

DIRECTORATE OF COOPERATIVE AUDIT: ODISHA: BHUBANESWAR.

Circular No.VI (I) 12/2013 3533 /Audit-8

Dated. 16/6/15

Subject:- Audit of Central Cooperative Banks- Guidelines for statutory/
Concurrent Auditors.

Every transaction of a Cooperative Bank is regulated by an appropriate legislation like the relevant Cooperative Act and Rules, Banking Regulation Act etc. and in several cases, the Act provisions are further followed and re-inforced with reference to their applicability and mode of preparation by circular instructions of financing agencies and administrative authorities, Bye Laws or Rules of business of the institutions concerned. NABARD & RBI have been issuing various guidelines/ Circulars on various aspects of business of the banks to enable the Management to carry out the activities properly on a sound line, which have a direct or indirect impact on audit too. For examples, circulars on Exposure norm, Income Recognition, Asset Classification & provisioning thereof and other related matters, KYC guidelines, Management of advances, investment, calculation of CRAR, Audit Rating etc. are required to be referred by the auditors for conducting audit and preparation of audit report.

In view of the above, the concurrent/ statutory auditors of central cooperative banks are required to conduct checking of all transactions recorded in all books of accounts and connected records/ files for that period in its entirety as per its gravity by following the provision of Act & Rules and Circulars/ guidelines issued to this effect scrupulously and all the defects and irregularities etc. noticed during the course of audit are to be reflected in the audit report with fixation of responsibility. As audit is required to effectively address the accounting and housekeeping weakness, detect fraud, misappropriation etc. and suggest remedial action to correct those errors, due care and attention on the following key aspects inter-alia should be paid by the auditors during examination of books and records of Cooperative banks for improving quality and effectiveness of audit and presentation of audit report.

1. Compliance of provisions of Act & Rules and circular instructions of NABARD, RBI & other Agencies.

- Examine bank's compliance with various sections of B.R Act, 1949 (AACs).
- State Cooperative Act and its rules, Bye-Laws, IT Act and any directives issued by higher agencies.

2. Loan portfolio.

- Comment on Loan appraisal.
- Whether sanction is as per approved policy & within delegated authority.

- Whether disbursement policy is adopted properly.
- Efforts made to ensure end use of funds, instances of mis-utilisation/ diversion of funds.
- Internal check and control system.
- Credit appraisal- loan policy, system of appraisal, its adequacy, securities obtained and charge sheeted/ registered.
- Sanction & Disbursement system of receipt & disposal, delegation of powers, documentation, adherence to limits, stock statements allowing drawal during un renewed period, exposure limit to individual sector and outside Cooperative fold etc.
- Review/monitoring/ supervision post disbursement follow up, large advances, foreign exchange bills, coverage of crop Insurance, imbalance etc.
- Check whether the letter of credit issued by the bank are within the delegated authority proper & genuine trade transactions.
- Check the bank guarantee issued, properly worded and recorded in the register of the bank fully secured, promptly renewed etc.
- Ensure proper follow up of overdue bills of exchange.
- Submission of claims to DICGC in time.

3. Investment port folio.

- Valuation & verification of Securities and any depreciation.
- Dual custody of investment scrips.
- System and fund flow analysis.
- How investment decisions are taken.
- System of review by C.E.O/Board.
- Whether all transactions made by the bank are in accordance with the approved policy of RBI/ NABARD/ H.O regulation, regarding BRs, SGL forms, delivery scrips, documentation and accounting.
- Whether sale or purchase of investments beneficial to the Bank.
- System of assessing surplus funds, purchase, sale of investments, delegation of powers, reporting system etc.

4. Borrowings.

- Comment on MBP, types of borrowing available, high cost borrowings.
- Comment on frequent borrowings/ OD.
- Utilisation of borrowings.

- Borrowings rate vis-a-vis ROI on deposits.
- Repayment of borrowings, default if any, maintenance of due date register.

5. Deposit portfolio.

- Efforts made by the bank to mobilise CASA/ Low cost deposits.
- System followed for inoperative accounts/ dormant accounts.
- Adherence to KYC norms and PML Act, 2002 (Detailed guidelines attached).
- Deposits mobilised by PACS-protection of Depositors interest.
- Verification of current and short-term deposits with other banks- check the same with certified balance.
- Check the interest paid on deposits.
- Check the records of opening of new accounts.

