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The Agrasen Co-operative Urban Bank Ltd.

Head Office # 15-2-391/392/1, Siddiamber Bazar, Hyderabad-500 012 T.G.

AUDIT POLICY - 2025

Main Document

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INTRODUCTION

Efficiency in the maintenance of accounting records, effectiveness of internal control, modern auditing practices and introduction of management accounting techniques in the Bank are essential conditions for improving its working to achieve the desired objectives. In this context, an attempt has been made in the present policy to ensure the guidelines provided by our regulatory authorities to find out the suitable measures for the improvement of the existing accounting and auditing systems of the Bank.

Audit or auditing is a critical and intelligent examination of the books of accounts and verification of correctness of accounts with relevant vouchers and documents in order to ensure that the entries in the books have been made correctly so as to constitute a true record of the transactions and that the Profit and Loss account and the Balance Sheet have been properly drawn up so as to exhibit a true and fair view of the state of affairs of the institution at the end of the year and the profit or loss for the financial year ended on that date. Such examination should not be confined to a mere arithmetical check of the books of accounts. It should go beyond the books of accounts to ensure that the transactions recorded therein are genuine, properly authorized and correctly entered.

INTERNAL AUDIT MACHINERY

As per the recommendations of the Ghosh Committee, a sound system of internal audit needs to be introduced by the Bank. With a view to strengthening the credibility of the inspection system in detecting cases of frauds/malpractices, steps need to be taken to gear up the inspection/audit machinery and to improve the quality of officers of the inspection department.

The Inspection Department at the Head Office level should be headed by a sufficiently senior person and proven integrity who should report directly to the Audit Committee of the Bank. The officers posted to this department should have sufficient experience and exposure.

PERIODICITY OF INTERNAL AUDIT

The periodicity of the internal audit of the branches should be monthly basis.

COVERAGE OF INTERNAL AUDIT

The coverage of such 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 analyze and make in-depth study of the corruption/fraud prone areas such as appraisal of credit proposals, balancing of books, reconciliation of inter-branch accounts, settlement of clearing transactions, suspense accounts, premises and stationery accounts during the course of inspections leaving no scope for any malpractices/irregularities remain undetected.

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

The banks 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.

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

COMPLIANCE WITH PRUDENTIAL NORMS

Internal auditors should point out non-compliance with the prudential norms relating to Income Recognition and Asset Classification and also for proper provisioning.

CHEQUE PURCHASE TRANSACTIONS

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

SUPPLEMENTARY INSPECTION AUDIT

The monthly internal inspection may be supplemented by surprise short inspections, revenue audit, credit portfolio audit etc. in large sized branches. Surprise short inspection may be carried out by officials at appropriate higher levels to ensure that branch officials are not indulging in mala-fide practices.

REVENUE AUDIT

The reasons of leakage of income unearthed during such audit should be examined in-depth and action to be taken against the officials responsible for the lapses.

CREDIT PORTFOLIO AUDIT

To highlight and pinpoint the existence of gross and serious irregularities such as improper credit appraisal, disbursement without observing the terms of sanction, failure to exercise proper post-disbursement supervision, even suppression of information relating to unauthorized excess withdrawals allowed, kite flying in bills and cheques, etc. bring to light frauds, a system of exclusive scrutiny of credit portfolio with focus on larger advances and group exposures should be scrutinized before the disbursement of advances.

A special scrutiny of high value accounts shifted to the bank along with executives/officials including General Managers/ 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.

OTHER AREAS OF IMPORTANCE

Investment Portfolio Audit

The following measures in respect of investment portfolio audit are:

The reconciliation of the balances of accounts with other Banks/Institutions/SGL transfer forms as per bank's books should be periodically checked by the internal audit department.

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 quarterly basis.

The audit should ensure that 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.

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 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 there for should be covered in the half-yearly review to the Board of Directors and the deals have to be undertaken in the best interest of the bank.

CONCURRENT AUDIT SYSTEM

As per the recommendations of the Ghosh Committee, introduction of concurrent audit at large and exceptionally large branches of the bank to serve as administrative support and to help in adherence to prescribed systems and procedures and prevention and timely detection of lapses/irregularities.

Concurrent Audit based on the recommendations of the Joint Parliamentary Committee (JPC) which enquired into stock market scam and matters relating thereto has to be implemented.

The concurrent audit system is to be regarded as part of a bank's early-warning system and to ensure timely detection of irregularities and lapses, which helps in preventing fraudulent transactions at branches. It is, therefore, necessary for the bank's management to bestow serious attention to the implementation of various aspects of the system such as selection of branches, coverage of business operations, the appointment of auditors, appropriate reporting procedures, follow-up/rectification processes and utilization of the feed-back from the system for appropriate and quick management decisions.

The Board should once in a year review the effectiveness of the software system and take necessary measures to rectify the errors and upgrade the same from time to time.

The broad features of concurrent audit system are given in Annex 1 to ensure some uniformity in the systems.

The concurrent auditors shall certify that the investments held by the bank as on the last reporting Friday of each quarter to be sent to the Reserve Bank of India are actually owned / held by it, as evident by physical securities or the custodians statement. The certificate should be submitted to the Regional Office of the Reserve Bank of India, having jurisdiction over the bank, within thirty days from the end of the relative quarter.

