transactions

1.2.7 Authority, Stature and Independence:

The internal audit function must have sufficient authority, stature, independence and resources within the bank, thereby enabling internal auditors to carry out their assignments with objectivity. Accordingly, the Head of Internal Audit (HIA), shall be a senior executive of the bank who shall have the ability to exercise independent judgment. The HIA as well as the internal audit function shall have the authority to communicate with any staff member and have access to all records or files that are necessary to carry out the entrusted responsibilities.

1.3 Authority to Approve / Modify the Inspection Policy:

The Board shall be the approving authority for the policy.

1.3.1 Authority to modify the policy:

Normally, any modification to the existing policy shall be effected during the course of annual revision of the policy. However, any modifications / deviations on any emergent situation will be effected with the approval of the Audit Committee of the Board (ACB) and the same shall be placed before the Board during next Policy Revision.

1.3.2 Authority to issue instructions within the policy approved by the competent authority:

To carry out Inspection Functions effectively and to discharge the responsibilities in the direction of achieving the set objectives, this document, inter-alia, authorizes the Head of the Internal Audit, Inspection Wing and Officials nominated by him to:

- a. Have unrestricted access to all records, assets, functions and personnel;
In this regard, Head of the Internal Audit, HO is authorized to issue the 'letter of authority' to the Inspecting Officers.
- b. Have full and free access to the Audit Committee of the Board and to Senior Management;
- c. Allocate resources, set frequencies, select subjects, determine scope of work and apply the strategies required to accomplish inspection objectives and such other related matters;
- d. Obtain necessary assistance / co-operation of units of the organization where they perform audits, as well as other services.

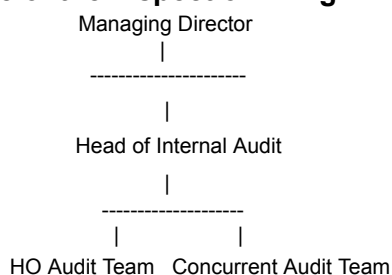
1.4 Approach:

- 1.4.1 Inspection Function shall be overseen by the Board of Directors / Audit Committee of the Board and Bank would ensure that the (1) the Inspection Process is understood and respected at all levels within the Bank and (2) findings / observations of inspection / audit are given adequate seriousness and resulting in appropriate management action plans.

In this direction, the Board recognizes Inspection as a valuable function and ensures Inspection is adequately resourced in terms of staff and tools and also moves resources into and out of the Inspection System as part of Career Development within the organization.

- 1.4.2 The Inspection Function has adopted "Risk Based Internal Audit" [RBIA] under "Risk Based Supervision" (RBS) in accordance with the guidelines issued by the Reserve Bank of India, and formulates the Audit Plan accordingly.
- 1.4.3 The Inspection function of the Bank is considered effective only on ensuring the compliance of the findings observed by the Inspecting Officers. Hence, it should be the endeavor of the Top Management to ensure that compliance of Inspection Findings are prioritized by the Operations Personnel leading to speedy compliance of reports, thus making the Inspection function effective.

The organization structure of the Inspection Wing:



- 1.4.4 The Inspection Department should be independent from the internal control process in order to avoid any conflict of interest and should not be assigned the responsibility of performing other accounting or operational functions.
- 1.4.5 The Inspecting Officers may be drawn from among officers within the Bank and in case of non availability of experienced and competent officers, experienced/retired bank officers could be engaged on regular/contract basis for discharging the role and responsibilities.
- 1.4.6 To ensure objectivity, Inspection Staff should be rotated between audits of different audit locations and not perform audits of any systems, processes or procedures with which they were involved in the design or implementation.

1.5 Functional independence of Inspection functions:

- 1.5.1 The appointment of the Head Internal Audit of the Bank shall have the concurrence of Board of Directors. He shall report directly to the Managing Director and to the ACB.

1.5.1.1 Designating : Head of the

Department – Internal Audit

The head of Internal Audit shall be a Senior/experienced Officer of the Bank/.

Minimum Qualification:

Graduation / Post Graduation from a recognized University / Institution.

Experience:

The Head of the Internal Audit Department shall have adequate experience and exposure in the banking or financial services. Preference shall be given to the candidates possessing operational experience and exposure.

Skills:

The Head – Internal Audit shall have good understanding of industry and risk management, knowledge of regulations, legal framework and sensitivity to Management's expectations.

Stature:

The Head-Internal Audit shall have the ability to independently exercise judgment. He should have the freedom and sufficient authority to interact with the regulators / supervisors directly and ensure compliance.

