

Mann Deshi Mahila Sahakari Bank Ltd, Mhaswad



**Mann Deshi
Bank**

Audit Policy

For FY: 2022-23

Mission of Mann Deshi Mahila Sah. Bank

It is our mission to provide women in drought-prone area of Maharashtra with the tools necessary for achieving financial independence and self sufficiency. We believe that the financial empowerment of women will hasten the growth and development of rural India, thereby creating a better life for future generations. Our experience has shown that when women control the household finances, more money is spent on children, education, healthcare, and other important domestic items. Mann Deshi's highest priority is our clients. We aim to improve the lives of women holistically, by providing a unique and innovative combination of financial and non-financial services.

In 2004 the bank was successful in convincing the Revenue Department to include women names in the property papers for joint registration of immovable property. This means her husband can neither sell the property without her consent nor claim the entire property as his own in case of divorce.

Index

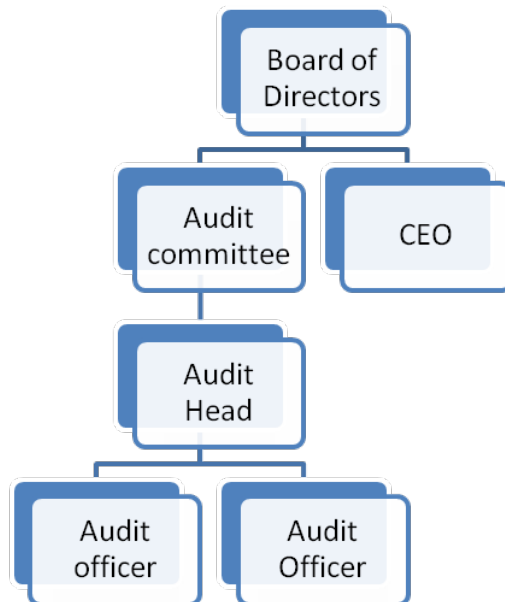
| Sl.No | Content | Page |
|-------|--|------|
| 1 | Objective policy | 4 |
| 2 | Scope of the audit Policy | 4 |
| 3 | Audit committee and audit department | 4 |
| 4 | Internal Audit | 5 |
| 5 | Concurrent Audit | 8 |
| 6 | Appointment and remuneration of auditor | 11 |
| 7 | Audit for electronic data processing system | 11 |
| 8 | Reporting system | 12 |
| 9 | Audit committee of board (apex audit committee | 12 |

1. Objective of the policy: The objective of this audit policy is to provide sufficient guideline to audit department in to make them work smoothly and independently.

2. Scope of the audit Policy

1. Audit committee and audit department
2. Function of audit department
3. Internal audit
4. Concurrent audit
5. Scope of audit
6. Frequency of audit
7. Reporting

3. Audit committee and audit department



Function of audit department: Audit department will be headed by audit head sitting at Head Office of the bank and will remain responsible for total function of the audit department while reporting to audit head and directly and CEO indirectly. Audit department has to finalize the concurrent audit, whether to be carried out internally or externally with proper consultation with audit head.

It is also the responsibility of the audit department to fix the frequency and period of the audit and deploy sufficient staff to ensure the timely accomplishment of all audit work. Recruitment and training of audit staff comes under the responsibility of the audit department.

4. Internal Audit

4.1 Objective: 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.

4.2 Code of Ethics

The Internal Audit staff shall subscribe to the Code of Ethics established by the audit department, as well as adhere to the policies set forth by the management of the bank. In addition, the Internal Audit staff will uphold the following:

a) Integrity - Establish trust and thus provide the basis for reliance on the judgment of Internal Audit. Remain tactful, honest, objective, diligent and credible in all relationships as a representative of the bank

b) Objectivity - Exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the area being examined. Make balanced assessments of all the relevant circumstances and do not become unduly influenced by individual interests or by others in forming judgments.

c) Confidentiality - Respect the value and ownership of information they receive. Do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

d) Competency - Apply the knowledge, skills, and experience needed in the performance of internal auditing services and continually improve their proficiency and the effectiveness and quality of their services.