The concurrent auditors should specifically verify compliance to the instructions contained in RBI circular UBD.BPD.SUB No.5/09.80.00/2003-04 dated 28 April 2004 regarding transactions in Govt. Securities.

Serious irregularities pointed out in the concurrent audit report should be immediately reported to the Regional Office of the concerned department.

Chartered Accountants / audit firms associated with the bank for internal / concurrent audit assignments should not undertake statutory audit assignment during the same period. The firms associated with internal / concurrent audit should relinquish the internal / concurrent audit before accepting the statutory audit assignment during the year.

=AUDIT FOR ELECTRONIC DATA PROCESSING SYSTEM

The Bank should introduce EDP audit system on perpetual basis.

The EDP audit cell should be constituted as part of their Inspection and Audit Department in the bank if independent Inspection & Audit Department is not created. The Bank should create a dedicated person/group of persons, who can perform the functions of an EDP Auditor. Entire domain of EDP activities (from policy to implementation) should be brought under scrutiny of Inspection and Audit Department. The overall control and supervision of these EDP Audit Cells should be vested in the Audit Committees. Financial outlay as well as activities to be performed by EDP department should be reviewed by senior management at periodical intervals.

The following guidelines to be considered while carrying out EDP Audit:

- * A team of competent and motivated EDP personnel may be developed in order to take care of a possible exodus of key personnel. EDP auditors' technical knowledge should be augmented on a continuing basis through deputation to seminars/conferences, and providing them with latest software from time to time.
- * Duties of system programmer/designer should not be assigned to persons operating the system. System person would update the programmes with the latest versions from time to time, and the operating persons would only use such programmes without having the scope for modifications. In order to bring about uniformity of the 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 point of view of control and for its implementation in other branches in order to maintain uniformity.
- * Major factors which lead to security violations in software systems include inadequate or incomplete system design, programming errors, weak or inadequate logical access controls, absent or poorly designed procedural controls, ineffective employee supervision and management controls.

These may be plugged by:

- Strengthening physical, logical and procedural access to system.
- Introducing standards for quality assurance and periodically testing and checking them.
- Screening employees prior to induction into EDP application areas and keeping a watch on their behavioral pattern.
- Taking appropriate measures for protecting the computer systems by placing them in proper place for controlling and also attacks from unscrupulous elements.
- * Replacement of manual procedures by computer applications should be done after a parallel run of the system and ensuring that all aspects of security, reliability and accessibility of data.
- * 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.
- * The bank should make a formal declaration of system development methodology, programming and documentation standards are to be followed, and compliance should be verified by EDP Auditors.
- * 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.
- * While engaging external software 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.

INFORMATION SYSTEM (IS) & CYBER SECURITY AUDIT

The Bank has adopted technology and has been offering services like NEFT/RTGS, IMPS, Internet Banking, Mobile Banking, Debits Cards and ATM facility etc. to its customers. In view of the above and having regard to risks emanating from adoption of technology, there is a need to introduce IS Audit in the Bank.

In view of this,

- i) Banks Needs to adopt an IS audit policy, if not already done, appropriate to its level of operations, complexity of business and level of computerization and review the same at regular intervals in tune with guidelines issued by RBI from time to time.
- ii) Banks needs to adopt appropriate systems and practices for conducting IS audit on annual

- basis covering all the critically important branches (in terms of nature and volume of business).
- iii) Such audits should be undertaken preferably prior to the statutory audit so that IS audit reports are available to the statutory auditors well in time for examination and for incorporating comments, if any, in the audit reports.
 - iv) IS audit reports should be placed before the Board and compliance should be ensured within the time frame as pointed in the audit policy.

AUDIT COMMITTEE (APEX AUDIT COMMITTEE)

The Board of Directors of the Bank has to ensure timely review and action on the findings of statutory inspection/audit reports and submission of the compliance reports thereto. Timely follow-up action on the findings of inspection reports and guidelines, circulars etc. issued by RBI and also the internal audit/inspection, etc. is considered desirable to tone up the overall functioning and operational efficiency of the banks.

- * In order to ensure and enhance the effectiveness of internal audit/inspection as a management tool, it is considered necessary that an Apex Audit Committee should be set up at the Board level for overseeing and providing direction to the internal audit/inspection and other executives of the Bank.
 - * The Audit Committee of the Board of Directors (ACB) may consist of three/four Directors, one or more of such Directors being Chartered Accountants or persons having experience in management, finance, accountancy and audit system, etc. This also implies that the bank needs to constitute, wherever necessary, its Board with an adequate number of such professionals.
 - * 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 (ACB) are as follows:
 - * ACB should provide direction and oversee the operations of the total audit function in the bank. The total audit function will imply the organization, operationalization and quality control of internal audit and inspection within the bank and follow-up on the statutory audit of the bank and inspection of the Reserve Bank of India.
 - * 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:
 - i) Inter-branch adjustment accounts.
 - ii) Unreconciled long outstanding entries in inter-branch accounts and inter-bank accounts.
 - iii) Arrears in balancing of books at various branches.
 - iv) Frauds.
 - v) All other major areas of housekeeping.
 - vi) Compliance with the Statutory Audit Reports/Concurrent Audit Reports/RBI inspection reports.
 - vii) Omission on the part of internal inspecting officials to detect serious irregularities should be viewed seriously.
- Periodical review of the accounting policies/systems in the bank with a view to ensuring greater transparency in the bank's accounts and adequacy of accounting controls.

