

JODHPUR NAGRIK SAHAKARI BANK LTD.

AUDIT & INSPECTION POLICY & its Compliance Programme

(Approved by the Board of Directors in its meeting dated 27.07.2022)

INTRODUCTION

The Audit and inspection machinery in banks are must to highlight and pinpoint the existence of gross and serious irregularities such as improper credit appraisal, disbursement without observing the terms of sanction, failure to exercise proper postdisbursement supervision, even suppression of information relating to unauthorized excess drawls allowed, kite flying in bills and cheques, etc. or bring to light frauds.

The failure of the inspection machinery is mainly attributable to the incompetence of the internal inspection personnel, the casual manner in which the work is carried-out and lack of follow up of the inspection.

The Jodhpur Nagrik Sahakari Bank Ltd. has taken many initiatives for ensuring compact internal control & management over day-to-day activities of the bank/ branches. The bank has almost adopted the Gosh Committee recommendations to its internal audit/ concurrent audit coverage particularly deep examinations/ enquiry into the various aspects relating to frauds and malpractices in the bank. The bank has reviewed its existing systems & procedures and strengthened them by plugging out the loopholes and following the Standard Practices on Auditing & Accounting Standards issued by i.e. ICAI / RBI.

The Bank has streamlined and well-structured audit processes for its business & operations. Presently the Bank's working is subjected to under noted types of audit's and inspections: -

1. RBI Inspection
2. Statutory Audit
3. Concurrent Audit
4. Internal Audit
5. I.S and Information & EDP Audit etc
6. VAPT Audit

1. RBI Inspection -

RBI officials conducts periodical Inspection of the Bank's working and on receiving inspection report from RBI, the compliance thereof by rectifying /removing all irregularities/observations to the satisfaction of the RBI and getting the report closed (by RBI) within a timebound manner will be ensured by the Bank.

2. Statutory Audit -

Statutory Audit of the Bank's working is undertaken on annual basis as per the directions and guidelines of Registrar of Cooperative Societies, Rajasthan (ROC) and Reserve Bank of India, by a audit (C.A) Firm of repute. The Reserve Bank of India has recently issued detailed guidelines for appointment of statutory Auditors in the Banks vide there circular No. RBI/2021-22/25, DoS.CO.ARG/SEC.01/08.91.001/2021-22



dated April 27, 2021, vide which Banks are required to take prior approval of RBI for appointment of statutory Auditor on an annual basis. RBI has also fixed eligibility criteria of statutory Auditors and Banks are required to appoint those audit firms who fulfil the eligibility norms as prescribed by RBI and also after obtaining prior approval from RBI. The Bank will ensure compliance of RBI guidelines in this regard. The compliance of Statutory Audit report by rectifying/ removing all irregularities/observations in a satisfactory manner and getting the report closed by ROC Jaipur in a time bound manner will be ensured. The statutory audit report and its compliance report will be submitted to ROC Jaipur as well as to RBI. The audited Financial data and Balance Sheet of the Bank will be got published in a Local news paper before 30th June of each year. Audited P & L a/c and Balance Sheet of the Bank along with statutory Audit report and its compliance report will be put up before Audit committee of the Board and there after in the Annual General meeting of the share holders of the Bank, which is mandatory to be held before 30th September of each year, accordingly it will be necessary to ensure compliance of Statutory Audit in a time bound manner.

3. Concurrent Audit:

The concurrent audit system of the bank is regulated as a part of early warning systems to ensure timely detection of irregularity and lapses and to prevent fraudulent transactions at branches. It also point out the areas where management has to pin point its attention and suggest implementations of appropriate systems, follow up/ rectification practices. It also specifies the serious irregularities, if any, and persistent irregularity in its report. It also ensures that there is no revenue leakage.

The concurrent auditor shall also verify and certifies 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 verified from physical securities or the custodians statement. The certificates are submitted to the Regional Office of the Reserve Bank of India.

Concurrent Audit of the Bank's H.O. & branches will be conducted on regular interval i.e every month by the firm of practicing Chartered Accountant. Bank's H.O. and all the 10 branches of the bank, are covered under concurrent audit. These branches cover 100% of the total business of the Bank. The concurrent audit reports of the H.O. & branches given by the auditor will be presented before the Audit Committee along-with its compliances submitted by the respective branch/ H.O. cell and it advises further guidelines / instructions, if any needed.

3.1 SCOPE OF CONCURRENT AUDIT

Concurrent audit is an examination, which is carried out as near as possible to occurrence of transactions. 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 favour of substantive checking in key areas rather than test checking.

3.2 A concurrent auditor may not sit in judgment of the decision taken by bank/ branch Manager or an authorized official. However, the auditor will



necessarily have to see whether the transactions or decisions are within the policy parameters laid down by the Head Office/Board of Directors, they do not violate the instructions or policy prescriptions of the Reserve Bank of India and that they are within the delegated authority and in compliance with the terms and conditions for exercise of delegated authority.

