

UNIVERSAL COOPERATIVE URBAN BANK LIMITED, MANCHERIAL.

AUDIT POLICY

(APPROVED IN BOARD MEETING HELD ON 16.07.2024 VIDE RESOLUTION NO.8C)

Introduction:

It is an undisputed fact that for any organization to grow and function smoothly and effectively its top management should be kept informed of its way of internal functioning and also the areas of weaknesses, loopholes, lapses and serious irregularities such as frauds along with ways and means to correct such deficiencies.

With this in view, the Universal Cooperative Urban Bank Ltd evolved and laid down an audit policy comprising of the salient features of Concurrent audit, Statutory Audit and Internal Inspection.

The audit policy is framed scrupulously following the order/guidelines issued from time to time by the RBI with a profound hope that this policy would ensure protection of interest of the investors and all those connected, so that the Bank can function on prudential lines.

Concurrent Audit:

The concurrent audit system being an integral part of bank's early warning system, sufficiently senior person with sufficient experience of not less than 5 years with proven integrity shall be earmarked for undertaking the concurrent audit. The Concurrent Auditor shall inter alia detect the cases of frauds . malpractices, violation of rules and procedures and instances of suppression of facts and figures required to be submitted to the head office of the Bank.

This concurrent Audit shall examine in a systematic way, all the financial transactions on a regular basis to ensure accuracy, authority, compliance with procedures and



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guidelines framed in the organization so that certain serious irregularities such as improper credit appraisals, disbursement without observing proper terms of sanction, failures to exercise proper post disbursement supervision, even suppression of information relating to unauthorized excess draws including frauds can be brought to light and informed to the top management.

The concurrent audit report shall critically analyses and makes 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 and stationery accounts leaving no scope for any malpractices / irregularities.

The concurrent auditor should ensure that the off-balance sheet transactions are properly followed up by all branches and records there for are periodically balanced, lapses / irregularities in this regard are to be commented upon critically.

Proper inventory of the dead stock articles, stationery should be maintained at the branch level as also at head office, so that concurrent audit shall have proper inspection of these.

The Concurrent Auditor shall carry physical verification of Cash, gold and other valuables of the branches at regular intervals.

The concurrent audit shall set proper functioning of the bank so that the periodical audit and inspections conducted by the statutory auditor and reserve Bank of India respectively do not find any instances of lapses / irregularities.

The concurrent audit shall also comply with statutory auditor's report and Reserve Bank of India inspections' reports.



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The concurrent auditor shall bring out cases of non-compliance of the prudential norms relating to income recognition, assets classification and provisioning for taking suitable action in the matters. The concurrent auditor shall verify all the cheques purchased / discounted.

The concurrent auditor shall certify that the investment held by the bank as on the last reporting Friday of each quarter as reported to the Reserve Bank of India are actually owned/ held by it as evidenced by physical securities or the custodian's statement. The certificate should be submitted to the Regional office, RBI within thirty days from the end of the relative quarter.

The concurrent auditor shall specifically verify compliance to the instructions contained in RBI Cir No. UBD.BPD.SUB.No.5/09.80.00/2003-04, Dt.28.04.2004 regarding transactions in Govt. Securities.

The concurrent audit shall strive for strengthening the credibility of the system in detecting cases of frauds / malpractices and suggest steps need to be taken to gear up the internal audit machinery.

The reports of concurrent audit shall be submitted to managing Director who in turn forward them to the Audit committee of the Board of Directors for further scrutiny and necessary action.



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Internal Inspection:

Besides, concurrent audit system, The Bank shall undertake periodical inspection of all the branches as follows:

- a). The Managerial personal of the Branch shall do the surprise verification of Cash and Other valuables monthly.
- b). The Chief Executive Officer of the Bank shall make surprise checks of each branch invariably once in 3 Months at random to ensure that the branch officials do not indulge in malpractices and submit their findings to the Audit committee of Board of Directors of the Bank.

Information System (IS) Audit

Bank has adopted technology and has been offering Rupay Debit Card and also planning to offer Other Digital Products to its customers.