POLICY FOR APPOINTMENT OF STATUTORY AUDIT

This policy is made in compliance with the guidelines issued by Reserve Bank of India vide circular No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021.

As per the extant norms of Reserve Bank of India, an Audit firm (Partnership Firm/LLP) can be appointed as Statutory Auditor of the Bank.

PRIOR APPROVAL OF RBI:

Bank is required to take prior approval of RBI (Department of Supervision) appointment/reappointment of Statutory Auditor on annual basis. For the purpose, they should apply to Department of Supervision, RBI before 31st July of the reference year.

I. Eligibility:

Eligibility criteria for appointment as Statutory Auditor

I. Basic Eligibility:

FORM B

Asset Size of Entity as on 31 st March of Previous Year	Minimum No. of FTPs associated with the firm for a period of at least three (3) years Note 1	Out of total FTPs Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3) years	Minimum No. of Full Time Partners/paid CAs with CISA/SA Qualification Note 2	Minimum No. of years of Audit Experience of the firm Note 3	Minimum No. of Professional staff Note 4
Above Rs.15,000 Crore	5	4	2	15	18
Above Rs.1,000 Crore and Up to Rs.15,000 Crore	3	2	1	8	12
Upto Rs.1,000 Crore	2	1	1*	6	8

***Not mandatory for UBCs/NBFCs with asset size of upto Rs.1,000 Crore.**

A. The Audit firm shall have minimum two Full time partners (FTP) associated with the firm for a period of three years subject to the firms satisfying the eligibility norms each year.

- There should be at least one-year continuous association of partners with the firm as on

the date of empanelment for considering them as full time partners. Further, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

- The full-time partner's association with the firm would mean exclusive association. The definition of 'exclusive association' will be based on the following criteria:
 - a. The full-time partner should not be a partner in other firm/s.
 - b. She/He should not be employed full time / part time elsewhere.
 - c. She/He should not be practicing in her/his own name or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under Section 2(2) of the Chartered Accountants Act, 1949.

B. Out of total FTPs, There should be Minimum **one** Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3) years.

C. There should be at least one-year continuous association of Paid CAs with CISA/ISA Qualification.

D. The firm shall have minimum **6** years of audit experience. Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFIs. In case of merger and demerger of audit firms, merger effect will be given after 2 years of merger while demerger will be effected immediately for this purpose.

E. The firm shall have Minimum eight Professional staff.

F. Professional staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audits but excludes typists/stenos/computer operators/secretaries/subordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm for considering them as professional staff for the purpose.

II. INDEPENDENCE TO AUDITORS

(i) Concurrent Auditors of the Entity should not be considered for appointment as Statutory Auditors of the same Entity. The audit of the Entity and any Entity with large exposure to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.

(ii) The Board of Entity shall review the performance of Statutory Auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditors or any other matter considered as irrelevant shall be reported to RBI within two months from completion of the annual audit. Such reports should be sent with the approval/recommendation of the Board with full details of the audit firm.

(iii) In the event of lapses in carrying out audit assignments resulting in misstatement of an Entity's financial statement, and any violation/lapses vis-à-vis the RBI's direction/guidelines regarding the role and responsibilities of the Statutory Auditors in relation to the Entity, the Statutory Auditors would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

III.TENURE AND ROTATION

In order to protect the independence of the auditors/audit firms, Entity will have to appoint the Statutory Auditors for continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, the UCB's can remove the audit firms during the above period only with the prior approval of the concerned office of RBI (Department of Supervision).

An audit firm would not be eligible for reappointment in the same Entity for six years (Two Tenures) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other entities.

IV.PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS

1.The Entity shall shortlist minimum of 2 (Two) audit firms so that even if the firm at first preference is found to be ineligible/refuses appointment, the firm at second preference can be appointed and the process of appointment of Statutory Auditors does not get delayed. In case of reappointment of Statutory Auditors till completion of tenure of continuous term 3 years, there would not be any requirement of short listing and sending names of multiple audit firms to RBI while seeking approval for appointment.

2.The banking companies shall continue to follow the existing procedures followed by them for selection of Statutory Auditors. The Entity shall place the name of shortlisted audit firms, in order of preference before the Board for selection as Statutory Auditors. Upon selection of the Statutory Auditors by the Bank in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of Statutory Auditors.

3.The Bank shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as Statutory Auditors and seek the RBI's prior approval for appointment of Statutory Auditors.

4.The Entity shall obtain a certificate along with relevant information as per Form –B, from the audit firms proposed to be appointed as Statutory Auditors that should be complied as the eligibility norms as prescribed by RBI.

5.The Entity shall verify the compliance of the audit firms to the eligibility norms as RBI for appointment of the Statutory Auditors and recommend the names along with a certificate in format as per Form- C.

