



THE PRATAP CO-OP. BANK LTD.

REVIEW OF AUDIT POLICY 2025-2026

Objective

Audit is a critical and intelligent examination of the books of accounts of a Bank with the vouchers and other documents in order to be satisfied that the operational results for a particular period and the exact financial position of the bank as at the close of the period as reflected in the profit and loss account and the balance sheet are correct. The auditor has also to see that, these statements have been prepared in accordance with the generally accepted accounting principles and the accounts give all the information required by law. The duties of the co-operative Bank auditor are, however, much more comprehensive. It has been laid down in section 81(2) of the Maharashtra Co-operative Societies Act, 1960; the audit shall include an examination of the overdue debts, if any, the verification of cash and securities and valuation of the assets and liabilities of the Bank. Examination of overdue debts has been made a special responsibility of the auditor, in view of the far reaching consequences, such overdue debts have on the working of co-operatives Bank

In any system of credit, existence of overdue debts is a symptom of weakness and it is necessary, therefore, that the position of co-operative Banks in regard to their overdues should be under constant watch with a view to reducing their proportion and arrest their future growth. As regards the verification and valuation of assets and liabilities, the responsibility of the auditor of a co-operative Bank is the same as those of the auditor of a joint stock company. However, having due regard to the vast financial stake of the State in the affairs of many of the Banks, the special position allotted to co-operative Banks in the general scheme of development particularly in regard to the improvement of the lot of the weaker sections of the society and the numerous concessions and privileges enjoyed by them, audit of co-operative Bank has to be made more strict. Close and careful inquiries will have to be made to ensure that the assets have been properly valued and created and that all known liabilities have been brought into account. Besides the Section 81(2) lays down the duties of the auditor which is as under. The audit shall be carried out as per auditing standards notified by the Reserve Bank Of India and Companies Act from time to time and shall also include examination or verification of following items, namely

- (i) Overdues of debts, if any
- (ii) Cash balance and securities and a valuation of the assets and liabilities of the Bank.
- (iii) Whether loan and advances and debts made by the Bank on the basis of security have been properly secured and the terms on which such loans and advances are made or debts are incurred are not prejudicial to the interest of the Bank and its members. Whether the security offered to bank is properly valued.
- (iv) Whether transactions of the Bank which are represented merely by book entries are not prejudicial to the interest of the Bank.
- (v) Whether personal expenses have been charged to revenue account
- (vi) Whether the Bank has incurred any expenditure in furtherance of its objects
- (vi) Whether the Bank is properly carrying-out its objects and obligations towards members.

(vii) any entries related to directors and relatives of directors

(viii) Any fraudulent or suspicious entries

(ix) All other Transactions as per RBI RBI guidelines

General Responsibilities of the Auditor. :

- It will thus be seen that the auditor of a co-operative Bank has not merely to check and certify the correctness of the balance sheet and the profit and loss account, but has to examine many other things. Co-operative audit embraces all the circumstances, which determine the general position of the Bank and its achievements. Thus, for example, in case of co-operative Bank, the auditor has to see that the loans are given for proper objects/ purpose for different periods and on adequate security as per latest concepts of co-operative finance. He has also to examine the repayments in order to ascertain book adjustments, improper renewals, Monitor of loan accounts to uses, diversion of funds etc. He has further to note whether timely action has been taken for recovery of dues and overdues., Exposure Norms and area of Operations

Under provisions of Rule 49 of the Maharashtra Co-operative Societies Rules, 1961, no bad debts can be written off unless they are certified as irrecoverable by the auditor the write Off has to be approved in Annual General Body meeting and also to be approved by Dept. of Cooperation Pune.

Auditor to assist and advice management of Bank

-It will thus be seen that in many respects, the work of the auditor of a co-operative bank exceeds the boundaries of what is generally considered as audit in its general sense and includes within its purview not only the critical and verification aspect, but also an appraisal from the viewpoint of operational efficiency, financial soundness and co-operative vitality

.It also includes tendering advice and rendering assistance on all matters connected with the working of the Bank. The auditor has, therefore, to cultivate a keen sense of observances and he should try to make his audit as effective and useful as possible, by observing and examining everything that he comes across during the course of performance of his duties. He should at all times think of the possibilities for improvement and tender suitable advise to the Management.

The auditor should also remember that he has to deal not only with the books of accounts and records, but has also to supplement the information available from the books, by calling for clarification and explanation. He has to put intelliger questions so as to elicit the required information, without arousing any suspicious in the minds of those whom he questions. During there course of performance of his duties as an auditor, he has to deal with all sorts of people from junior ledger clerks to highly paid executives and directors who are honorary workers and are particularly susceptible to any sort of adverse comment and are, therefore, required to be handled with great care and utmost courtesy.

Audit Committee

The audit committee comprising of members of board will meet occasionally, but mandatorily once in a quarter. The committee will be engaged in recommending for appointment of concurrent auditor and statutory auditors to the Board.

Discuss vital aspects of the audit report in the committee and advising CEO for it's prompt rectification and compliance by branches. Advise CEO to ensure the reply to audit reports along with it's compliance are received promptly from branches.