In view of the above and having regard to risks emanating from adoption of technology, there is need to introduce IS audit.

The bank has 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).

Such audits shall 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.

IS audit reports shall be placed to the Managing Director and compliance should be ensured within the time frame as outlined in the audit policy.

The IS Audit is to be conducted on Yearly basis.



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Statutory Audit :

1. Appointment of Statutory auditor.

The bank shall appoint one audit firm (Partnership firm/LLPs) for conducting statutory audit. The procedure for appointing Statutory auditor is mentioned herein the policy.

For appointment of statutory Auditor, the Bank shall take prior approval of RBI (Department of Supervision) on an annual basis as per guidelines issued vide RBI circular No : RBI/2021-22/25. DOS.CO.ARG/SEC.01/08.91.001/2021-22, dated 27.04.2021. For this purpose, the Bank shall apply to the Regional of RBI (Department of Supervision) before 31st July of the reference year.

2. Eligibility Criteria of Auditors.

The Bank is required to appoint audit firm(s) as its SA(s) fulfilling the eligibility norms as prescribed by RBI.

3. Independence of Auditors.

3.1. The Board of Directors shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board to the concerned RO of RBI.

3.2. In case of any concern with the Management of the Banks such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SAs shall approach the Board/ACB/ of the Bank, under intimation to the concerned RO of RBI.

3.3. Concurrent auditors of the bank should not be considered for appointment as SAs of the same bank.



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3.4. The restrictions as detailed above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

Professional Standards of SAs.

The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

The Board of the Bank shall review the performance of SAs on an annual basis. Any serious lapse/negligence in audit responsibilities or conduct issues on part of the SAs or any other matter considered as relevant 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 the full details of the audit firm.

In the event of lapses in carrying out audit assignments resulting in misstatement of Bank's financial statements, and any violation/lapses vis-à-vis the RBI's direction/guidelines regarding the role and responsibilities of the SAs in relation to Banks, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

Tenure and Rotation.

In order to protect the independence of the auditor audit firms, Banks will have to appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, bank can remove the audit firms during the above period only with the prior approval of RBI Regional office (Department of Supervision).

An audit firm would not be eligible for reappointment in the same Bank for six years (two tenures) after completion of full or part of one term of the audit tenure. In case an audit firm has conducted audit of any Bank for part-tenure (1 year or 2 years) and then



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not appointed for remainder tenure, they also would not be eligible for reappointment in the same Bank for six years from completion of part-tenure.

Audit Fees and Expenses.

The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.

The audit fees for SAs of all the Banks shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, identified risks in financial reporting, etc.

The Board of Bank shall make recommendation to the Annual General Meeting (AGM) for fixing audit fees of SAs.

Eligibility Criteria for Appointment as Statutory Auditor.

Basic Eligibility

Asset Size of Bank as on 31st March of Previous Year	Minimum No. of Full-Time partners (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 Partner Paid CAs with CISA/ISA Qualification Note 2	Minimum No. of years of Audit Experience of the firm Note 3	Minimum No. of Professional staff Note 4
Upto Rs 1,000 crore	2	1	1*	6	8

* Not mandatory for UCB with asset size of up to Rs. 1,000 crore.



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Note 1: There should be at least one-year continuous association of partners with the firm as on the date of empanelment (for PSBs)/ short listing (for other Banks) for considering them as full time partners.

Note 2: CISA/ISA Qualification:

For UCBs with asset size upto Rs 1,000 crore, there is no minimum requirement in this regard. However, such Banks may give priority to firms with full time partners or full time CAs having CISA/ISA qualification. There shall be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of empanelment for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3: Audit Experience:

For UCBs , audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBNBFC 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.

Note 4: Professional Staff:

Professional staff includes audit and article clerks with knowledge of book- keeping and accountancy and who are engaged in on-site audits but excludes typist/steno/computer operator / secretaries/subordinate staff etc. There should be at least one-year continuous association of professional staff with the firm as on the date of empanelment for other Banks for considering them as professional staff for the purpose.