6.While approaching the RBI for its prior approval for appointment of the Statutory Auditors the Bank shall indicate their total asset size as March 31st of the previous year (Audited Figures) along with the Board Resolution in order of preference and furnish information as per **Form-B** and **Form- C**.

V Additional Consideration:

- i. The audit firm should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- ii. The audit firm should not be under debarment by any Government Agency, National Financial Reporting Authority (INFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulations.
- iii. **The Bank shall ensure that appointment of Statutory Auditor is in line with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.**
- iv. The Auditors should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS).
- v. The firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of the language of the state.

Annex I

Certification / Reporting requirements to be incorporated in the appointment letter issued by the Urban Co-operative Banks (UCBs) to Statutory Auditors (SA) for FY2024-25

1. The SA shall furnish, by June 30 every year, to the concerned Senior Supervisory Manager (SSM), RBI, certificates / reports¹ to the effect as detailed below and any other Certification / Reporting as required from time to time as per RBI instructions:

i. The SA shall verify and certify compliance to CRR and SLR requirements under Section 42 of the RBI Act 1934 (for CRR of scheduled banks) and Sections 18 (for CRR of non-scheduled banks) and Section 24 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) [BR Act, 1949(AACS)] on 12 odd dates (not being reference dates / last day of the fortnight) spread over the financial year. Further, the SA shall check for the manner in which CRR / SLR is maintained by UCBs (i.e. maintenance with eligible banks / institutions) as prescribed in the Master Direction on CRR / SLR issued by RBI vide notification number DOR.No.RET.REC.32/12.01.001/2021-22 dated July 20, 2021 (as updated from time to time).

ii. The SA shall verify and certify the correctness of the CRAR calculation based on DOR.CAP.REC.2/09.18.201/2022-23 dated April 1, 2022 (as updated from time to time).

iii. (a) The SA shall verify and certify that the income recognition, asset classification and provisions, including system-based asset classification, have been made as per the guidelines issued by RBI vide notification no DOR.STR.REC. 9/21.04.048/2024-25 dated April 02, 2024, read with compliance to instructions on COVID19 – Regulatory Package vide Circulars

DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020

DOR.STR.REC.11/21.04.048/2021-22 dated May 05, 2021,

DOR.STR.REC.12/21.04.048/2021-22 dated May 05, 2021,

And other related instructions as issued from time to time.

¹ The SA shall indicate in every certificate as to whether the same has been issued with limited assurance or reasonable assurance. In case of limited assurance, the SA shall indicate the reasons for the same.

(b) Further, the SA shall verify and certify compliance to the instructions on applying the risk weights to exposures guaranteed by CGS in terms of circular on “Review of Prudential Norms – Risk Weights for Exposures guaranteed by Credit Guarantee Schemes (CGS)” dated September 7, 2022 (as updated from time to time).

iv. The SA shall submit certificate in respect of reconciliation of UCB’s investments on own account and compliance of key areas in terms of the Master Direction – Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio of Primary (Urban) Co-operative Banks) Directions, 2023 (DOR.MRG.REC.01/00-00-011/2023-24) dated April 01, 2023 read with Master Circular on ‘Prudential Norms on Classification, Valuation and Operations of Investment Portfolio by UCBs’ - DBR No BP.BC.6/21.04.141/2015-16 dated July 1, 2015 and other related instructions as issued from time to time.

v. (a) The SA shall verify and certify whether the UCB is in compliance with the circular DOR.CRE.REC.28/07.10.002/2024-25 dated July 25, 2024 and DOR.CRE.REC.29/07.10.002/2024-25 dated July 25, 2024 read with the Master circular DoR.CRE.REC.71/07.10.002/2023-24 dated January 16, 2024, on ‘Exposure Norms and Statutory / Other Restrictions - UCBs (as updated from time to time).

(b) The SA shall verify and certify, whether the eligible UCB is reporting ‘Large Exposures’ to Central Repository of Information on Large Credits (CRILC) as per the provisions of DOR (PCB).BPD.Cir.No.7/13.05.000/2019-20 dated December 27, 2019, and DoS.OSMOS.No.4633/33.05.018/2019-20 dated January 16, 2020 (as updated from time to time).

vi. The SA shall verify and certify the computation of ‘assessable deposits’ and ‘premium’ in terms of the circular DICGC.IOD.No./ 4413/05.60.999/2017-18 dated June 02, 2017, and CO.DICG.IOD.No.S1563/05.60.999/2022-2023 dated November 28, 2022 (as updated from time to time). Further, the SA shall verify the correctness of the calculation of interest payable and whether the same has been included while calculating DICGC premium. In case, the UCB has amounts held in deposit suspense or Credit balances in CC / OD accounts, the same shall also be subject to verification by SA for calculation of ‘assessable deposits’.