Tenure:

For operational convenience and control, the Head-Internal Audit shall be designated for a minimum period of 3 years.

The appointment / change of the Head Internal Audit shall be with the due clearance from the Board of Directors and with the recommendations of the Audit Committee of the Board. The Managing Director shall be appointing authority for the HOD of the Audit Department.

Transfer or removal of Head-Internal Audit before completion of the tenure only in exceptional circumstances shall be done with the prior approval of the Board / ACB.

Others:

No vigilance case or adverse observation from the RBI shall be pending against the candidate identified for appointment as the Head-Internal Audit.

- 1.5.2 The Internal Inspection System of the Bank depends on the freedom of Inspecting Officers to report without fear of reprisal or incurring displeasure of higher authorities. It is therefore, of utmost importance that the Inspection Department shall be headed by a senior officer of the Bank and is directly accountable to the Audit Committee of the Board as per the RBI guidelines.
- 1.5.3 A term of an Inspecting Officer (field) including Inspecting Officers of HO Audit team shall be preferably for a period of 3 years with an option to extend it further based on the performance.
- 1.5.4 Fixing of accountability shall be as per the staff accountability policy of the Bank. If omissions on the part of inspectors are grave enough and irregularities are very apparent, non-reporting of the same by them should be treated as a lapse and suitable action be initiated.
- 1.5.5 To the extent possible, right persons with aptitude for Audit and scrutiny would be posted to the Inspection System, to ensure effective functioning of the Inspection System. While inducting officers into the inspection setup the Inspection Department has to ensure that such officer/s are having clean record i.e., they should not have committed any serious irregularities in their earlier placements and not imposed with major punishment during the last 5 years and their names should not be in Officers of Doubtful Integrity (ODI) / Agreed list or against whom no charge sheet is pending / contemplated.
- 1.5.6 Generally, the induction of Officers to Inspection System as field inspecting officials with consistent good track record and in the past 3 appraisals and a minimum of one year experience as Branch-in-charge is preferable. The services of retired experienced Bank Officers may also be used for conducting RBIA and Concurrent Audit.
- 1.5.7 There shall be a system of improving and updating the knowledge of Inspection staff through developing a database on training inventory of each such inspector/auditor and arranging for training in those areas to which he has not been exposed so far.

Apart from training senior IOs in core subjects, there shall be Induction training followed with "Risk Based Internal Audit" training in Audit package to newly inducted IOs, providing insight into intricacies of Inspection Systems and regular Banking aspects. Persons having work experience and training in specialized areas like Dealing Room Operations and Computers etc. may be associated with the inspection team.

- 1.5.8 The Head of the Internal Audit should ensure planning / programming of various inspections and risk rating of branches. Further, they shall also hold periodical Meetings at-least twice a year (including annual conference) with Inspecting Officers to have a feel and adequacy of flow of instructions and provide feedback to the Inspection Wing. Any action considered necessary that may improve the efficiency of Inspecting Officers and effectiveness of Inspection shall be initiated by the Head of the Internal Audit. This exercise also is to provide a basis for assessing the Inspecting Officers' performance. The key responsibility areas (KRAs) in the Inspection functions should be documented and performance of Inspecting Officials shall be assessed against them. Performance based on KRAs shall be reviewed on an ongoing basis.
- 1.5.9 The Head of the Audit Department, who is responsible for the overall functioning of the Inspection function shall ensure that :
- (i) Inspecting Officers assigned with Inspection of Branches do possess the requisite knowledge and skills;
 - (ii) Providing appropriate instructions during the planning/ execution of Audit / Inspection Programs;

- (iii) Inspection Reports adequately support the findings, conclusions; observations and inter-alia address the required qualities – objective / constructive / concise and timely. The jotting sheets appended to the Inspection Reports to reflect the findings besides spot rectification effected by the branches / office

II INSPECTION PROCESS

2.0 Introduction:

- 2.0.1. The focus of Risk-based internal audit is on the assessment of inherent risks in the business undertaken by the branch/office and the efficacy of the systems to identify, measure, monitor and control the risks. Consequently, the essence of Risk-based Internal Audit is compilation of the RISK PROFILE of the Auditee Branch/Office based on an assessment of inherent Business risks and Control risks in key areas of its operations.
- 2.0.2 As per RBI guidelines Risk Based Internal audit will include, in addition to selective transaction testing, an evaluation of the risk management systems and control procedures prevailing in various areas of a Bank's operations. The implementation of Risk Based Internal Audit would mean that greater emphasis is placed on the internal auditor's role in suggesting mitigating risks. While focusing on effective risk management and controls, in addition to appropriate transaction testing, the RBIA would not only offer suggestions for mitigating current risks but also anticipate areas of potential risks and play an important role in protecting the Bank from various risks.
- 2.0.3 In view of increasing volume of transactions, emergence of new areas of products/services and associated complexities, the branches shall be subjected to periodical inspection to point out the deficiencies in areas like asset quality, revenue leakages, internal control, profitability etc.