4.3 Standards of Conduct

Internal Audit will adhere to the following Standards of Conduct:

a) Service-Preserve a commitment to carry out all responsibilities with an attitude of service towards bank

b) Excellence-Uphold a high standard of service and a commitment to quality in performing all projects.

c) Leadership-Provide noteworthy examples which emphasize high ethical and moral standards. **d) Professionalism**- Exercise skill, integrity, maturity and tact in all relations

4.4 Scope of the Internal Audit Function

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

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

b) 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.

c) 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.

4.5 Periodicity of Internal Audit

The periodicity of the internal audit of the branches should be at least once in every 12 months, which should be really of surprise character.

4.6 Coverage of Internal Audit

4.6.1 The coverage of inspections should also be made more comprehensive, *inter alia*, to include a thorough examination of the internal control system obtaining at the branches including the various periodical control returns submitted to the controlling offices. The internal inspection report should specifically comment, on the position of irregularities pointed out in the inspection report of Reserve Bank of India. The inspection/audit officials should also critically analyse and make in-depth study of the corruption/fraud prone areas such as appraisal of credit proposals, balancing of books, reconciliation of inter-branch accounts, settlement of clearing transactions, suspense accounts, premises and stationery accounts during the course of inspections leaving no scope for any malpractices/irregularities remaining undetected.

4.6.2 The internal audit should scrutinise the suspense account during inspection / visit and give specific instructions for early reversal of entries.

4.6.3 The Auditors should ensure that the system evolved for recording the details of off-balance sheet transactions are properly followed by all branches. These records should be periodically balanced and internal inspectors should verify the same and offer critical comments.

4 Proper inventories of dead stock articles, stationary should be maintained and subjected to surprise check at periodical intervals by the officials of the branch as also internal inspectors.

4.6.4 Supplementary Short Inspections

The annual internal inspection should be supplemented by surprise short inspections at irregular intervals, particularly of large branches, to be carried out by officials at appropriate higher levels not only to look into the general working of the branches but also to ensure that no malafide practices are being indulged in to by the branch officials. In addition wherever so warranted, spot/special inspections or scrutiny should also be carried out on receiving signals to that effect.

4.6.5. Revenue Audit

Besides internal audit and short inspections, there should be a regular system of revenue audit of the large branches. The reasons of leakage of income unearthed during such audit should be examined in-depth and action taken against the officials responsible for the lapses.

4.6.6 Credit Portfolio Audit

a. 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 of high value accounts

shifted to the bank along with executives / Chief Executive Officer/ Managing Directors transferred from other banks should be done. Similarly the accounts transferred from other branches along with the officials should be subjected to thorough scrutiny during the internal inspection. The summary of the important findings may be submitted to the Committee of the Board. Irregular accounts over a cut off point may be reported to Reserve Bank of India. The points made by the Reserve Bank of India at the time of discussion of findings of inspection with the top management of banks should be effectively followed up by banks without delay and compliance report should be put up to the Board periodically.

b. Auditors should examine the need for introducing a separate section of internal inspection machinery to scrutinise credit portfolio only. It will be necessary to staff this Section with competent and experienced personnel who will make an in-depth examination of the credit portfolio. It should be the responsibility of this Section to particularly scrutinise larger accounts and group exposures. To be effective, apart from competent officials to man the Section, the Section should be under the charge of a senior personnel reporting directly to the Chief Executive Officer of the bank. The summary of important findings should also be put up to the Audit Committee of the Board.

c. The Head Offices officials should have a squad, which should also make surprise inspection of the goods pledged/hypothecated to the bank.

D. Quarterly snap inspections of the branches should be made by the branch level senior officers or by Head Office / Regional Office officers, to especially verify whether drawing power/limit, interest rates, etc. are correctly entered

4.7. Other areas of importance

a. Investment Portfolio Audit

1. The reconciliation of the balances of SGL transfer forms as per bank's books should be periodically checked by the internal audit department.

2 In view of the possibility of abuse, purchase and sale of government securities etc. should be separately subjected to audit by internal auditors (and in the absence of internal auditors by Chartered Accountants out of the panel maintained by the Registrar of Co-operative Societies) and the results of their audit should be placed before the Board of Directors once every quarter.