Discussion with statutory auditors and RBI auditors on serious observations, if any.

Discuss and deliberate upon the RBI report for the various observations reported therein. Any serious matter with adverse implication to the bank to be referred in the board meeting for information of the members and their comments.

CO-OPERATIVE BANKS AUDIT FEATURES .

Auditor's responsibility to the Registrar and Bank

We have so far seen that the main object audit of a co-operative Bank is to safeguard the interests of the customers. The management is also required to be made aware of the errors and irregularities committed by them and, the staff and

advised to rectify them. However, it has to be remembered that audit of all co- operative Bank once at least every year is the statutory responsibility of the Registrar and bank. Hence the primary responsibility of the auditor is to the Registrar and bank who has appointed and authorized to carry out the audit.

This has now been amended in 2021 and the authority to approve the appointment of Statutory Auditor has been vested with Reserve bank Of India After approval of the firm of Statutory Auditor in AGM, bank has to forward the same with required annexures to Reserve bank Of India for their approval.

Other distinguishing features: In case of Co-operative banks, the Registrar and Reserve bank Of India to whom the auditor has to submit his report, is keen to know how far the bank has been successful in achieving the objects for which was established, the extent to which the customers have benefited and whether the working of the Bank is being conducted according to Co-operative principles and RBI guidelines.

Examination of overdue debts:

Examination of overdue debts, as we have seen has been made a special responsibility of the auditor in view of the far-reaching consequences of such overdue debts of the working of Bank.

Examination of overdue debts also involves a careful assessment of chances of their recovery and their classification into Standard, Sub Standard and Doubtful. The auditor has also to see the due action is taken for recovery of dues and overdues. The auditor has to observe the signals symptoms emanating from the account and in case of any deficiency in the account mark it as a Special mention account (SMA).

Observance of the provisions of the Act, Rules and Byelaws

A Co-operative auditor, however, is not only required to point out all cases of infringement of the provisions of the Act, Rules and the Byelaws of the Bank, but also of the directives contained and suggestions made in the various Government Notifications and Circulars issued by the Registrar, R.B.I and Government from time to time.

Where these infringements have financial implications, he has to include them in a separate schedule with necessary particulars so as to enable the Reserve Bank Of India and Registrar to initiate action under section 88 of the act, We have seen that Co-operative Banks have an important role to play in bringing about the desirable change in the moral and material well being of the citizens of the country. The auditor during the course of his audit has to see that these privileges and concessions are not misused and that the operations of the Bank are conducted with due regard to the interests of the common man. be brought into play, wherever necessary

Certification of Bad debts

Rule 49 of the Maharashtra Co-operative Societies Rules lays down that bad debts can be written off only when they are certified as such by the auditor. The procedure laid down in the Rule requires that all bad debts and irrecoverable losses, before they can be written off against the Bad Debts Funds (BDDR), should have been certified as bad debts or irrecoverable by the auditor. Bank shall write off its bad debts on approval of its General Body in conformity with guidelines of RBI and Coop. Banks Act,

With the above background The Pratap Coop. Bank Ltd. will be audited by the following auditors.

1. Concurrent Audit on regular basis throughout the year
2. internal Audit
2. Statutory Audit on annual basis as at end of every financial year.
3. R.B.I audit as per their schedule
4. Audit by District Deputy Registrar if desired.
5. Cyber Security /IT Audit / Tax Audit

PURPOSE OF CONCURRENT AUDIT

Concurrent audit is the key service providing objective assurance that all the significant risks have been identified and risk management process is working effectively, efficiently and controls are effective. As part of this work, the Concurrent audit activity will provide advice, coaching and facilitation services to assist executive management in carrying out their responsibilities.

SCOPE OF CONCURRENT AUDIT

The scope of Concurrent audit is much wider than statutory / external audit. It should ideally cover all the organizations activity. They include

1. Deposits, Withdrawals & Interest Payments

- Verify **KYC/AML compliance** for all new accounts (including CKYC, PAN, Aadhaar seeding where applicable).
- Check compliance with **RBI Master Directions on KYC**.
- Confirm correct application of **interest rates** on savings, term deposits, recurring deposits, including senior citizen benefits.
- Ensure **TDS deductions** on interest as per Income Tax Act.
- Verify premature withdrawals and renewals for compliance with policy & RBI norms.
- Scrutinize high-value transactions for suspicious activity (STR/SAR reporting readiness).

2. Loans & Advances

- Check sanction process vis-à-vis **loan policy** and RBI prudential norms.
- Ensure proper appraisal, documentation, and security creation.
- Verify end-use of funds, especially in **Cash Credit, Overdraft, and Term Loan** accounts.
- Check adherence to **exposure limits**, priority sector lending norms, and related-party restrictions under Section 20 of B.R. Act (AACS).
- Test correctness of **interest rate application**, penal interest, and repayment schedule.
- Monitor **overdue accounts** and ensure timely classification into NPA categories.
- Review fresh disbursements for compliance with **Due Diligence / CIBIL / Credit Bureau checks**.
- Examine all loan against gold, property, and shares for valuation accuracy, margin requirements, and RBI circular adherence.