3.3 COVERAGE OF BUSINESS/BRANCHES

The suggested coverage may be as under:

The Departments/Divisions at the Head Office dealing with treasury functions viz. investments, funds management² including inter-bank borrowings, bill rediscount, business are to be subjected to concurrent audit. In addition, all branch offices undertaking Banking business, have to be subjected to concurrent audit.

3.4 TYPES OF ACTIVITIES TO BE COVERED

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:

- Cash
- Daily cash transactions with particular reference to any abnormal receipts and payments.
- Proper accounting of inward and outward cash remittances.
- Expenses incurred by cash payment involving sizeable amount.

3.5 Investments

- Ensure that in respect of purchase and sale of securities, the bank has acted within its delegated power having regard to RBI instructions.
- Ensure that the securities held in the books of the H.O. and branches are physically held by it.
- Ensure that the H.O/branch is complying with the RBI/Head Office/Board guidelines regarding BRs, SGL forms, delivery of scrips, documentation and accounting etc.
- Ensure that the sale or purchase transactions are done at rates beneficial to the bank.

3.6 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 including KYC as per Bank's KYC Policy & RBI guidelines 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. All other guidelines of RBI regarding Risk Rating, Monitoring of Transactions Reporting of suspected transactions etc. are followed by Branches/H.O or not, will also be verified by the concurrent Auditor.

3.7 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, installments, renewal of limits, etc.
- Verify whether there is any misutilisation 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.
- Ensure proper follow-up of overdue bills of exchange.
- 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.

3.8 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 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.
- Check cheques returned/bills returned register and look into reasons for return of those instruments.
- Checking of inward and outward remittances (DDs).

3.9 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.
- The aforesaid list is illustrative and not exhaustive. The Auditors may, therefore add other items to the list, which in their opinion are useful for the purpose of proper control of the branch operations. In the context of volume of transactions in the large branches, it may not be always possible for the concurrent auditors to do a cent percent check. They may, therefore, consider adopting the following norms:
 - a) In certain areas, such as off balance sheet items (LCs and BGs), investment portfolio, fraud prone/sensitive areas, advances having outstanding balances of more than Rs. 5 lakhs, if any unusual feature is observed, the concurrent auditors may conduct cent percent check.
 - b) In the case of areas such as income and expenditure items, interbank and inter-branch accounting, interest paid and interest received, clearing transactions, and deposit accounts, the check can be restricted to 10 to 25 per cent of the number of transactions.
 - c) Where any branch has poor performance in certain areas or requires close monitoring in housekeeping, loans and advances or investments, the concurrent auditors may carry out intensive checking of such areas.
 - d) Concurrent 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.
 - e) If any adverse remark is required to be given, the concurrent auditors should give reasons therefore.
 - f) Checking of lockers operation at branches as per revised guidelines of Reserve Bank of India.
- Concurrent auditors may themselves identify problem areas at branch level/bank and offer their suggestions to overcome them.
- The cases of fraud/mis appropriations of Bank's fund or any other irregularity of serious nature will be reported through a special letter to the Bank's CEO by the concurrent Auditor.

3.10 APPOINTMENT AND REMUNERATION OF AUDITOR:

The Concurrent Audit should be done by the external auditors (professionally qualified Chartered Accountants) and the terms of their appointment and



remuneration to be paid may be fixed by the Board within the broad guidelines approved by the Board and/or by the Registrar of Cooperative Societies of the State concerned/ Reserve Bank of India.

The audit firms will be responsible for any omissions or commissions in respect of transactions seen by them. In case any serious act of omission or commission is noticed in the working of the concurrent auditors (external), the bank may consider terminating their appointment and a report may be made to the Institute of Chartered Accountants of India for such action as they deem fit under intimation to RBI/RCS.

3.11 REPORTING SYSTEM:

The concurrent auditors may report the minor irregularities, wrong calculations etc. to the Branch Manager for an on-the-spot rectification and reporting compliance.

If these irregularities are not rectified within a reasonable period of time say a week, these may be reported to the head office. If the auditors observe any serious irregularities, these should be straight away reported to Head Office immediately. The auditor will have to lay emphasis on the propriety aspect of the audit. Banks may institute an appropriate system of follow-up of the reports of the concurrent auditors. There must be a system of annual review of the working of concurrent audit.

For additional check, internal audit of all the 10 branches should be carried out by senior officers of bank is also conducted once in year.

The bank will develop the format of audit report covering almost all the important points to be covered in audit report. This format will be quite exhaustive and should be reviewed from time to time by the Audit Committee and modification, if any, needed be incorporated.