3 The internal auditors (Chartered Accountants/Statutory Auditors in the absence of Internal Auditors) who audit the treasury operations should also scrutinise that:

3.1 Adherence to the aggregate upper contract limit for each of the approved brokers is within a limit of 5% of total transactions (both purchase and sales) entered into by the bank during a year. The internal auditor should ensure that disproportionate part of the business is not transacted through only one or a few brokers and that aggregate contract limits for each of the approved brokers are not exceeded. The limit should cover both the business initiated by the bank and the business offered/brought to the bank by broker. The internal auditors should include this aspect in their report to the Chief Executive Officer of the bank. Besides, the business put through any individual broker or brokers in excess of the limit of 5% of total transactions entered into by the bank during the year with the reasons therefore, should be covered in the half-yearly review to the Board of Directors ; and

3.2 The deals have been undertaken in the best interest of the bank.

b. Compliance with Prudential Norms

Internal auditors should bring out non-compliance with the prudential norms relating to income recognition, asset classification and provisioning for taking suitable action in the matter.

c. Cheque Purchase Transactions

The internal inspectors should verify all the cheque purchased/discounted beyond the sanctioned limit. They should be asked to conduct a sample checking of transactions

5. Concurrent Audit

5.1 Scope of concurrent audit

5.1.1 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 favour of substantive checking in key areas rather than test checking. This audit is essentially a management process integral to the establishment of sound internal accounting functions and effective controls and setting the tone for a vigilance internal audit to preclude the incidence of serious errors and fraudulent manipulations.

5.1.2 A concurrent auditor may not sit in judgement of the decision taken by bank/branch Manager or an authorised 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.

5.2. Coverage of business/branches

5.2.1 The suggested coverage may be as under:

2.2 The Departments/Divisions at the Head Office dealing with treasury functions viz. investments, funds management including inter-bank borrowings, bill rediscount and stock invest scheme, 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.

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

5.3 Types of activities to be covered

5.3.1 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:

5.3.2 Cash

5.3.2.1 Daily cash transactions with particular reference to any abnormal receipts and payments.

Proper accounting of inward and outward cash remittances

5.3.2.2 Proper accounting of currency chest transactions (if any), its prompt reporting to Reserve Bank of India

5.3.2.3 Expenses incurred by cash payment involving sizeable amount.

5.3.3 Investments

5.3.3.1 Ensure that in respect of purchase and sale of securities, the branch has acted within its delegated power having regard to its Head Office instructions.

Ensure that the securities held in the books of the branch are physically held by it.

5.3.3.2 Ensure that the branch is complying with the RBI/Head Office/Board guidelines regarding BRs, SGL forms, and delivery of scrips, documentation and accounting

3.3.3 Ensure that the sale or purchase transactions are done at rates beneficial to the bank.

5.3.4 Deposits

5.3.4.1 Check the transactions about deposits received and repaid.

5.3.4.2 Percentage check of interest paid on deposits may be made, including calculation of interest on large deposits

5.3.4.3 Check new accounts opened. Operations in new Current/SB accounts may be verified in the initial period itself to see whether there are any unusual operations. Also examine whether the formalities connected with the opening of new accounts have been followed as per RBI instructions.

5.3.5 Advances

5.3.5.1 Ensure that loans and advances have been sanctioned properly (i.e. after due scrutiny and at the appropriate level).

5.3.5.2 Verify whether the sanctions are in accordance with delegated authority.

5.3.5.3 Ensure that securities and documents have been properly received and charged/registered

5.3.5.4 Ensure that post disbursement, supervision and follow-up is proper, such as receipt of stock statement, instalments, renewal of limits, etc.

5.3.5.5 Verify whether there is any fistulisation of the loans and advances and whether there are instances indicative of diversion of funds.

5.3.5.6 Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are for genuine trade transactions.

5.3.5.7 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

5.3.5.8 Ensure proper follow-up of overdue bills of exchange.

5.3.5.9 Verify whether the classification of advances has been done as per RBI guidelines.

5.3.5.10 Verify whether the submission of claims to DICGC and ECGC is in time.

5.3.5.11 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

5.3.5.12 Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the concerned officials.

5.3.6 Foreign Exchange transactions

5.3.6.1 We don't deal in foreign exchange transaction as a matter of policy

5.3.7 Housekeeping

5.3.7.1 Ensure that the maintenance and balancing of accounts, Ledgers and registers including clean cash and general ledger is proper.