- vii.** The SA shall verify and certify compliance with PSL targets and also certify as to whether the loans classified under Priority Sector, across various categories, are strictly as per instructions detailed in DOR.CRE.REC.18/07.10.002/2023-24 dated June 08, 2023 read with Master Directions on Priority Sector Lending – Targets and Classification FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated September 04, 2020 (as updated from time to time).
- viii.** The SA shall verify and certify the correctness of the interest subvention claims made under the Interest Subvention Scheme for MSMEs as per extant circular No. DOR (PCB).BPD.Cir No.3/13.05.001/2020-21 dated October 7, 2020 (as updated / other instructions issued from time to time).
- ix.** The SA shall verify and certify the reconciliation status of General Ledger as well as the Profit and Loss Statement, including whether provisions have been made and if any such difference(s) exist in the balance sheet of the UCB.
- x.** The SA shall verify and certify details of contingent liabilities and comment on any contingent liability which may devolve into an outside liability. Further, the SA shall also comment on any contingent liability / liabilities which has / have not been brought into the books, such as Income Tax Demand Notice, etc., and whether the required provisions have been made against such liability / liabilities.
- xi.** The SA shall verify and certify the bucketing of Assets and Liabilities of the UCB in its ALM statement as per UBD. PCB. Cir. No12/12.05.001/2008-09 dated September 17, 2008 (as updated from time to time).
- xii.** The SA shall verify and certify the correctness of the Net Worth disclosed by the UCB in terms of circular no DOR.CAP.REC.5/09.18.201/2024-25 dated April 01, 2024, read with DOR.CAP.REC. No.109/09.18.201/2022-23 dated March 28, 2023 and DOR.CAP.REC.No. 86/09.18.201/2022-23 dated December 1, 2022 (as updated from time to time).
- xiii.** The SA shall verify and certify the correctness of the assessment of Provision requirement in terms of Master Circular Income Recognition, Asset Classification, Provisioning and Other Related Matters - UCB dated April 02, 2024 , read with Clause 77 of Master Direction on ‘Transfer of Loan Exposure’ (DOR.STR.REC.51/21.04.048/2021-

22) dated September 24, 2021, and clarification issued by RBI on June 28, 2022 (DOR.STR.REC.51/21.04.048/2022-23) (as updated from time to time).

xiv. The SA shall verify and certify compliance of UCB with circular ‘DOR.CRG.CRS.Cir.No.5/13.05.000/2020-21’ dated February 05, 2021(as updated from time to time), on the subject ‘Loans and Advances to directors, their relatives, and firms / concerns in which they are interested’ with special focus on a) whether any loans have been granted to the directors or their relatives, if any and b) whether any of the Directors stood as guarantor for a third party loan.

xv. The SA shall verify and certify the various reserve funds required to be created and maintained as per the provisions of BR Act, 1949 / RBI guidelines. The SA shall also bring out the instances of transfer from reserves to the provisions.

xvi. The SA shall verify and certify the list showing the outstanding deposits to be furnished by the UCB to DICGC under section 18A (2) of the DICGC Act, 1961, whenever called upon by the DICGC to do so (as updated from time to time).

2. The SA shall examine and comment on:

i. Whether the UCB is in compliance with the Master Circular on “Management of Advances”, particularly on the aspect whether calculation of interest rate is done as per the instructions issued vide circular no DOR.CRE.REC.No.27/07.10.002/2023-24 dated July 25, 2023 (as updated from time to time).

ii. Whether there are outstanding amounts pending for more than three years under “Other Assets” in the UCB’s balance sheet. The SA shall also verify the composition of ‘Other Assets’ and comment on whether any of the items comprising ‘Other Assets’ are intangible in nature.

iii. Compliance with the pending observations of the previous year's Statutory Audit Report and provisioning for divergence identified by SSM. The SA shall also comment on persisting deficiencies and their systemic and bank-wide impact / implications.

iv. The Non-Banking Assets (NBAs), if any, held by the UCB and the details thereof. The SA shall also comment on the practice, if any, adopted for conversion of Non- Performing Assets (NPAs) to Non-Banking Assets (NBAs), including aspects such as recognition of unrealized income, income booking without receipt of cash flow by UCBs

during such conversions, etc. They should also comment on whether such conversions are in compliance with extant accounting standards, guidelines issued by RBI, and applicable legal provisions. In addition, the SA shall also comment on aspects such as any income shown from NBAs, pending litigation issues, valuation and likelihood of recovery in these assets, etc.

v. The payment of interest on deposits is made as per the Master Direction DBR.Dir.No.84/13.03.00/2015-16 issued on March 03, 2016 and updated as on September 16, 2022 (as updated from time to time).

vi. The internal accounts which have been opened and closed by the bank in a financial year and also comment on utilization of the accounts. Further, the SA should certify that the UCB has Board-approved policy/ SOP for management of internal accounts, system- based checks and controls, option for exception report generation in CBS, adequate monitoring and review, board oversight for internal accounts, no bypassing of AML/CFT guidelines for cash transactions and no utilization of internal accounts for evergreening of NPA accounts.

vii. Ever greening of loans, through modalities such as window dressing, routing of funds either within the bank or through the banking system genuineness of Related Party Transaction (RPT) to borrower-related entities, and end use thereof, etc.

viii. Whether the UCBs are compliant with the provisions of the RBI circular DOR.CAP.REC.No.27/09.18.201/2024-25 on “Prudential Treatment of Bad and Doubtful Debt Reserve (BDDR) by Co-operative Banks” dated August 02, 2024 (as updated from time to time).

ix. Whether the Housing finance exposure and Real estate exposure of the UCB are in terms of RBI Master Circular DOR.CRE.REC.No.6/07.10.002/2024-25 dated April 02, 2024 (as updated from time to time).

x. (a) Activities suspected to be a fraud or fraudulent activity in any transaction and whether the UCB has (I) made adequate provisioning for such transactions, and (II) reported such transactions in FMR 1 within 14 days from the date of classification of an incident / account as fraud.