3. Cash & Treasury Management

- Verify **cash balance** with physical count and tally with books.
- Ensure compliance with **cash retention limits** at branches.
- Check remittances to currency chests and other branches.
- Verify ATM replenishment, reconciliation, and settlement.
- Check vault/locker key custody & dual control compliance.

- For treasury investments, verify:
- Deal ticket authorization.
- SLR / CRR maintenance.
- Valuation as per RBI norms.
- Interest/discount income correctness.

4. Clearing, Transfers, and Remittances

- Check outward and inward clearing for timely realization and return processing.
- Ensure **RBI CTS** guidelines compliance.
- Verify NEFT, RTGS, IMPS, UPI, and BBPS transactions for authenticity and reconciliation.
- Confirm that unclaimed / suspense accounts are reviewed and cleared regularly.

5. Regulatory Compliance

- Verify compliance with:
- **RBI exposure norms.**
- **SLR / CRR reporting** and maintenance.
- **KYC/AML & PMLA guidelines** (including CTR/STR reporting to FIU-IND).
- Statutory returns to RBI, NABARD, Registrar of Co-operatives.
- Review implementation of RBI circulars and internal circulars issued.

6. Income & Expenditure Verification

- Test accuracy of interest income, commission, locker rent, and service charges.
- Verify timely recovery of processing fees, inspection charges, and penal charges.
- Check authorization of all expenditure bills, proper accounting, and GST compliance.

7. Internal Control & Risk Management

- Assess segregation of duties and maker–checker controls.
- Verify the internal and Office Accounts Transactions, Reconciliation of these accounts.
- Verify password security, user access controls in CBS.
- Review high-risk accounts (frequent cash deposits/withdrawals, dormant reactivation, large RTGS/NEFT) for anomalies.

- Check for unauthorised override of system limits.
- Verify insurance coverage for cash, assets, and pledged securities.

8. Housekeeping & Records

- Verify timely balancing of books, reconciliation of accounts (inter-branch, inter-bank, Office Accounts, ATM, suspense, sundry, and clearing differences).
- Review physical security and upkeep of records, vouchers, and registers.
- Check dormant/inoperative accounts handling per RBI norms.

9. Special Focus Areas (RBI Priority)

- Fraud monitoring and reporting timelines.
- Monitoring **cybersecurity controls** in digital channels.
- Stress testing large borrower accounts.
- Gold loan portfolio monitoring against recent RBI guidelines.
- Locker key embossing compliance (per RBI August 18, 2021 circular).
- Internal Audit implementation progress, where applicable.

10. Reporting & Follow-up

- Submit **monthly/Quarterly concurrent audit report** with:
- Observations, risk grading, and seriousness categorization.
- Irregularities rectified during audit.
- Outstanding irregularities from previous reports with ageing.
- Highlight **any red-flag accounts or transactions** to the MD/CEO and Audit Committee immediately.
- Maintain **audit trail** for all verifications and document evidence.

RESPONSIBILITIES OF CONCURRENT AUDITOR

Concurrent auditors provide risk management services to the bank's management, ensuring that potential risks are identified and mitigated in a timely manner. Its functions include examining and evaluating internal control, procedures and providing assurance to the management that everything is in order and under control. Its scope includes all aspect of internal control and not, just financial controls. It should ideally cover all the organizations activities. Meeting these objectives involves verification of:

- Cash
- K. Y. c and Account opening Revenue

- Expenditure
- Deposit portfolio
- Advances portfolio
- Leakage of income
- Sundry Deposit
- Suspense account
- Reconciliation
- Petty cash control
- N. P.A accounts
- Clearing
- Reports (for reporting excess, sanctions during the month etc;)
- Investment of the bank

Besides the daily Concurrent audit of all branches, the scope also includes the under mentioned audit activities

- Regular checking of overdue accounts, SMA accounts and Identifying probable NPA and suggest measures
- NPA finalisation / Books finalization & verification of Annual accounts.
- Preparing computation of income and Filing of Income tax.
- Quarterly TDS returns and reconciliations, Form 16A TDS challans, issuing Form 16 to staff, and Income tax return of bank
- Half yearly return of GST/Income Tax
- Monthly DEAF accounts certification
- Filing of monthly and Yearly GST returns filing
- To ensure monthly CTR and STR reports are regularly forwarded to FIU India as per the instructions.
- Investment and Government securities returns and certifications
- Yearly SFT 61A filing of Bank
- Random scrutiny of high volume transactions accounts to check any money laundering transaction.
- Other audit related work.

The scope of Concurrent audit is further classified in following Activities

CASH

The following registers to be verified:

- Cash scroll Cash balance-book
- Cashier Receipt Payment book Token register
- Register for excess / shortage of cash found

The cash retention limit of the branch should be verified. It should be ascertained whether the branch works within the retention limit. If not, the reasons thereof should be looked into and reported

If the branch could not work within the retention limit then the nature / volume of business should be ascertained and branch to be informed that it cannot claim insurance for the excess amount of cash held beyond retention limit.