5.3.7.2 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.

5.3.7.3 Carryout a percentage check of calculations of interest, discount, commission and exchange.

5.3.7.4 Check whether debits in income account have been permitted by the competent authorities.

5.3.7.5 Check the transactions of staff accounts.

5.3.7.6 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.

5.3.7.7 Detection and prevention of revenue leakages through close examination of income and expenditure accounts/transactions.

5.3.7.8 Check cheques returned/bills returned register and look into reasons for return of those instruments.

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

5.3.8 Other items

5.3.8.1 Ensure that the branch gives proper compliance to the internal inspection/audit reports.

5.3.8.2 Ensure that customer complaints are dealt with promptly

5.3.8.3 Verification of statements, HO returns, statutory returns.

5.3.9 The aforesaid list is illustrative and not exhaustive. The banks 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:

5.3.9.1 In certain areas, such as off balance sheet items (LCs and BGs), investment portfolio, foreign exchange transactions, fraud prone/sensitive areas, advances having outstanding balances of more than Rs. 5 lakhs, if any unusual features is observed cent percent audit can be performed

5.3.9.2 In the case of areas such as income and expenditure items, inter-bank 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.

5.3.9.3 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.

5.3.9.4 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.

5.3.9.5 If any adverse remark is required to be given, the concurrent auditors should give reasons therefore.

5.3.9.6 Concurrent auditors may themselves identify problem areas at branch level/bank and offer their suggestions to overcome them.

6. Appointment of auditor

The option to consider whether the concurrent audit should be done by the external auditors (professionally qualified Chartered Accountants) or its own staff is to be decided by the audit committee.

While appointing external chartered accountants for external firm for concurrent audit terms should comply with Regulatory requirement.

7. Audit for electronic data processing system:

7.1 A team of competent EDP personnel have to be developed within audit department to conduct audit.

7.2 Duties of system programmer/designer should not be assigned to persons operating the system and there should be separate persons dedicated to system programming/design. 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.

7.3 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 loopholes may be plugged by:

7.3.1 Strengthening physical, logical and procedural access to system;

7.3.2 Introducing standards for quality assurance and periodically testing and checking them; and

7.3.3 Screening employees prior to induction into EDP application areas and keeping a watch on their behavioural pattern.

7.3.4 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.

7.3.5. The bank should have a manual of instructions for their inspectors/auditors and it should be updated periodically to keep in tune with latest developments in its area of operations and in its policies and procedures.

7.3.6 An appropriate control measure should be devised and documented to protect the computer system from attacks of unscrupulous elements. Before introducing an EDP application in place of certain manual procedures, parallel run of both the systems should be done for a reasonable period to ensure that all aspects of security, reliability and accessibility of data are ensured in the EDP application.

7.3.7 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.

7.3.8 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.

7.3.9 Entire domain of EDP activities (from policy to implementation) should be brought under scrutiny of Inspection and Audit Department. Financial outlay as well as activities to be performed by EDP department should be reviewed by senior management at periodical intervals.

7.3.10 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.

8. Reporting system

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

8.2 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.

9 Audit committee of board (apex audit committee)

9.1. Audit committee should consist of three/four directors and chairman of the board

9.2. 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.

The other duties/ responsibilities of the Audit Committee of Board are as follows:

9.3 The Audit committee 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 internal audit and inspection within the bank and follow-up on the statutory audit of the bank and inspection of the Reserve Bank.

9.4 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:

9.5 Inter-branch adjustment accounts.

9.6 Unreconciled long outstanding entries in inter-branch accounts and inter-bank accounts.

9.7 Arrears in balancing of books at various branches.

9.8 Frauds.

9.9 All other major areas of housekeeping.

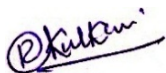
9.10 Compliance with the Statutory Audit Reports/Concurrent Audit Reports/RBI inspection reports.

9.11 Omission on the part of internal inspecting officials to detect serious irregularities should be viewed seriously.

9.12 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.

10. Any agenda has to be prior approval from board

11. Any other terms and policy will be governed by RBI subject matter guideline and will be a matter of change



Chief Executive Officer

Mann Deshi Mahila Sahakari Bank Ltd., Mhaswad