6. Management appraisal.

- Functioning of Elected Board, composition, adherence to fit & proper criteria prescribed by RBI, committees, their oversight, corporate governance, professionalization of management.
- Important aspects discussed by the Board.
- Interest evinced by directors in recovery.
- Loans availed by any director.
- Adequacy or otherwise of delegation.
- Competence of CEO/ second line management, specific job chart, recruitment policy, training plans, rotation of staff, accountability.
- NPA management strategy – Review of major NPA accounts by Board.

6. A. Risk Management.

- Liquidity, Credit Risk, Interest Rate Risk, Operational Risk faced by the bank to be determined by Ratio analysis and suggestion for mitigation of risks, Monitoring Mechanism etc.
- Working of Vigilance Cell, irregularities/ inadequacies in vigilance arrangements.

6. B. Liquidity Management.

- Cash – Whether the cash is retained under double lock and whether the balance was verified by the supervising officers during the period under audit.
- Whether adequate insurance cover for cash held.

- Whether the branches generally carry cash balances, which vary significantly from the norm fixed by Head office.
- Statutory liquidity Ratio (SLR)/ Cash Reserve Ration (CRR) maintained as per requirements.
- Retention of cash limit, periodic checking etc.

7. Share Capital.

- Reason for increase/ decrease in share capital with reference to portion of previous year.
- Net worth as percentage to total assets and capital to Risk Weighted Assets Ratio (CRAR).

8. Earning Appraisal.

- Test check on Analysis of various major items of Income and Expenditure, Compared to previous years with important ratios.
- Losses arising due to mismanagement.
- Funds flow statement as on B/S date vis-a-vis previous year.
- Effect of any change in accounting policies on profit/ loss for the year.
- Test check on application of interest rate and comment on revenue loss.
- Allocation of profit as per provisions of B.R Act, Bye-Laws etc.

9. Application of prudential norm on income recognition, Asset classification & provisioning.

- Verify the adoption/ application of IRAC norm.
- Whether norms for classification followed and provisioning norms complied.
- Extent of NPA, amount required to be provided for and amount actually provided.
- Effectiveness of the system for compiling the data-Impaired Assets, charging of interest, making provision etc.
- Whether overdue interest taken to P/L Account, if so, corresponding provision made.
- Issue certificate regarding satisfactory implementation of prudential norms or otherwise and short coming to be listed out.

9. A. Other Assets.

- Examine and comment in details on other Assets.
- Prepare age wise position of receivables.

- Comment on its realisability.
- System of interest receivable Accounts.
- Status of assets including depreciation policy, valuation and provision made.
- Policy procedure, Income, Service Charges covering lockers, L.C, Guarantee issued and violation, if any, with reference to RBI/ NABARD guidelines.

10. System & control.

- Written guidelines/ instructions on loans and advances covering appraisal, manual on accounting policies, any deviation noticed.
 - Housekeeping- Balancing of books, physical verification of security form etc.
 - Reconciliation with H.O, remittance of funds, steps taken for reconciliation of long outstanding accounts.
 - Inter-branch reconciliation.
 - Balancing and Reconciliation – Balance confirmation, reconciliation of balances with cooperative and other Banks.
 - Whether all subsidiaries and ledgers balanced at the end of the previous month and all accounts reconciled with Day book and ledgers and subsidiaries.
 - Suspense accounts, sundry deposits, long pending items in Balance Sheet.
 - Branch Inspection & MIS – frequency, scope, coverage, efficacy etc. Regularity of receipts of all statutory returns including OSS.
 - Submission of returns.
 - Submission of compliance on defects pointed out in the Audit Reports/ Certificate, Inspection Report of NABARD. If so, whether the same is satisfactory or not.
 - Fraud Related Issues – Analysis frauds etc, provision made. Fraud prevention, monitoring & control, observation of fraud, modus operandi.
 - Has any fraud occurred or brought to light during the period of audit.
 - Does the branch/ bank has standard procedures to be followed when frauds are detected and reported and have these been adhered to.
- 11. Computerisation of capital funds & Risk weighted Assets for calculation of CRAR as per norm prescribed by RBI.**
- 12. Audit classification as per norms prescribed by NABARD.**
- 13. Ensure whether the business is conducted in orderly and prudent manner in accordance with the policies and practices.**

14. Assess the Bank's performance in various banking activities are being conducted in conformity with provisions of relevant Act, Rules and Regulations.