Verify whether late payments / receipts are of occasional or regular nature

and for the same or different parties

Excess or shortage of cash is reported to H.O. when it occurs and the genuineness of the entries in Suspense and Sundry a/c for its adjustments Should be scrutinized properly.

K.Y.C-ACCOUNT OPENING

To verify whether,

- The account opening forms are complete in all respect.
- Verification of place of business and residence
- The account opening forms and specimen signature cards are held proper custody.
- Whether KYC has been completed before Opening of each account and the same is approved by an authorized official of the branch
- Introductory reference invariably obtained
- Photographs of account holder duly attested and held on record
- Letter of thanks sent to account holder and introducer
- Date of birth recorded in case of minor account
- Whether nomination facility is encouraged and proper register is maintained
- Account opening forms are accompanied by partnership letters, resolution, memorandum and articles of association etc.
- Accounts opened must be uploaded along with KYC details to CERSAI within three working days
- Regular review of KYC as per RBI regulations and risk criteria of accounts
- Special reference to trust accounts.

CURRENT ACCOUNTS

- Verily whether minimum balance is maintained in the account and whether charges are recovered in case the balance falls below minimum
- Ensure collection of ledger folio charges every year
- Big amount transactions are supervised before passing
- Verify whether the reports generated are checked by officials
- The inoperative accounts for last 2 years accounts are transferred to dormant ledger and balanced,
- Verify Cheque book issued, KYC expired accounts

SAVING BANK ACCOUNTS

- Particulars of Cheque books issued are noted in the ledger under Proper authentication

- The Chequebook issued register is maintained properly.
- Particulars of stop Payment cheques entered in the system under proper supervision.
- The pass book issue register maintained properly
- Accounts not operated for the last 2 years to be transferred to Dormant ledger
- Whether quarterly interest is credited to saving accounts.
- Whether savings bank ledgers are balanced monthly
- Verify abnormal operations in newly opened accounts
- Transactions in the staff accounts to be thoroughly checked
- Verify Minor accounts, Non -Operative Accounts and non KYC accounts

FIXED DEPOSIT ACCOUNTS

- Date of maturity, maturity value and particulars of interest payment to be mentioned in the ledger and deposit receipt.
- Proper discharge over the revenue stamp is obtained on reverse of the deposit receipt at the time of payment,
- In case of premature closure of fixed deposit, interest is paid as per circular issued by the bank.
- The interest rate and payment of interest is verified by the officer concerned and this has to be commented.
- Provisions of T.D.S. as per income tax rules are followed.

EXPENDITURE ACCOUNTS

- Whether all expenses are properly classified under the respective heads of accounts
- Verify whether all the vouchers are properly passed for payment by the authorized official and supporting bills are available.
- Verify whether the branch expenditure is under control and proper sanction has been obtained from the controlling authority for major expenses incurred.

LEAKAGE OF INCOME

Leakage of income can occur in the following areas

- Folio charges
- Processing charges
- Charges on excess drawings
- Interest on ad hoc sanctions e Wrong application of interest due to wrong rate of interest
- Other service charges viz; cash charges , Chequebook charges etc.
- Digital payment charges

Submit the details on leakage of income as per the following format

Dept. Account Nature Detected Recovered Balance

Balance leakage of concurrent audit for previous year to be recovered if any.

Give details of recovery and balance particulars of leakage of income detected during previous inspection report Concurrent auditors. While reporting any leakage of` income, the names of the officials concerned must also be reported

PETTY CASH

- Verify all payments have been passed by authorized official and are in order.
- Verify the balance held on hand with the register
- Verify that all the expenses reversed to the debit of expenditure account promptly at the end of every month
- Ascertain that balances are periodically verified at regular intervals

STAMP ACCOUNT

The stock of stamped forms and non-judicial papers should be verified and tallied with that of the balance in the stamp account in the general ledger

SUNDRY DEPOSIT, SUSPENSE ,INTER BRANCH AND INTER BANK A/CS

- Are all the originating debits in the inter-branch and inter-bank accounts checked by an authorized official?
- Verify if the debit entries in the above accounts are passed by an authorized official after proper scrutiny
- Give a detailed report as to the long outstanding entries in the above
- And the steps taken by the branch to wipe off the same.
- Verify whether the above accounts are balanced periodically
- Verify such debit voucher at random from the date of last scrutiny till date.