2.0.4 Pre-Audit Exercise of Branches:

For better compliance to the guidelines and avoiding more control risk perceptions, all auditee branches shall mandatorily undergo the pre-audit exercise of Branches. In this connection, the branches where the RBIA may fall due in the next quarter will be informed well in advance.

Accordingly, branches will undergo pre-audit exercise effectively i.e. ensuring

1. Availability of loan documents duly filled in and executed with all requisite annexures, 2. Compliance to the observations made by the reviewing authority 3. Availability of insurance for the securities, etc. The crux behind pre-audit exercise is that branches shall ensure compliances in all areas and avoid observations that would increase the control risk perceptions.

2.1 Sampling Technique:

2.1.1 RBIA:

Sampling of the audit areas is applicable only in cases where 100% verification is not mandatory during the RBIA of the branches. In such cases verification level shall be 25% to 40% depending on the size of the portfolio.

In respect of Branches, the transaction testing would continue to remain as an essential aspect of RBIA.

2.1.2 Continuous Audit / Concurrent Audit:

During Continuous / Concurrent Audit of Branches / Units, 100% verification is mandatory in the below aspects:

- All loans / advances sanctioned / renewed / disbursed

- All transactions put through General Ledger and internal office accounts
- Verification of mandatory report generation and review by Branches / Units.

Where Sampling is not mandatory for 100% verification, IOs / External Concurrent Auditors (ECAs) shall verify 25% to 40% depending on the size of the portfolio.

2.2 Annual Audit Plan

1. The Inspection Department, prior to commencement of the annual audit plan, should seek required feedback from HO Departments to understand the areas of risk and priorities considered by them. This shall enable us to plan the resources effectively and also develop the resources to meet the expectations of the Management.
2. The Inspection Function should also consider and include in the Annual Plan, the major risks (Moderate and High Risk branches) identified during the previous year, the frauds reported at various branches / offices, apart from major control weaknesses (reflected either as Special Report or Part B remark) so identified shall be shared with respective functional department for initiating remedies to mitigate such weaknesses.
3. The Annual Audit Plan shall be placed before the Audit Committee of the Board.
4. The audit plan shall also review the manpower requirement and assessment of the performance of RBIA for reliability, accuracy and objectivity in the risk profile as revealed in the RBIA vis-à-vis the risk profile as per the audit plan.

2.3 Performance Evaluation of Risk Rating Systems:

1. As per the Master Circular on Calendar and review notes of Reserve Bank of India, the Department shall conduct periodical reviews of the Risk Based Internal Audit undertaken by the Department vis-à-vis the approved audit plan. The performance review shall be placed before the Audit Committee of the Board at periodical intervals as per RBI guidelines / policy approved by the Audit Committee of the Board. Such review shall include an evaluation of the effectiveness of Risk Based Internal Audit in mitigating identified risks.

2.4 Risk Assessment Methodology

1. The areas identified for assessment of risk at various levels for the purpose of risk profiling the Branch/Offices are classified under two categories as under:

	Business Risk		Control Risk
I	Credit Risk	I	Credit Risk Controls
II	Operational Risk	II	Operation Risk Controls
III	Liability Risk	III	Management Risk
IV	Earning Risk	IV	Compliance Risk

2. Business Risk will indicate the intrinsic risks in a particular area/activity undertaken by the branch/office.
3. Control Risk will arise out of inadequate Systems, non-adherence to existing Systems and Procedures and failure in the existing control systems.
4. The assessment process involves identification of inherent business risks of the activity concerned and evaluation of effectiveness of the control systems for monitoring the by functional wings

5. The source for assessment of risk rating the branches / offices shall be the internal Inspection (Transaction /Concurrent / credit audits) Reports, compliance to previous internal audit reports, external audit, etc., submitted, besides interaction with customers/ staff /HO etc.
6. The comprehensive risk assessment, inter-alia, shall bear the following factors while evaluating the risks perceived.
 - i) Volume of business and complexity of activities;
 - ii) Substantial variation from the budgets fixed;
 - iii) Changes in business activities, industry trends and environmental factors;
 - iv) Any control weakness and risk mitigation steps initiated.
7. An element of surprise shall be ensured in the low risk areas as per RBI guidelines, based on random verification of related areas.