15. Profitability.

- Improvement over the previous year.
- Appropriation of profit as per instructions.
- Payment of Income Tax.
- Impact of un-provided liability.
- Writing back of provisions, if any.

The concurrent auditors and statutory auditors of Central Cooperative banks are to follow the above guidelines/ instructions meticulously for conducting audit of accounts/ transactions of these banks and present their reports in proper form as prescribed for the purpose.

Prasanna
Auditor General

Cooperative Societies, Odisha.

Memo No. 3534 /

Dated. 16/06/15 /

Copy forwarded to the Assistant A.G.C.S of circles for information and necessary action. They are requested to circulate the Circular instructions/ guidelines amongst the auditors under their administrative control for their guidance in audit of Central Cooperative Banks.

Juanda
12/6/2015

Deputy Auditor General of
Cooperative Societies, Odisha.

Memo No. 3535 /

Dated. 16/06/15 /

Copy forwarded to the Secretaries of CCBs for information and necessary action. They are requested to circulate the circular instructions/ guidelines to the statutory auditors for their guidance in audit.

Juanda
12/6/2015

Deputy Auditor General of
Cooperative Societies, Odisha.

10 S.C/ Copy to Audit-2.

AKS
AKS.12.06.2015.

Annexure

Action point emerging from the state level meeting on KYC/AML/PML guidelines held on 07 Feb. 2015.

Sr No	Action Points Particulars relating to KYC/AML/PML guidelines
1	Whether Board / MIC approved KYC policy is put in place
2	Even if policy existed, whether review of policy in place at Board/ MIC level
3	Appointment of Principal Officer whether done
4	Whether registration with FIU-IND done
5	Whether record of cash transactions of ₹ 10 lakh and above maintained.
6	Whether CTR/STR are being submitted to the FIU-IND online.
7	Whether bank had developed any system to submit the required CTR/STR/CFT return to FIU-IND in soft form as notified under Section 12 of the PML Act, 2002.
8	Whether categorisation of customers as per risk perception done
9	Whether KYC process for new customers is properly followed
10	Whether accounts opened before 2005 are KYC compliant
11	Total No of Deposit Accounts (Accounts opened after year 2005 and accounts opened prior to 2005.) and No. of Accounts KYC Complied.
12	Total No of borrowal Accounts and No of Accounts KYC Complied.
13	Whether proper customer acceptance policy and customers identification procedure is in place.
14	Whether any decision at senior level being taken for opening account for Politically Exposed Persons (PEP).
15	Whether any system is in place to verify the authenticity of the documents obtained from the customers.
16	Whether SB accounts opened with approval of Branch Manager Whether Residential proof obtained at the time of opening of a/c. Whether Identification proof, Photograph of account holder obtained, Whether Operating instructions recorded in account opening forms in the branches.
17	Whether PAN No indicated Whether Copy of the PAN /Form 61/61A obtained in case of high value fixed deposits.
18	Whether mandatory information about the customers like -occupation, source of funds, date of birth, monthly income, annual turnover, dealing with other banks and existing credit facilities etc are recorded in account opening forms.
19	Whether Customers profile updated periodically and whether any system to review customer's profiles once in three years is there.
20	Whether any system in the bank to allot Identification number to depositors is in place.
21	Whether record of counterfeit currency maintained.
22	Whether any monitoring is done of high value deposit accounts in which integrally cash transactions in a month is Rs10.00 lakh and above.
23	Whether record is maintained for identity of non-account based customer for a transaction of ₹ 50000/- and above in a single or inter connected transactions.
24	Whether bank has stipulated any threshold limits for withdrawal of deposits in a single day.
25	Whether any record is maintained on counterfeit currency detected at any point of time by the branches.
26	Whether the bank has implemented proper system for record keeping and preservation of transactions in the accounts for 10 years as notified under Section 12 of PML Act 2002 and reports the same to appropriate authorities.
27	Whether the bank has followed KYC norms in extending Gold loan to its customers
28	Whether bank has system of fixing accountability on violation of KYC AML norms