(b) The appropriateness of the fraud risk management system and process for early detection, investigation of frauds, and deviations observed in compliance with directives

issued by RBI. Special focus should be given to the potential risk areas which might lead to the perpetuation of fraud. Further, the SA shall assess effectiveness of internal controls in detecting and preventing fraud.

(c) UCB's adherence to 'Master Directions on Fraud Risk Management in Urban Cooperative Banks (UCBs) / State Cooperative Banks (StCBs) / Central Cooperative Banks (CCBs)' dated July 15, 2024 (as updated from time to time). Further, during the course of the audit, if the auditor comes across instances where the transactions in the account or the documents point to the possibility of fraudulent transactions in the account, in such a situation, the auditor should immediately bring it to the notice of the senior management and if necessary, to the Audit Committee of the Board (ACB) of the Cooperative Banks for appropriate action.

Annex II

Instructions to be incorporated in the appointment letter issued by the Urban Co-operative Banks (UCBs) to Statutory Auditors (SA) for FY2024-25

1. The SA shall be guided by the provisions of Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 on 'Guidelines for Appointment of SA for Commercial Banks, UCBs and NBFCs' dated April 27, 2021 (as updated from time to time). The SA shall also adhere to the direction prescribed in respect of the preparation and submission of LFAR.
2. The SA shall ensure that the 'qualifications', if any, made in the Audit Report / Financial Statements is / are quantified (wherever possible), if the same is material, in clear and unambiguous manner. The SA shall comment on / flag serious concerns (if any) observed on the conclusion of the audit in the form of a 'qualified opinion' and bring it to the attention of the RBI in a timely manner, by sending the "Qualified opinion" to the Board of the UCB and submit a copy of the same to the SSM.
3. However, exceptions, if any, requiring immediate reporting and matters of concern, involving Senior Management who are part of the Audit Committee of the Board of Directors (ACB) of the UCB, is / are noticed by the Auditors during the audit, the same shall be reported to the Board of Directors (BoD) of the UCB and also to the SSM as soon as the matter arises / is noticed.
4. The SA may be advised to conduct a more intense examination of large-value accounts and the nature of security provided for such accounts, as also of the financial statements of the borrower, to gain greater insight into the determination of NPAs and also on several areas of concern, such as end use of the funds, frauds, etc., which may need more detailed investigation.
5. The SA, in verifying whether an NPA has been correctly identified by the UCB, should not confine themselves to the objective tests laid down but also devote greater attention to the scrutiny of large-value accounts, and, in doing so, display a greater degree of skepticism and independence.
6. The SA shall verify that instructions contained in the following RBI Circulars / letter are complied with:

Subject matter	Circular Reference No. and date
The Depositor Education and Awareness Fund (DEA Fund) Scheme, 2014 – Aspects related to	DOR.SOG.(LEG).REC/64/09.08.024/2023-24 dated January 01, 2024 DBOD.No.DEAF Cell.BC.114/30.01.002/
a) Transfer of Unclaimed Deposits and other credit amounts to the DEA Fund,	2013- 14 dated May 27, 2014, to be read with DBOD.No.DEAF
b) Submission of Annual Certificate (AC) as on March 31 every year and, half yearly Reconciliation Certificate (RC) as on March 31 and September 30 of each year	Cell.BC.123/30.01.002/ 2013- 14 dated June 25, 2014; DBOD.No.DEAF Cell.BC.126/30.01.002/ 2013-14 dated June 26, 2014; DBR.No.DEA.Fund
c) Submission of Form I and Form II as per the extant instructions.	Cell.3044/30.01.002/ 2017-18 dated September 27, 2017; DBR.No.DEA.Fund
d) Verification of details received from the branches regarding settlement made to customers on sample basis.	Cell.110/30.01.002/ 2017-18 dated June 7, 2018; DBR.No.DEA.Fund Cell.1642/30.01.002/ 2018-19 dated August 27, 2018 and DBR.No.DEA.Fund
e) Auditors shall verify in CBS the granular data of all inoperative accounts that are eligible for transfer to DEA Fund. They shall also comment on the capability of CBS to correctly identify / mark eligible accounts as ‘inoperative account’.	Cell.6700/30.01.002/ 2018- 19 dated February 12, 2019, and any other instruction, as issued from time to time

7. The SA shall ensure that the Memorandum of Changes (MOC) in the audited financial statements are accounted for by passing entries in the CBS.
8. The SA shall comment on the CBS, MIS, data integrity issues, etc., to eliminate the possibility of data manipulation / fabrication in the CBS systems and misreporting, non- compliance, etc. The SA shall also comment on the capability of the CBS to generate an ‘exception report’ and the same should be monitored thoroughly during the audit.
9. The SA shall comment on the adoption, methodology, risk management and assessment and effectiveness of Risk Based Internal Audit (RBIA) at the bank. Further, SA shall also check compliance to RBI Circular Ref.No.DoS.CO.PPG./SEC.05/11.01.005/2020-21 dated February 03, 2021 on Risk- Based Internal Audit (RBIA) and comment on areas of higher inherent risks such as complex financial instruments etc(as updated from time to time).
10. The SA shall comment on the accuracy and timely reporting of all the accounts by the UCB to all the CICs.
11. The SA shall adequately highlight instances of under-provisioning and give necessary effect in the audited financials of the bank. The SA shall also comment on income / interest income booked from NPAs.