2.5 Reporting:

1. The IOs (including Concurrent Auditors – Internal & External) shall be provided with structured formats and checklists to enable them to cover all the risk areas found during audit.
2. The RBI Report contains the following parts for recording observations by the Internal Inspecting Officers.

I. RBIA Report PART – A

- Major Inspection Findings-
- Previous year pending observations
- Internal control & House Keeping – Major observations only
- General Administration premises
- Fraud Related matters, KYC, FI, Deposit General & other Deposits, KYC, Customer Service

II. RBIA Part - B

- Internal Control & House keeping
- Compliance, DDs, Vigilance, Claims, Cash, Misc,
- Cards, ATMs, Clearance, Bank account Reconciliation,
- SA, SL, BA, Lockers, interest expenditure, com, interest,
- Staff Matters and Premises Matters

III. RBIA Part - C

Advances General and Scheme wise, Recover, NPA, Spot Ins, Complaint etc.,

B Report (Special Report) Wherein the brief particulars pertaining to the serious observations already brought out in detail in the corresponding observations Part A,B and C, as the case may be) are reported for exclusive attention to expedite the compliance on priority basis by the Branch.

3. The Inspection observations are to be reported based on the seriousness as detailed below:

- a) Details of serious / grave irregularities and other matters include malafides, corrupt practices; gross indiscipline on the part of the staff and such other serious irregularities affecting the safety and security of Bank's assets to be specified from time to time, should be reported in the form of a Special Report.

In cases wherever income leakage detected is Rs.1,00,000 and above per branch per audit, such things are to be reported as Special reports. However, income leakage detected below Rs1,00,000. in these branches, to be invariably reported under Part B observations.

- b) In tune with the Reserve Bank of India guidelines, the gist of the Special Reports covering the areas of serious irregularities, staff lapses, financial implications etc., shall be reported placed before the MD for initiating appropriate measures, in any.
- c) Other serious/major deficiencies / observations which require urgent corrective action shall be reported in B Report (Special Report of the RBIA Report) and Concurrent / Continuous Audit report, as may be communicated from time to time.
- d) All other observations shall be grouped and reported under Part A, B and C of the Report.

4. The inspecting officers shall endeavor/ attempt to get the majority of irregularities rectified during the course of inspection itself. The inspection machinery should move in the direction of achieving efficiency and effectiveness in all its operations.

5. With a view to ascertain the extent / quality of compliance to previous reports, as reported by the Branches, a "Quality Audit" shall be conducted during the course of RBIA. From the previous Audit Report, Inspecting Officers shall verify minimum 10% of the total number of audit observations (in case of Branches/Units both Part A & B category) where compliances submitted by the branch / unit and which were accepted by HO Audit Department subsequent to the conclusion of RBIA. The I O to undertake verification of compliance for the previous RBIA report, on a test check basis and furnish the observations verified by him.

6. For concurrent / continuous audit branches / units, "**Quality Audit**" shall be conducted at least on Quarterly interval basis. Any deficiencies in reporting compliance to be brought to the notice of the HO Audit Department by incorporating such observations by way of a Special Report.

2.7.7 Whenever wrong reporting/ compliance by the branches to the inspection observations are observed, Audit Department at the HO shall review them for transferring it to H R Department examine the matter from staff angle and accountability point of view as per policy of the Bank

2.7.8 RBIA reports containing wrong compliances to previous inspection remarks shall be permitted to be closed only after :

- a) Ensuring rectification of deficiencies and
- b) Initiation of action against the erring officials.

- 2.7.9 With a view to provide necessary feedback to functional departments, the inspection findings of serious / recurring nature shall be forwarded to respective departments periodically for the purpose of initiating corrective action / review.
- 2.7.10 With a view to provide necessary feedback to Top Management, Significant /major audit findings of various audits conducted during the quarter and findings in Special reports shall be reported to ACB by way of an information note on quarterly basis.