4. INTERNAL AUDIT: COVERAGE :

The coverage of such inspections has been made more comprehensive, inter alia, to include a thorough examination of the internal control system operating at the branches including the various periodical control returns submitted to the controlling offices. The internal inspection report specifically comment on the position of irregularities pointed out during the inspection of Reserve Bank of India, Statutory audit or Concurrent audit. The audit official 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, and settlement of clearing transactions, suspense accounts, stationery accounts etc during the course of inspections leaving no scope for any malpractices / irregularities remaining undetected.

The internal Auditor should scrutinize all the entries in Sundry Deposit, Suspense, Banker's Cheque and all other internal a/cs during inspection / visit and give specific instructions for early reversal of these entries.



The bank ensures that the system evolved for recording the details of off-balance sheet transactions are properly followed. These records are periodically balanced and internal inspectors verify the same and offer critical comments.

Inventory of dead stock articles, stationery maintained are subjected to surprise check at periodic intervals by the officials of the branch as also internal inspectors.

In addition, it should see that compliances of prudential norms relating to income recognition, assets classification and provisioning thereof is properly made.

Internal Audit of all branches of the bank is conducted once in every year by the senior managers of the head office. Internal Audit report is submitted /presented before the audit Committee for its review & compliances made by the respective branch / cell.

Risk Base Internal Audit as per new guidelines of RBI to be carried out w.e.f. 01.04.2022.

The bank will develop the format of audit report covering almost all the important points to be covered in audit report. This format will be quite exhaustive and be reviewed from time to time by the Audit Committee and modification if any needed be incorporated.

5. SNAP INSPECTION (AUDIT):

This should be a surprise audit to be conducted in all its branches by the senior managers of the bank of head office once in every quarter. During this inspection, thrust is given to verify the attendance of staff; cash balance in hand, house - keeping maintenance like proper working of security system, firefighting equipments, attendance of gunman etc. In addition, the review of other aspects related to customers like maintenance of good ambience in branch having customer complaint box, drinking water facility and attending the physically challenged or senior citizens in proper manner are also other point of report.

Review of SNAP Inspection report would be made by Managing Director on an ongoing basis.

6. EDP AUDIT:

The bank also engage independent and experienced practicing firm of Chartered Accountant to carry out EDP Audit on perpetual basis. In addition, IS audit is also conducted once in a year. The report submitted by EDP auditor is then sent to IT cell to offer its compliances / remarks and then it should be put-up before the audit committee for its review and further directions.

AUDIT FOR ELECTRONIC DATA PROCESSING SYSTEM:

- 6.1 As per RBI guidelines, Banks which are partially / fully computerized their operations should introduce EDP audit system on perpetual basis. Entire domain of EDP activities (from policy to implementation) should be brought under scrutiny of Inspection and Audit. The overall control and supervision of these EDP Audit Cells should be vested in the Audit Committees. Financial outlay as well as activities to be performed by



EDP department should be reviewed by senior management at periodical intervals.

6.2 EDP auditor should comply with following guidelines while carrying out EDP Audit.

6.3 Duties of system programmer/designer should not be assigned to persons operating the system. System person would only make modifications /improvements to programs and the operating persons would only use such programs without having the right to make any modifications. In order to bring about uniformity of software used by various branches/offices there should be a formal method of incorporating change in standard software and it should be approved by senior management. Inspection and Audit Department should verify such changes from the view-point of control and for its implementation in other branches in order to maintain uniformity.

6.4 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:

6.4.1 strengthening physical, logical and procedural access to system;

6.4.2 introducing standards for quality assurance and periodically testing and checking them; and

6.4.3 screening employees prior to induction into EDP application areas and keeping a watch on their behavioral pattern.

6.4.4 putting in place appropriate control measures to protect the computer system from attacks of unscrupulous elements.

6.5 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.

6.6 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.

6.7 The bank should make a formal declaration of system development methodology, programming and documentation standards to be followed, compliance should be verified by EDP Auditors.

6.8 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.



6.9 While engaging outside computer agencies, banks should ensure to incorporate the "clause of visitorial rights" in the contract, so as to have the right to inspect the process of application and also ensure the security of the data/inputs given to such outside agencies.

7. INFORMATION SYSTEM (IS) AUDIT

7.1 Bank has adopted technology and offering mobile banking, electronic clearing/funds transfer, electronic money, smart cards etc to its customers. In view of the above and having regard to risks emanating from adoption of technology, introduced IS Audit, therefore adopted an IS audit policy and reviews the same at regular intervals in tune with guidelines issued by RBI from time to time.

7.2 Bank has adopted appropriate systems and practices for conducting IS audit on annual basis covering all the critically important branches (in terms of nature and volume of business).

7.3 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.