12. The SA shall provide a separate certificate for each of the items / areas covered in **Annex-I**, along with details such as the sample size, documents seen / verified, etc.
13. The SA shall ensure that the disclosures in the 'notes to accounts', accompanying the financial statements, are as envisaged in the formats specified in Annexure III to DOR.ACC.REC.No.45/21.04.018/2021-22 dated August 30, 2021 updated as on April 01, 2024 (as applicable to UCBs and updated from time to time).
14. The SA shall conduct interaction with the bank on an ongoing basis, to ensure that the bank has adequate opportunity to respond to the queries / findings of the audit.
15. The SA shall actively participate in the structured periodical meetings held with the SSM and utilize the said platform for meaningful discussion on issues of mutual interest.
16. The SA shall comment on level of integration of Treasury software with Core Banking Solution (CBS) and Letter of Credit & Bill Discounting (LCBD) portfolio maintained out of CBS with reference to RBI circular CO.DOS.CSITEG. No.S8024/31.01.015/2023-24 dated January 11, 2024 (as updated from time to time).
17. The SA shall comment on Deferred Tax Assets (DTA) created by the bank, whether they relate to timing differences or accumulated losses or other such assets. The SA shall also verify them as per Accounting Standards and norms and assess their future realisability.
18. As soon as the audit work is completed, the SA shall report to the top management of the UCB any serious irregularities noticed in the working of the UCB, i.e., instances such as a spike in NPAs (suddenly exceeding 6%), drastic reduction in net worth, a spike in complaints including whistleblower complaints indicating financial irregularities, etc. A copy of the report shall also be submitted by the SA to the SSM. In case of non- observance of any serious irregularity, a 'nil' report shall be submitted by SA to the top management of the UCB. A copy of the same may also be submitted to the SSM.
19. The SA shall comment on compliance to the restrictions imposed under Prompt Corrective Action, wherever applicable, in terms of circular DOS.CO.PPG.SEC.No.8/11.01.005/2024-25 dated July 26, 2024 (as updated from time to time).
20. The SCA/SA shall report to the SSMs matters of material significance, for example, failure to comply with the licensing criteria or breaches of banking or other laws, significant deficiencies and control weaknesses in the bank's financial reporting process or other matters, that the SCA/SA believe are likely to be of material significance.
21. In case of UCBs categorized as Tier 3 & 4, the SA shall comment on effectiveness of the framework for EWS, including the EWS alerts / triggers, remedial actions initiated by the bank on EWS alerts / triggers, etc. The SA shall also comment on whether the review was effectively carried out by the bank and placed before Board Level Committee of the bank.

Annex- 1

Note on Concurrent Audit

1. Introduction

A system of Concurrent Audit should be introduced at large and exceptionally large branches to serve as administrative support to branches, help in adherence to prescribed systems and procedures and timely detection of lapses/irregularities.

2. Scope of Concurrent Audit

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.

A concurrent auditor may not sit in judgment of the decision taken by bank/branch Manager or an authorized official. However, the auditor will necessarily have to see whether the transactions or decisions are within the policy parameters laid down by the Head Office/Board of Directors, they do not violate the instructions or policy prescriptions of the Bank and that they are within the delegated authority and in compliance with the terms and conditions for exercise of delegated authority.

3. Coverage of Business/Branches

The suggested coverage may be as under:

1) The Departments/Divisions at the Head Office dealing with treasury functions viz. investments, funds management including inter-bank borrowings, bill rediscount, in stock invest scheme, credit card system and foreign exchange business 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.

2) 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.

3) Banks may also include additional branches at their discretion on the basis of need; that is their professional judgment about the overall functioning of the branches.

4) Types of Activities to be covered

The main role of the concurrent audit is to supplement the efforts of the bank in carrying out simultaneous internal check of the transactions and other verifications and compliance with the procedures laid down. In particular, it should be seen that the transactions are properly recorded/documented and vouched. The concurrent auditors may broadly cover the following items:

Daily cash transactions with particular reference to any abnormal receipts and payments.
Proper accounting of inward and outward cash remittances.

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

Expenses incurred by cash payment involving sizeable amount.

Investments

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.

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

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

Deposits

Check the transactions about deposits received and repaid.

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

Check new accounts opened. 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.

Advances

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

Verify whether the sanctions are in accordance with delegated authority.

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

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

Verify whether there is any mis-utilization of the loans and advances and whether there are instances indicative of diversion of funds.