CLEARING

- To verify whether suspense account is debited on account of return of Cheque? Please give details of such entries and see when these entries are reversed. If not reversed, give a detailed report on such entries.
- Whether drawings are allowed against uncleared cheques? Whether such Cheque are passed by Branch Manager and reported to controlling authority.
- Whether interest was charged on such entries
- Whether same party Cheque are returned frequently
- Whether applicable charges as prescribed are charged to the account
- To comment on elimination of old entries if any representing clearing difference
- To give details of clearing differences if any remaining unreconciled during the period under review.
- Cross bearer cheques should not be use

HOUSE KEEPING DAY BOOK AND ACCOUNTS

- Verify that all the vouchers are properly passed for payment (cash, transfer, and clearing vouchers) are properly entered in the respective supplementary Heads and subsidiary Daybook
- Is the subsidiary, cashbook and general ledgers are balanced regularly.
- Are the above books checked regularly e Are the Day ends reports checked, scrutinized and initialed by the concerned official?
- Are the daily vouchers scrutinized and cancelled by the concerned official and the two Signatories rule is followed wherever required.
- Verify that all the books (both deposits and advances) are periodically balanced.

VOUCHERS & RECORDS

- Verify whether all the vouchers are segregated and arranged department and date wise such as SB, CD, CC, Suspense, Deposit income expenditure etc.
- Are old vouchers systematically stored month / date wise.
- Is the voucher register maintained properly?

GENERAL GUIDELINES ON ADVANCES

- Are the limits sanctioned commensurate with the needs of the borrower
- Whether exposure norms of single and group borrower are followed
- All loans and advances to be sanctioned within the area of Operations
- Are the loan applications forms properly filled and supported by necessary documents?
- Are the status reports compiled on the borrower and guarantor Are the credit reports and statement of accounts on borrower being called
- from the previous bankers Whether credit report has been obtained before sanctioning of loans of Rs.10 lakh and above
- Is the branch promptly reporting to the Head office whenever any excess over limits are allowed?
- Are margins properly maintained as sanction terms
- Are the security documents complete in all respect, valid and enforceable
- Are the security documents properly stamped? And signed in each page
- Are the copies of sanction letter duly acknowledged by the borrower and guarantors?
- Have the Fixed deposits held as security properly discharged in favour of the bank?
- Are all the LIC Policies, NSCS, KVPS etc; properly assigned in favour of limit.
- Has the Banks charge registered with ROC within the prescribed time
- Each loan / advance sanctioned must be within the exposure limit stipulated by RBI. Latest guidelines stipulate 15% of Tier '1 capital for individual borrower and 25% of Tier I capital for group accounts
- Are all loans are registered with CERSAI
- Are mortgages created properly and as per terms of sanction and registered with CERSAI
- Has the lawyers opinion on title and marketability of the property obtained
- Is adequate Insurance in the joint names of the Bank and borrower available for securities wherever applicable.

- Arc the dates of documents diarised and suitable action taken for renewal of documents
- Are adequate steps taken for recovery of overdue, sticky advances
- Verify renewal documents with that of old documents to ascertain the authenticity of the signatures of the borrower
- Verify whether interest rate is properly applied
- Is advance disbursed after compliance of all sanction stipulations
- Whether DEBIT BALANCE CONFIRMATION in all accounts are obtained.
- Whether all loans above Rs. 10 Lakhs are reviewed once a year
- Check whether Advocate certificate for validation of documents and enforceability of mortgage taken

INTERNAL AUDIT

Internal Audit Objective

To establish a robust internal audit system focused on identifying, assessing, and mitigating risks across the bank's operations, ensuring compliance with regulatory standards, and fostering a culture of transparency and accountability.

Structure and Independence of the Internal Audit Function

A senior officer with relevant expertise will lead the Internal Audit Department and report directly to the Chairman or the Audit Committee of the Board, ensuring independence from operational functions. In the absence of the desired expertise within the bank, a retired senior officer may be appointed as an internal auditor on a contractual basis.

Scope of Internal Audit

Similar to a concurrent audit, the internal audit will encompass all financial and operational risks, compliance, and internal control systems, including areas vulnerable to fraud, transaction accuracy, book balancing, reconciliation, and clearing, verification of compliance with KYC /AML guidelines. Etc.,

Internal audit for our Bank is not just transaction testing — it is a deep, independent, risk-based evaluation of the bank's governance, compliance, operations, risk management, and future readiness.

Following are the expanded, scope of work for Internal Auditor.

I. Governance, Policy & Board Oversight

1. Policy Compliance Audit

- Verify that all Board-approved policies (Credit, Investment, Recovery, HR, AML, IS Audit, etc.) are in place, updated annually, and aligned with RBI circulars.
- Check if policy deviations are recorded, justified, and approved at the correct level.

2. Board & Committee Functioning

- Review minutes of Board, Audit Committee, Risk Management Committee, Recovery Committee, etc., for completeness, timely circulation, and follow-up on decisions.
- Ensure compliance with RBI instructions on **Board governance in UCBs**.

3. Strategic Risk Audit

- Evaluate whether the bank's growth plans, branch expansion, and new products have risk assessment reports and feasibility studies.

II. Credit & Recovery (Deep Review Beyond Concurrent Audit)

1. Credit Appraisal Process

- End-to-end review of appraisal, approval, and disbursement process for all loan types (retail, MSME, agriculture, housing, gold, LAP).
- Verify security valuation methods, legal documentation, and ROC charge filings for corporate borrowers.