2.6 Evaluation of risk of the Branches

- 2.8.1 The Risk-based Internal Audit is more dynamic than transaction based audit as it provides an insight into how effectively the branch is monitoring its operations and is positioned to meet the risks in its operations.
- 2.8.2 Branches are awarded a composite risk rating based on the level of risk / scores assessed under Business Risk and Control Risk.
- 2.8.3 Immediately, after completion of the RBIA and handing over the report to the Branch Manager against acknowledgement, the Inspecting Officer shall submit the report to Audit Department to Head Office. The Audit Department shall place an internal office note to the Managing Director furnishing a gist of the major observations, income leakage, risk areas, status of the internal control and house keeping aspects of the Branch, income leakage, overall risk rating and spot inspection observations etc.,
- 2.8.4 Risk rating of the branches where large scale frauds / serious irregularities / reckless lending / poor internal control etc. has noticed / occurred / detected during the review period shall be reflected in the Risk Rating. In such cases, Audit Department shall recommend to rate such Branch/ office as High Risk to and place before the Competent Authority for approval. The branch will be rated as "High Risk" irrespective of the Scores assessed.
- 2.8.5 Fraud reported in between two RBIA's :
- a. The review of RBIA risk rating of branches/units which are witness to suspected/reported fraud (in between two RBIA's) or found during the audit/investigation/verification shall be undertaken at monthly intervals. Such branches shall be re-rated as "High Risk" for better monitoring /control / risk mitigation.
 - b. Branches/units which are re-risk rated as 'High' shall continue the same risk till completion of 6 months from the date of re-risk rating or as per the risk rating awarded during the next RBIA, whichever is later.
 - c. Next RBIA of the branch/unit will be due within 6 months from the date of re-risk rating or as per the original scheduled date whichever earlier.

2.7 Risk Rating Matrix:

2.10.1 The Risk weightages for Business and Control are given below. The weightages ensure equal focus on both business and control aspects:

Business Risk : 20% (growth risk)
Control Risk : 80%

2.10.2 Following modifications are incorporated in RBIA of Branches, ROs :

Risk score	Score	Final Calibration (COMPOSITE RISK)
Business risk	1200	20
Control risk	2500	80
Total	3700	100

Rating Matrix shall be reviewed annually.

Several key parameters such as percentage of quick mortality cases, and delay in closure of audit reports, compliance to audit reports shall also to be considered under risk matrix.

While arriving at the Composite Risk, both the Business Risk and Control Risk will factored as detailed below:

SI No.	Business Risk	Control Risk	Composite Risk
1	Low	Low	Low
2	Low	Moderate	Moderate
3	Low	High	High
4	Moderate	Low	Moderate
5	Moderate	Moderate	High
6	Moderate	High	High
7	High	Low	High

2.10.3 Addition / deletion / modification of queries may be incorporated in the checklist for RBIA & Concurrent Audit / other audits for Branches at any point of time with the approval of the ACB. However, the total marks assigned for Control & Business Risk shall be calibrated to 100 only with weightage of 20 & 80.

2.10.4 The Bank has been following the risk-oriented approach for internal audit purpose. The observations are classified under Low, Moderate and High risk. The ratings are based on the risk levels. Risk based policy will focus on frequency, prioritizing, extent of checking, risk-assessment/ profiling of activities / functions/ products and their updating, broadening the risk classifications etc. during audit process. The basic rationale behind the suggested policy guidelines enshrined hereunder would be to ensure that high-risk areas are looked into more frequently and with wider examination than low risk areas.

Level of Risk	Scores assessed under composite risk rating (Business risk 20% and control risk 80%)
Low	Less than 35
Moderate	35 and above but less than 55
High	55 and above

2.10.5 Based on the level of risk or scores assessed for major segments of each 'area of risk', the auditor assigns the risk rating to the area concerned.

2.10.6 **Composite Risk Rating:** Though the risks are classified into Low, Moderate and High categories separately, for both Business as well as Control risks, they should be factored in, to have an overall risk assessment / profile of the auditee.

2.8 Periodicity:

2.14.1 The periodicity of RBIA of the branches will be based on the previous risk rating. The Periodicity of branches shall be calculated from the last date of review period of earlier RBIA as below :

	Branch/ Office	Periodicity
1.	Branches with High Risk	6 months
2.	Branches with Rating Moderate Risk	12 months
3.	Branches with Low Risk	18 months

2.14.2 All newly opened Branches shall be subjected to full scale onsite RBIA and Risk Profiling within 06 months from the date of opening

2.9 Types / Systems of Internal Audit & Inspection:

2.15.1 The various systems of internal audit and inspections as stipulated by the Regulatory Authorities :

- a. RBIA of Branches
- b. Concurrent Audit of Branches

2.10 System of RBIA of Branches

2.16.1 The scope of inspection generally covers the entire working of the branch and the critical areas as identified in the Action Plan need to be covered with focused attention

2.16.2 Inspectors/Auditors should be provided with a checklist along with the format for the purpose of reporting the observations and such checklists / formats need to be updated periodically in order to incorporate various changes in systems / procedures, areas of concern (risk areas), norms and contents of important Circulars etc.