7.4 IS audit reports should be placed before the board and compliance should be ensured within the timeframe as outlined in the audit policy.

The scope, responsibility, authority and accountability of IS / EDP auditor has been provided at Annex-D. the professional competence technical proficiency requirement of the IS / EDP auditor is provided at Annex-E.

8. VAPT AUDIT

As per the guidelines of Cyber Security Resilience Framework, the Vulnerability Assessment and Penetration Tests (VAPT) audit is required comprehensively to extract crucial and distinctive points which bank has to comply. The process to be followed by the auditor includes:

- (i) initialization meeting with the Senior Management
- (ii) Scoping of Audit & Information Gathering
- (iii) Information Analysis
- (iv) Test Case Development
- (v) Execute Vulnerability Detection & Penetration Testing & Control Audit
- (vi) Analysis of Result
- (vii) Reporting & Mitigation support

9. OTHERS

In addition to EDP & IS audit, special audit may be conducted in the event of migration of core banking software from an independent practicing audit firm having good experience to verify & check that the migration of software has taken place successfully and there is no loopholes / errors.

In the recent times, payments of digital platforms have increased substantially. Electronic remittances of funds through RTGS / NEFT has increased manifold.



Similarly, the payment through imps (Mobile application) and debit card transactions, including e-commerce also increased substantially, hence bank is also conduct DR Drill, ATM Drill & VPAT audit at prescribed intervals and report be put up before Audit Committee.

However, during audit it feels that improvement / modifications, if any, needed may highlight in its report and shall be subject to comments by the concerned officials of the bank. The reports are placed before the Audit Committee for its review and further guidelines.

10. REVIEW BY AUDIT COMMITTEE OF BOARD

- 10.1 The Reserve Bank of India has from time to time, emphasized the need on the part of the directors of the primary (urban) co-operative banks to ensure timely review and action on the findings of statutory inspection/audit reports and submission of the compliance reports thereto. Timely follow-up action on the findings of inspection reports and guidelines, circulars etc. issued by RBI as also the internal audit/inspection, etc. is considered desirable to tone up the overall functioning and operational efficiency of the banks.
- 10.2 In order to ensure and enhance the effectiveness of internal audit/ inspection as a management tool, Audit Committee should oversee and provide direction to the internal audit/inspection machinery and other executives of banks. The Audit Committee of the Board of Directors (ACB) consists 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.
- 10.3 The Audit Committee of the Board should review the implementation of the guidelines issued by RBI and subsequently be submitted to the Board for its review.
- 10.4 The duties/ responsibilities of the Audit Committee of Board (ACB) are as follows:
- 10.4.1 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.
- 10.4.2 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. It should also specially focus on the follow up on:
- Inter-branch adjustment accounts.
 - Un-reconciled long outstanding entries in inter-branch accounts and inter-bank 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.



Compliance Programme

Compliance of RBI Directives/guidelines :- It will be ensured that the directives/guidelines and instructions received through circulars, master directions, emails etc. from Reserve Bank of India are meticulously complied with by the Bank and its Branches.

Compliance of Bank's Policies, BOD decisions and instructions :

Compliance of Bank's various policies BOD decisions and Bank's instructions at all levels will be ensured by regular monitoring and follow-up.

Compliance of various Audits & Inspections Report :

It will be ensured that the compliance of various Audit & Inspection Reports by rectifying/removing all irregularities/observations in a satisfactory manner and getting the reports closed within a timebound manner. The time norms for submitting compliance reports and getting the reports closed are fixed as under :-

Type of Audit	Compliance by	Period for submitting compliance report	Period Fixes for closure
1. RBI Inspection	(i) Branches & Deptt of HO	15 days	--
	(ii) HO to RBI	45 days	4 months
2. Statutory Audit	(i) Branches & Deptt of HO	15 days	--
	(ii) HO to ROC	45 days	3 months
3. Concurrent Audit	(i) Branches & Deptt of HO	7 days	--
	(ii) HO to Audit Committee	30 days	45 days
4. Internal Audit	(i) Branches & Deptt of HO	15 days	--
	(ii) HO to Audit Committee	45 days	3 months
5. EDP & Information Audit etc.	(i) Branches & Deptt of HO	15 days	--
	(ii) HO to Audit Committee	45 days	3 months

Nomination of Bank's Compliance Officer :-

To ensure meticulous Compliance of RBI directives/guidelines/circular instructions etc. as well as Bank's Policies, instructions etc. a compliance officer is nominated, who will look after this aspect by close monitoring and following with Branches and all concerns.

For present – Shri Rajendra Singh Sankhala, Manager(Banking) is being nominated as Bank's Compliance officer.

महाप्रबन्धक
जोधपुर नागरिक सहकारी बैंक लि.
जोधपुर (राज.)

प्रबन्ध संचालक
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