2. Post-Sanction Monitoring

- Scrutinise stock statements, insurance renewals, and inspection reports for timely submission.
- Test actual end-use of funds and compare with sanctioned purpose.

3. Asset Quality Review

- Check NPA identification accuracy, provisioning compliance, and restructuring as per RBI IRAC norms.
- Verify proper treatment of **wilful defaulters** and reporting to RBI's CRILC/credit bureaus.

4. Recovery Policy Implementation

- Assess functioning of Recovery Cell, legal action timelines, DRT/DRC filings, SARFAESI actions (where applicable).
- Audit compromise settlements for Board approval and fairness.

III. Investment & Treasury Audit

1. SLR/CRR Compliance

- Test accuracy of SLR computation, reporting, and actual holdings.
- Verify CRR balances maintained with RBI's designated bank daily.

2. Investment Operations

- Verify deal tickets, authorisation hierarchy, and counterparty limits.
- Check classification (HTM, AFS, HFT) and valuation per RBI norms.
- Audit income recognition and profit/loss booking in securities and provisioning like IDR and IFR.

3. Liquidity Risk Monitoring

- Review ALM statements and stress test reports for accuracy.

IV. Deposit Mobilisation & Liability Management

1. KYC/AML Master Direction Compliance

- Test sample accounts for proper due diligence, risk categorisation, and periodic review.

2. Product Audit

- Verify correctness of special schemes (e.g., senior citizen FDs, recurring deposits, tax-saver FDs).

3. Dormant/Inoperative Accounts

- Check controls for reactivation, fraud prevention, and unclaimed deposits reporting to RBI.

V. Digital Banking, IT & Cybersecurity

1. IT Governance Audit

- Review IT policy, vendor management agreements, and DR/BCP testing.

2. System Access & User Rights

- Verify user provisioning/de-provisioning process in CBS and allied systems.
- Audit maker–checker controls and system parameter changes.

3. Cybersecurity Framework Compliance

- Verify implementation of RBI's Cyber Security Framework for UCBs (2018 & updates).
- Check patch management, intrusion detection, firewall logs, and VAPT reports.

4. Digital Channels Audit

- Review UPI, IMPS, NEFT, RTGS, BBPS, and ATM switch operations for reconciliation, dispute resolution, and fraud detection.

VI. Statutory & Regulatory Compliance

1. RBI & Registrar Compliance

- Verify timely submission of all statutory returns (OSS, Basic Statistical Returns, NBS, Priority Sector Returns).
- Check compliance with RBI inspection action points.

2. Taxation Compliance

- Verify TDS, GST, Professional Tax, and other statutory payments & returns.

3. Locker Operations

- Audit compliance with RBI's Locker Guidelines (August 18, 2021) including embossing of keys and maintenance of agreement register.

VII. Financial Reporting & MIS Integrity

1. Balance Sheet Audit

- Verify accuracy of major heads, provisioning, contingent liabilities, and off-balance sheet items.

2. Profit & Loss Account Audit

- Check income leakage or overstatement, especially in interest income, processing fees, and commission.

3. MIS Accuracy

- Audit key MIS reports used by management for decision-making — test data integrity and report generation process.

VIII. Fraud Risk Management

1. Fraud Monitoring Audit

- Verify fraud detection, investigation, and reporting to RBI within prescribed timelines.

2. Red Flag Accounts

- Identify high-risk accounts as per RBI's Early Warning Signals framework.

3. Vigilance Cases

- Review ongoing investigations and adequacy of follow-up actions.

IX. HR & Staff Accountability

1. Recruitment & Training

- Check if staff recruitment follows policy, including background checks.
- Audit staff training programmes, especially in AML, cyber security, and compliance.

2. Job Rotation & Leave Policy

- Verify adherence to sensitive position rotation (cash, gold loan counters).

3. Accountability & Disciplinary Actions

- Review cases of irregularities and disciplinary proceedings for timeliness and fairness.

X. Risk-Based Internal Audit (RBIA)

- Classify auditable units into **High, Medium, Low risk** categories.
- Prepare an **Annual Internal Audit Plan** approved by Audit Committee.
- Conduct **thematic audits** (e.g., gold loans, cyber risk, KYC compliance) in addition to regular audits.
- Maintain **audit issue tracker** and ageing report for pending compliances.

XI. Reporting & Escalation

1. Audit Reports

- Detailed findings with **risk grading (High/Medium/Low)**, root cause analysis, and recommendations.
- Include compliance status of past audit points.

2. Exception Reporting

- Immediate escalation of critical lapses to MD/CEO & Audit Committee.

3. Follow-up Audits

- Verify corrective action implementation within agreed timelines.

Audit Frequency and Surprise Inspections

The internal audit will be conducted on an ongoing basis, ensuring continuous monitoring of branch activities. Each branch will undergo a detailed audit at least once every month, with additional short inspections conducted on a surprise basis for larger branches or those with elevated risk. These surprise inspections will focus on verifying limit sanctions, drawing power, and interest rates to ensure accuracy and compliance.

The audit team will also conduct ad hoc inspections for branches showing irregular indicators or receiving large transferred accounts.