2.16.5 The inspection should cover the period from the previous inspection review period till the last day of the previous month of the present inspection, except

where it is necessary to go further back to examine the compliance in connection with the previous inspection report or in connection with other continuing matters of the present inspection.

- 2.16.6 The report shall be prepared in the structured format, recording the observations of the Inspecting Officers, duly covering the entire affairs/operations of the branch/office, after proper verification, with the aid of the checklists provided to the Inspection Officers.
- 2.16.7 The reports shall be provided/ made available in hard copy format.
- 2.16.8 Apart from the above, the Special Report/s shall be submitted as and when major irregularities are observed without waiting for the conclusion of Concurrent Audit / RBIA. Such reports shall be exhaustive in detail and wherever necessary should indicate the action initiated by the branch and also specific views / opinion of the Inspecting Officer based on his findings. IOs shall submit a single report only for the same issue in multiple accounts or for different issues in that branch.
- 2.16.9 Audit Department at HO shall inform Inspecting Officers the gist of Special Reports, if any, submitted during the previous inspection of the Branch, to be inspected along with the Authorization letter.
- 2.16.10 The names of the Branches rated High Risk to be furnished to Audit Committee of the Board (as and when branches are rated as above) along with the gist / main contributing factors under business risk and control risk in respect of these poorly rated branches (High Risk).
- 2.16.11 The HIGH Risk branches shall continue to be subjected to RBIA within 6 months from the date of conclusion of RBIA.

However, in case branches which are re-risk rated as High Risk on account of fraud detected/ reported in between 2 RBIA, such branches shall be subjected to RBIA at 6 months from the date re-risk rating or on previous scheduled date (based on previous RBIA) whichever is earlier.

- 2.16.12 Action Points post completion of RBIA and receipt of report by Audit Department at Head Office.

The Audit Department after receipt of each RBIA report, irrespective of their Risk Rating shall place an office note to the Managing Director furnishing the brief particulars on the findings covering entire aspects of the RBIA Report. The action points shall cover the following.

- Placing of office notes on each Branch RBIA , with risk rating profiles and brief particulars on the findings of the RBIA
- Addressing letters to the Branch Manager on the major deviations and matter requiring immediate attention.
- Monthly report on the progress of submission of compliance to RBIA by Branches, reports closed and long pending reports for closure.
- Office Note to MD seeking permission for closure of reports.
- Placing of the periodical information note/reports to the ACB, BOM and Boar

2.11 Concurrent Audit of Branches

SCOPE OF CONCURRENT AUDIT

As noted by Reserve Bank of India, Concurrent audit is an examination, which is contemporaneous with the occurrence of transactions or is carried out as near thereto as possible. It attempts to shorten the interval between a transaction and its examination by an independent person not involved in its documentation. There is an emphasis in favor of substantive checking in key areas rather than test checking.

- 2.19.1 The Concurrent Audit attempts to shorten the interval between the transaction and its examination coupled with emphasis in favor of substantive checking in key areas rather than test checking. The auditor shall necessarily have to see whether the transactions or decisions taken are within the policy parameters/guidelines laid down by the Head Office, and they do not violate the instructions or policy of the RBI, and that they are within the laid down parameters and procedures.

2.19.11 COVERAGE OF BUSINESS/BRANCHES

The RBI/2014-15/18 UBD. CO.BPD.(PCB).MC.No.9/12.05.001/2014-15 July 1, 2014 on Concurrent Audit System

The suggested coverage may be as under:

The Departments/Divisions at the Head Office dealing with treasury functions viz. investments, funds management including inter-bank borrowings, bill rediscount, in stock invest scheme, credit card system and foreign exchange business are to be subjected to concurrent audit.