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

Check the bank guarantees issued, whether they have been properly worded and recorded in the register of the bank. Whether they have been promptly renewed on the due dates.

Ensure proper follow-up of overdue bills of exchange.

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

Verify that instances of exceeding delegated powers have been promptly reported to Controlling/Head Office/Board by the branch and have been got confirmed or ratified at the required level

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

Foreign Exchange transactions

Housekeeping

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

Ensure prompt reconciliation of entries outstanding in the inter-branch and inter-bank accounts, Suspense Accounts, Sundry Deposits Account, Drafts Accounts, etc. Ensure early adjustment of large value entries.

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

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

Check the transactions of staff accounts.

In case of difference in clearing, there is a tendency to book it in an intermediary suspense account instead of locating the difference. Examine the day book to verify as to how the differences in clearing have been adjusted. Such instances should be reported to Head Office/Board of Directors in case the difference persists.

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

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

Checking of inward and outward remittances (DDs/RTGS/NEFT/IMPS).

Other items

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

Ensure that customer complaints are dealt with promptly

Verification of statements, HO returns, statutory returns.

The aforesaid list is illustrative and not exhaustive. The bank may, therefore, add other items to the list, which in its 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:

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 feature is observed, the concurrent auditors may conduct cent percent check.

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.

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.

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.

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

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

5. Appointment and Remuneration 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 may have been decided by the Bank. In case bank decides to appoint external auditors for the purpose, the terms of their appointment and remuneration to be paid may be fixed by the bank within the broad guidelines approved by the Board and/or by the Registrar of Co-operative Societies of the State concerned.

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

* In case the bank prefers to entrust the audit to its own officers, the bank has to ensure that these officers are well experienced and of sufficient seniority in order to exercise

necessary independence and objectivity while conducting concurrent audit. It would be desirable and necessary to rotate the auditors, whether internal or external, periodically. Progressively, it may be considered whether reliance on external auditors may be reduced as soon as requisite skills for audit work are developed by the proper selection and training of officers from within.

6. Reporting System

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

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

7. Conclusion

While instituting the concurrent audit system, the attempt should be to integrate the same with other systems of internal audit/inspections, which are already in existence. One of the drawbacks hitherto has been non-integration of the different systems of internal audit and inspections and lack of response to audit objections/qualifications. It is necessary that the entire system of audit, inspection and their follow-up is properly documented and the performance of the integrated audit system is reviewed from time to time.

Review and revision

This Audit Policy will be reviewed annually and may be revised as deemed Necessary by the Board of The Agrasen Co-op Urban Bank Ltd.

Table 1 - List of Circulars/Instructions superseded by this Circular

Sl. No.	Circular/Instruction No.	Date	Subject
1	DBOD.No.App.BC.57/C.452(K)-83	July 07, 1983	Appointment of Statutory Auditors as Internal Auditors of Banks
2	DBOD.No.APP.BC.101/C.452(K)-83	December 15, 1983	Statutory Audit by External Auditors
3	DBOD.No.App.BC.107/C.452(K)-84	November 13, 1984	Appointment of Statutory Auditors as Internal Auditors of Banks
4	DBOD.No.App.BC.28/C.452(K)-85	March 12, 1985	Appointment of Statutory Auditors as Internal Auditors of Banks
5	DOS.No.BC.9/08.91.001/94	August 17, 1994	Section 30(1A) of The Banking Regulation Act, 1949 Appointment of Statutory Auditors
6	DOS.No.BC.10/08.91.002/94	August 17, 1994	Section 30(1A) of The Banking Regulation Act, 1949 - Appointment of Statutory Auditors
7	DBS.No.ARS.BC.8/08.91.001/2000-2001	January 30, 2001	Appointment of Statutory Central Auditors for Indian Private Sector Banks
8	DBS.No.ARS.BC.12/08.91.001/2000- 2001	May 8, 2001	Appointment of Statutory Central Auditors for Indian Private Sector Banks
9	<u>DBS.ARS.No.BC.08/08:91:001/2003-04</u>	March 26, 2004	Assessment of Performance of Statutory Auditors
10	DBS.ARS.No.B.C.15/08.91.001/2004-05	January 6, 2005	Appointment of Statutory Auditors - Obtention of Declaration of Indebtedness
11	DBS.ARS.No.BC.7/08.91.001/2006-07	April 24, 2007 27	Special Assignments other than Statutory Audit to Audit Firms by Banks

12	<u>DBS.ARS.No.BC.02/08.91.001/2008-09</u>	December 31, 2008	Internal Assignments in Banks by Statutory Auditors
13	DBS.ARS.BC No.02/08:91:001/2014-15	September 11, 2014	Appointment of Auditors
14	DBS.ARS.BC No.03/08.91.001/2014-15	September 11, 2014	Appointment of Auditors
15	<u>DBS.ARS.BC.04/08.91.001/2017-18</u>	July 27, 2017	Appointment of Statutory Central Auditors (SCAs) - Modification of Rest Period
16	Not Applicable	Not Applicable	Norms on eligibility, empanelment and selection of Statutory Central Auditors in Public Sector Banks from the year 2018-19 and onwards