Reporting and Communication

Significant audit findings, particularly related to fraud-prone areas and high-risk accounts, will be promptly reported to the senior management, Audit Committee, or Board.

Head of Internal audit should submit the quarterly audit notes and compliance to the Audit Committee at board level. The Audit Committee will periodically review compliance reports and assess the performance of the internal audit against the planned risk assessments.

- **Immediate Identification:**

Any irregularity or non-compliance found during the current audit period must be pointed out immediately to the Branch Manager/Department Head on the same day or within 24 hours — especially for critical lapses like cash shortage, KYC breach, fraud indicators.

- **Monthly/Quarterly Report:**

At the end of the audit cycle (usually monthly for branches, sometimes quarterly for departments), the Concurrent Audit Report (CAR) must clearly list:

1. New observations
2. Rectified points from previous audits
3. Pending non-compliance points from earlier periods, with ageing.

Reminder & Follow-Up

- **First Reminder:**

In the next month's report, the auditor must restate the pending non-compliance, marking it as "*Pending – 1 month,*" and mention the original observation date.

- **Escalation after 2 Months:**

If still unresolved, the second reminder should be marked "*Pending – 2 months*" and copied to the Head Office Compliance Cell / Internal Audit Dept.

- **Final Escalation:**

If still pending after 3 months, it should be flagged as high-risk non-compliance in the Critical Observations Section of the report and escalated to the Audit Committee of the Board.

Branch must submit the compliance report within 15 days of submission of audit report with fully compliance of irregularities. Bank expects most operational irregularities to be rectified within the same audit cycle (30 days) or at most within the next audit report.

Empanelment of Concurrent Auditor

A concurrent auditor to be empaneled must have vast experience of audit of Cooperative Banks. It must have a set-up of experienced Chartered Accountants as its partners along with team of experienced staff. The appointment of Concurrent auditor including the remuneration has to be finalized by members of the Board upon the recommendation received from Audit committee.

Empanelment of Statutory Auditor

The Statutory Audit Policy is designed to ensure compliance with regulatory requirements and to promote transparency, accountability, and sound financial management within the The Pratap Co Operative Bank Ltd. This policy outlines the responsibilities, reporting requirements, and certification processes for Statutory Auditors (SAs) as mandated by the Reserve Bank of India (RBI).

The Statutory auditor proposed to be empanelled by the bank must be registered as a statutory auditor with Department of Cooperation and on their merit list. The selection to be done from "A' group only and preferably on top of merit list. A statutory auditor can be reappointed for one more year after completion of first term. The appointment has to be approved in A.G.M. on due recommendation of the Board of Directors.

AS per the revised RBI guidelines circular no. RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, bank has to call applications from three audit firms acceptable to the board and forward their applications with respective annexures as prescribed by RBI in order of bank's preference to RBI. Upon receipt of the approval from RBI board has to be informed about the RBI decision and appointment letter to be issued to the Statutory auditor. The appointment has to be officially accepted by the statutory auditor vide their letter which will be informed to RBI and also to Cooperative department.

Objectives

- To ensure that UCBs comply with all statutory and regulatory requirements.
- To establish a framework for the effective and efficient conduct of statutory audits.
- To provide guidelines for the verification and certification of financial statements and other compliance-related documents.
- To confirm Financial statements have been prepared as per Accounting standard.

Scope

This policy applies to all The Pratap Co Operative Bank Ltd and their appointed Statutory Auditors. It covers all aspects of statutory audits, including compliance with SLR, CRR, income recognition, asset classification, provisions, exposure norms, cybersecurity, and more as detailed by the RBI guidelines.

Responsibilities of Statutory Auditors

The SAs shall perform the following tasks as part of their statutory audit responsibilities:

Compliance Verification:

- Verify and certify compliance with SLR requirements under Section 24 of the Banking Regulation Act, 1949, and ensure the accuracy of CRR/SLR returns.
- Verify the correctness of the Capital to Risk-Weighted Assets Ratio (CRAR) calculation.
- Ensure compliance with income recognition, asset classification, and provisioning norms as per RBI guidelines.

Investment and Exposure Norms:

- Certify reconciliation of UCB's investments and compliance with prudential norms.
- Verify adherence to exposure norms related to single and group borrowers/parties and Large Exposures.

Cybersecurity and Fraud Detection:

- Verify compliance with RBI's cybersecurity guidelines.
- Examine and certify the effectiveness of fraud risk management systems and processes.

Reporting and Certification:

- Submit certificates on various aspects such as compliance with SLR, CRR, CRAR, and investment norms.
- Report any suspected fraud or serious irregularities to the UCB's management, the Audit Committee of the Board, and RBI as required.

Review of Previous Audit Observations:

- Verify compliance with pending observations from the previous year's Statutory Audit Report and comment on persisting deficiencies.

Reporting Requirements

- SAs shall furnish certificates/reports to the concerned Senior Supervisory Manager (SSM), RBI, by June 30 every year, covering the scope as detailed above.
- Any matter suspected to be a fraud or involving serious irregularities must be reported immediately as per the guidelines.

