

13/2/2013-9/9/11

DIRECTORATE OF COOPERATIVE AUDIT : ODISHA : BHUBANESWAR.

Letter No: VI(1) 12/2013 4906 / Audit-8 / Dated: 8/9/11

To,

The Assistant Auditor General,
Cooperative Societies, of Circles.

Sub:-

Circular on Role of Directors of
Cooperative Banks.

Madam/ Sir,

The Role of Directors (DOs and Don'ts) of
Cooperative Banks prescribed by R.B.I. in Circular No.
Ref: UBD.CO.BPD.MC. no. 8 Dt. 2.7.2012 is forwarded herewith
for your information and necessary circulation amongst
the auditors including concurrent auditors under your
administrative control for their guidance in audit under in
intimation to this Directorate.

Yours faithfully,

J. Mohanty
Deputy Auditor General,
Cooperative Societies, Odisha.

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BOARD OF DIRECTORS - MASTER CIRCULAR ON - (Para 15B, 15C, 15D, 15E, 15F, 15G, 15H, 15I, 15J, 15K, 15L, 15M, 15N, 15O, 15P, 15Q, 15R, 15S, 15T, 15U, 15V, 15W, 15X, 15Y, 15Z)

(CONSTITUTION OF BOARD OF DIRECTORS)

The primary (urban) co-operative banks have been functioning under the supervision and control of Reserve Bank for banking related functions in terms of the powers vested in it under Banking Regulation Act 1949 (As applicable to co-operative societies) and the Reserve Bank of India Act, 1935.

1.1 However, the administrative and managerial functions, decisions and appointment of directors etc. in these banks come under the purview of Reserve Bank Government by virtue of the provisions of the respective state co-operative societies act and multi state co-operative societies act. The various co-operative societies acts, the by-laws framed there under and model by-laws spell out the duties, functions and obligations of directors of these banks.

1.3 Since the directors are elected from amongst the members (except co-opted and nominated directors), the persons who are not eligible for admission even as members cannot act as promoters or become directors of the bank. In particular, persons engaged in money lending, financing and investment activities, either in individual capacity or as proprietor/partner/employee/director of any concern as also those convicted of any criminal offences including moral turpitude are ineligible in terms of clause b (ii) of the model by-law no.8 and/or the provisions contained in the co-operative societies act (concerned). The Board of Directors (SODs) is primarily concerned with the formulation of policies keeping in view the guidelines issued by RBI and state/central government. The Board should also exercise overall supervision and control over the functioning of the bank, leaving day to day administration to the chief executive officer.

1.4 The recommendations made by the "Committee on Urban Co-operative Banks", headed by Shri Madhava Das, regarding the SODs and recommended by Reserve Bank for adoption by the banks are indicated in Annexure 1.

1.5 The directors of primary (urban) co-operative banks must be knowledgeable and persons of high integrity. They must function in a cohesive manner and provide proper leadership for the smooth and efficient management of the affairs of the bank. This calls for a certain degree of professionalism in the SODs.

1.6 To ensure professionalism in the Board, the banks should have atleast two directors with suitable banking experience (at middle/senior management level) and with relevant professional qualification in the fields of law, accountancy or finance. The banks should also have a suitable provision in their by-laws to ensure this. However, these instructions would not be insisted upon in case of Salary Earning Banks in view of the nature of their membership.

2. ROLE OF DIRECTORS - DOs AND DONTS

2.1 The SODs of the primary (urban) co-operative bank should ensure that proper loan policies are adopted and followed.

2.2 It should be ensured that all circulars and other material relating to policies issued by RBI/Government are seen by every member of the Board and also placed before the Board for suitable action.

2.3 A list of DOs and DONTS for guidance of the directors of primary (urban) co-op. banks is given below. The list is illustrative and not exhaustive and is not to be regarded as a substitute to the specified duties, responsibilities or rights of the Board of Directors as enunciated in the co-operative law and/or by-laws of the respective banks.