In addition, all branch offices undertaking such business, as also large branches and dealing rooms have to be subjected to continuous audit. 3.1.2

The problem branches, which are continuously getting poor or very poor ratings in the bank's annual inspection/audit and where the house keeping is extremely poor may be covered. 3.1.3

Banks may also include additional branches at their discretion on the basis of need; that is their professional judgment about the overall functioning of the branches. 4

TYPES OF ACTIVITIES TO BE COVERED 4.1 The main role of the concurrent audit is to supplement the efforts of the bank in carrying out simultaneous internal check of the transactions and other verifications and compliance with the procedures laid down. In particular, it should be seen that the transactions are properly recorded/documented and vouched. The concurrent auditors may broadly cover the following items:

- 2.19.2 The Audit is required to be carried out either by identified internal Inspecting Officers, or Chartered Accountants exclusively drafted for the said purpose or the Retired Bankers possessing ample knowledge in branch inspection. The Terms and conditions of such appointments are approved by the Board of Directors.
- 2.19.3 The applications received shall be initially screened by the Audit Department and shortlisted by a Committee consisting of the Executive Committee indicated below . The Committee shall select the suitable candidates for carrying out the concurrent audit of the branches.

The members of the Committee shall be as under: General Managers in charge of:

- (a) Managing Director
- (b) General Manager
- (c) Senior Executive
- (d) HOD Audit Department-Member Convener

The list of candidates selected by the Committee shall be placed to the Board for approval, through ACB.

- 2.19.4 To avoid significant operation risk that may arise on account of sudden termination of empanelment the Bank shall have in place a contingency plan to mitigate any discontinuity in audit coverage.
- 2.19.5 RBI vide Communication ref: UBD CO BPD (PCB) MC No. 03/12.05.001 / 2015-16 dated 01.07.2015 and RBI/2014-15/18 UBD. CO.BPD.(PCB).MC.No.9/12.05.001/2014-15 July 1, 2014 on Concurrent Audit System, informed that scope of work to be entrusted to concurrent auditors, coverage of business / branches etc. is left to the discretion of the Board of Directors (BoD).
- 2.19.6 The Department at the Head Office dealing with Treasury functions viz., Investments, funds management including inter-Bank borrowings, are to be subjected to concurrent audit. In addition, all branch offices undertaking such business and dealing rooms have to be subjected to continuous audit. In addition to our internal auditors, the concurrent audit may also be given to External Concurrent Auditors.

- 2.19.7 Audit Department at HO shall ensure that Monthly / Quarterly Concurrent Audit reports are received within 20th of the succeeding month from the auditors.

Monthly Concurrent Audit reports are to be closed within month end of the succeeding month (for ex: Nov 2023 Monthly Concurrent audit report to be closed within 31st Dec 2023).

- 2.19.8 The Audit Department at HO is responsible for ensuring closure of reports. The Department shall follow up with branches for rectification of observations till closure of reports.

For closure of all Concurrent / Continuous Audit reports, the Audit Department at HO shall obtain the concurrence of the Managing Director.

- 2.19.9 The major / serious irregularities noticed during the Concurrent / Continuous audit shall be reported to the Audit Department at the HO by way of Special Report depending upon the nature / gravity of the findings.

- 2.19.10 The mandays needs for RBIA and Concurrent Audit to be worked out by the Audit Department with due consideration to total business, number of active loans and deposit accounts, quantum of daily transactions, number of cash and transfer transactions etc., The same shall be placed to the Managing Director for approval.

- 2.21.1 Snap Audit is undertaken as a surprise exercised in respect of Branches where credit growth is abnormally steep/ NPAs are high and also in case of Branche where the Branch Manager has tendered resignation etc.,
- 2.26.1 Time line for closure of snap audit reports shall be one month from the date of submission of report.

Closure of the RBIA Reports:

The following time line for closure of the Reports shall be complied with.

SI No.	Risk category of Branches	Timeline for Closure	Authority permitting the closure
1	Report - B/Special Report	45 Days	Managing Director
2	High Risk Branches	60 Days	Managing Director
3	Moderate Risk Branches	90 Days	Managing Director
4	Low Risk Branches	120 Days	Managing Director

As for the closure of Report - B/Special Report containing serious irregularities, the Managing Director, on case to case basis may take a decision to get the compliance cross verified by deputing an officer.

- 2.26.2 The Audit Department is responsible for ensuring closure of all inspection reports of branches. The Audit Department at HO shall monitor the reports closely and wherever the rectification / compliance is tardy, they may place such Officers on special duty to ensure closure within the time frame.