Compliance and Monitoring

- The Board of Directors shall oversee the implementation of this policy and ensure that all statutory requirements are met.
- The Audit Committee of the Board (ACB) shall review the reports submitted by SAs and ensure timely rectification of any issues identified.

Cyber Security and IT/IS Audit

Objectives

- To establish a robust framework for conducting Cybersecurity, IT, and IS audits.
- To ensure compliance with RBI guidelines and other regulatory requirements.
- To safeguard the bank's digital infrastructure and sensitive data against cyber threats.
- To enhance the effectiveness of IT governance and management within the bank.

Appointment and Selection process of

Selection and appointment of Cyber security and IT/IS Auditors

IT/Cybersecurity auditors should hold relevant certifications such as CISA, CISM, CEH, CISSP, or ISO 27001 Lead Auditor and have a strong background in IT and cybersecurity. They must possess proven experience in IT audits, particularly within the banking and financial sector, with expertise in areas such as VAPT, incident management, IT governance, and network security. Familiarity with RBI's cybersecurity guidelines is mandatory. Auditors should be affiliated with reputed firms, maintain independence, and uphold high ethical standards to ensure impartial and effective assessments. The appointment of IT/Cybersecurity auditors, including the determination of their remuneration, must be approved by the Board based on recommendations from the Audit Committee.

Scope

These guidelines apply to all departments and branches of The Pratap Co OP bank Ltd and cover the entire spectrum of cybersecurity, IT, and IS activities. The audits will focus on evaluating the bank's IT infrastructure, cybersecurity measures, data protection mechanisms, and adherence to regulatory requirements.

Cybersecurity Audit

Purpose

The cybersecurity audit aims to assess the effectiveness of the bank's cybersecurity controls, policies, and procedures in protecting against cyber threats.

Key Areas of Focus

- Network Security: Evaluation of firewall configurations, intrusion detection/prevention systems, and network monitoring.
- Access Control: Assessment of user access management, including multi-factor authentication, password policies, and role-based access controls.
- Data Protection: Review of data encryption methods, data loss prevention (DLP) mechanisms, and backup processes.
- Incident Response: Evaluation of the bank's incident response plan, including detection, containment, eradication, and recovery from cyber incidents.
- Vulnerability Management: Regular vulnerability assessments and penetration testing (VAPT) to identify and mitigate security weaknesses.

Reporting

The cybersecurity audit findings shall be documented in a report submitted to the Audit Committee of the Board (ACB) and the bank's senior management. The report should include identified vulnerabilities, risk assessments, and recommended corrective actions.

IT Audit

Purpose

The IT audit evaluates the effectiveness and efficiency of the bank's IT infrastructure, applications, and management practices in supporting business operations and achieving strategic objectives.

Key Areas of Focus

- IT Governance: Review of IT strategy alignment with business objectives, IT risk management, and IT resource management.
- Application Controls: Evaluation of automated controls in key banking applications to ensure data accuracy, completeness, and integrity.
- IT Operations: Assessment of IT service management processes, including incident management, change management, and service continuity.
- Physical and Environmental Security: Verification of physical security controls, such as server room access, environmental monitoring, and disaster recovery facilities.
- Third-Party Management: Assessment of IT services outsourced to third-party vendors, including contract management and service level agreements (SLAs).

Reporting

IT audit results shall be compiled into a comprehensive report that highlights areas of improvement, compliance gaps, and risk management practices. The report should be presented to the ACB and senior management for review and action.

Information Systems (IS) Audit

Purpose

The IS audit focuses on evaluating the controls, policies, and procedures that ensure the integrity, confidentiality, and availability of information processed by the bank's information systems.

Key Areas of Focus

- System Development and Acquisition: Review of system development processes, change management, and acquisition of new technologies.
- Data Integrity: Assessment of data accuracy, consistency, and completeness within information systems.
- Access Management: Evaluation of user access controls, system privileges, and segregation of duties to prevent unauthorized access.
- Backup and Recovery: Verification of data backup processes, recovery testing, and compliance with disaster recovery and business continuity plans.
- Regulatory Compliance: Ensuring that the bank's information systems comply with RBI guidelines and other applicable regulations.

Reporting

The IS audit report should detail the findings, including any identified weaknesses or non-compliance issues. Recommendations for strengthening controls and enhancing IS governance should be provided. The report must be submitted to the ACB and senior management.

Compliance and Monitoring

- The Board of Directors, through the Audit Committee, shall oversee the implementation of these guidelines.
- Regular reviews and audits shall be conducted to ensure ongoing compliance with RBI guidelines.
- Any significant findings from the audits must be addressed promptly, with corrective actions taken as necessary.

Audit fees of Auditors

The fees for statutory auditor will be paid as per the circular issued by Department of Cooperation and Reserve Bank of India according to business level of the Bank

The above audit Policy was placed in the Board meeting of ____/____/2025. The same was discussed in the meeting and approved by the members.

Chief Executive Officer

Chairman