DOs

- (a) Discipline & Involvement : The directors should :
- (i) attend the board meeting regularly and effectively. They should work in a spirit of co-operation.
 - (ii) study the board papers thoroughly and use the good offices of the chief executive officer for eliciting any information at the Board Meeting.
 - (iii) ask the chairman to furnish the board papers and follow up reports on a definite time schedule.
 - (iv) be familiar with the broad objectives of the bank and the policy laid down by the Government and the Reserve Bank.

1.2 The members should be given the fullest opportunity to express their views and to participate in the decision making process in the bank's management. At times when the members are not in agreement, the chairman should try to bring about a compromise between the conflicting views.

2. Discipline & Involvement :

- (i) welcome all constructive ideas for the better management of the bank and to bring about a healthy and active contribution.
- (ii) try to give as much of their wisdom, guidance and knowledge as possible to the management.
- (iii) try to analyse the trends of economy, assist in the discharge of management's responsibilities in public and formulation of measures to improve customer service and the generally of conduct of the bank's management.
- (iv) work as a team and not sponsor or be prejudiced against individual processes. Management as a whole is supposed to furnish full facts and complete papers in advance.

(c) Business Specific Contributions

The directors should bestow attention on the following aspects of the bank's working:

- (i) compliance with monetary and credit policies of RBI/Government
- (ii) observance of cash reserve and statutory liquidity ratio
- (iii) efficient management of funds and improving profitability
- (iv) compliance with guidelines on income recognition, asset classification, provisioning towards non performing assets.
- (v) deployment of funds to priority sector/weak sectors
- (vi) overdues and recovery - ensure that recoveries are made promptly and arrears reduced to the minimum.
- (vii) review of action taken on RBI inspection /statutory audit reports.
- (viii) vigilance, frauds and misappropriation
- (ix) strengthening of internal control system and housekeeping viz. strict maintenance of books of accounts and periodical reconciliation.
- (x) reviews on several items as prescribed by RBI/Government
- (xi) customer service
- (xii) development of a good management information system
- (xiii) computerization

DONTS

- (a) Non-interference : The directors should not :
 - (i) interfere in the day-to-day functioning of the Bank.
 - (ii) involve themselves in the routine or every day business and in the management functions.
 - (iii) send instructions/directions to any individual officer/employee of the bank in any manner.
- (b) No Sponsorship : The directors should not :
 - (i) sponsor any loan proposal, buildings and sites for bank's premises, enrichment or enrichment of contractors, architects, doctors, lawyers, etc.
 - (ii) approach or influence for sanction of any kind of facility.
 - (iii) participate in the Board discussions, if a proposal in which they are directly or indirectly interested comes up for discussions. They should discuss their business only in as far as it affects the Bank's Executive Officer and the Board.
 - (iv) sponsor any candidate for recruitment or promotion or interference in the process of selection or appointment of its transfers of staff.
 - (v) do anything which will interfere with and/or be subversive of maintenance of discipline, good conduct and integrity of the staff.

- (v) involve members in any matter relating to personnel administration - including the appointment, transfer, posting or a promotion or a retransfer of individual employees or any employee.
- (vi) encourage the individual shareholders or anyone representing them in any manner.

10. Confidentiality

- (i) The directors should not reveal any information relating to any constituent of the bank in any case as, he is under oath of secrecy and fidelity.
- (ii) The directors are expected to ensure confidentiality of the bank's agenda papers/notes. The board papers may ordinarily be returned to the bank after the meeting.
- (iii) The directors should not directly call for papers/notes recorded by various departments for scrutiny etc. in respect of agenda items to be discussed in the meetings. All information/clarification that they may require for taking a decision should be made available by the executive.
- (iv) A director may indicate his directorship of the bank on his visiting card or letter head, but the logo of distinctive design of the bank should not be displayed on the visiting card/letter head.
- (v) The directors should ensure that the bank's funds are utilized in a proper and judicious manner for the benefit of general members.

11. Audit Committee (to be formed/added)