2.26.3 Procedure for the Closure of the Audit Reports:

The RBIA reports of the branches shall be recommended to the Managing Director for closure once all the observations under RBIA, including Part-B are duly complied with, by placing a note to the Managing Director. In respect of reports wherein a few deficiencies are still outstanding, such reports are also recommended to the Managing Director for closure by placing a note to the Managing Director duly seeking his permission to carryover of such deficiencies. However, such un-rectified / listed observations have to be followed up by the Audit Department to ensure compliance.

2.12 Role of Functional Departments:

- 2.27.1 With a view to ensure accuracy in assessment of Risk, it will be necessary to have in place MIS and data integrity. The Audit Department should be kept informed of all developments such as introduction of new products, changes in reporting lines, changes in accounting practices/policies, opening / closing of branches etc. from time to time.

2.13 Communication:

- 2.28.1 A communication channel to provide/report negative and sensitive findings to the Senior Executives Committee has been put in place. Besides appraising the SEC, the serious findings / critical observations observed in various audits shall also be appraised to the Functional Department / Compliance Department.
- 2.28.2 The significant audit findings observed during the RBIA of the branches shall be placed before the Audit Committee of the Board at Quarterly intervals.

2.14 Audit Resources:

- 2.29.1 The Audit Department should be provided with appropriate resources and staff to achieve its objectives under Risk-based Internal Audit system / other audit.
- 2.29.2 The staff possessing the requisite skills shall be assigned the job of undertaking Risk-based Internal Audit / other audits.
- 2.29.3 They shall be trained periodically to enable them to understand the Bank's business activities, operating procedures, risk management and control systems, MIS etc.

2.15 Norms for revising the Checklists:

- 2.30.1 The revision of checklist shall be undertaken by the Audit Department. For this purpose, checklist committee shall be headed by the Managing Director and comprising the General Manager/s, HOD Credit Department, and HOD of the Audit Department (Member Convener) as the Members. The checklist committee shall meet on need basis and discuss on introduction of new check points, modification/removal of exiting check points in the checklists.
- 2.30.2 The revised checklists shall be placed before the ACB for approval

OTHER ASPECTS:

3.0 Senior Executives Committee:

3.0.1 Roles and responsibilities:

Senior Executives Committee is the first tier internal committee to oversee the overall working of Inspection and Audit function in the bank.

- 3.0.3 In respect of branches, pending position of various types of Inspection like Regular Inspection, Concurrent / Continuous Audit, Income Audit, Special Reports and other Inspection Reports, information notes placed to ACB on quarterly basis through SEC
- 3.0.4 Wherever overdue Reports (RBIA) of branches, the concerned branch managers are to be invited to the SEC meeting.

3.3 Empanelment of External Concurrent Auditors (ECAs):

- 3.5.1 Empanelment of Chartered Accountants or Retired Bank Officers for conducting Concurrent Audit of Branches, covering the aspects viz. Regulatory Prescription, objectives, methodology, eligibility criteria, selection, tenure, review of performance, remuneration, terms and conditions, scoring matrix and other relevant aspects shall be governed by a separate Board approved Policy.

3.4 Review of Inspection Policy:

Inspection policy will be reviewed every year. Any changes subsequent to issue of this policy will be incorporated in the next revision.

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NOTES PLACED TO VARIOUS AUTHORITIES

Sl.	SUBJECT	Placed to	Periodicity
1	Review of Audit Plan and Status of achievement	ACB	Quarterly
2	Significant Audit findings of various audits	ACB	Quarterly
3	Details of income leakage detected / recovered	ACB	Quarterly
4	Legal Audit conducted during the quarter	ACB	Quarterly
5	Pending position of various audits reports / remarks	ACB	Quarterly
7.	Quarterly position of Special Reports	ACB	Quarterly
8.	Risk Rating Matrix of RBIA of Branches	ACB	Quarterly
9.	Trend Study of Special Reports	SEC	Quarterly
10.	Review of performance of External Concurrent Auditors/ Inspecting Officers	ACB	Half Yearly
11	Annual Audit Plan	ACB	Yearly
12.	Review of Inspection Policy	Board	Yearly
13.	Review of Bank's Policy on empanelment of Chartered Accountants and the Retired Bankers for conducting Concurrent Audit	Board	Yearly
14.	Review of I S Audit Policy	Board	Yearly
15.	Seeking approval for selecting External Chartered Accountants firms for conducting Concurrent Audit	Board	Yearly
16.	Compliance to ACB orders	ACB	As & when due
31.	Expenditure Audit of Rs.5 crore and above	ACE	Quarterly