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Additional Consideration

- i). The audit firm, proposed to be appointed as SAs for Bank, 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 shall not be under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.
- iii) The Bank shall ensure that appointment of SAs 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). If any partner of a Chartered Accountant firm is a director in any Bank, the said firm shall not be appointed as SA of any of the group banks of that Bank.
- v). For audit of UCBs, the SA of 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 in which the UCB/branch of the UCB is located.

Continued Compliance with basic eligibility criteria:

In case any audit firm (after appointment) does not comply with any of the eligibility norms (on account of resignation, death etc. of any of the partners, employees, action by Government Agencies, NFRA, ICAI, RBI, other Financial Regulators, etc.), it may promptly approach the Bank with full details. Further, the audit firm shall take all necessary steps to become eligible within a reasonable time and in any case, the audit firm should be complying with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit.

In case of any extraordinary circumstance after the commencement of audit, like death of one or more partners, employees, etc., which makes the firm ineligible with respect to any of the eligibility norms, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.



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Procedure for Appointment of SAs:

1. The Bank shall shortlist minimum of 2 audit firms for every vacancy of SAs so that even if 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 SAs does not get delayed. However, in case of reappointment of SAs by UCBs till completion of tenure of continuous term of 3 years, there would not be any requirement of short listing and sending names of multiple audit firms to RBI while seeking approval to appointment.
2. The Bank shall place the name of shortlisted audit firms, in order of preference, before the Board for selection as SA. Upon selection of SAs by the bank in consultation with the Board and verifying their compliance with the eligibility norms prescribed by RBI, the UCBs shall seek RBI's prior approval for appointment of SAs.
3. The Bank shall obtain a certificate, along with relevant information as per Form B, from the audit firm(s) proposed to be appointed as SAs by the Bank to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment of SAs of the Banks, under the seal of the said audit firm.
4. The bank shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI for the purpose and after being satisfied of their eligibility, recommend the names along with a certificate, in the format as per Form C, stating that the audit firm(s) proposed to be appointed as SCA/SA by them comply with all eligibility norms prescribed by RBI for the purpose.



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5. While approaching the RBI for its prior approval for appointment of SAs, bank shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board Resolution recommending names of audit firms for appointment as SAs in the order of preference and also furnish information as per Form B and Form C as mentioned above, to facilitate expeditious approval of appointment/re-appointment of the concerned audit firm.



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FORM B

Eligibility Certificate from (Name and Firm Registration Number of the firm)

A. Particulars of the firm:

Asset Size of Bank as on 31 st March of Previous Year	Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) years	Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) Years	Number of Full Time Partner Paid CAs with CISA/ISA Qualification	Number of Years of Audit Experience#	Number of Professional staff

Details may be furnished separately for experience as SAs.

B. Additional Information:

- (i) : Copy of Constitution Certificate.
- (ii) : Whether the firm is a member of any network of audit firms or any partner of the firm is a partner in any other audit firm? If yes, details thereof.
- (iii) : Whether the firm has been appointed as SA by any other Commercial Bank (excluding RRBs) and/or All India Financial Institution (AIFI)/RBI/NBFC/UCB in the present financial year? If yes, details thereof.
- (iv) : Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- (v) : Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.



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C. Declaration from the firm:

It is certified that neither I nor any of our partners / members of my / their families (family will include besides spouse, only children, parents, brothers, sisters or any of them who are wholly or mainly dependent on the Chartered Accountants) or the firm / company in which I am / they are partners / directors have been declared as willful defaulter by any bank / financial institution.

It is confirmed that the information provided above is true and correct.

Signature of the Partner (Name of the Partner):

Date:



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FORM C

Certificate to be submitted by the UCBs regarding eligibility of audit firm proposed to be appointed SA

The bank desirous of appointing M/s____, Chartered Accountants (Firm Registration Number____) as Statutory Central Auditor (SCA)/ Statutory Auditor (SA) for the financial year____ for their 1st/2nd/3rd term and therefore has sought the prior approval of RBI as per the section 30(1A) of the Banking Regulation Act, 1949/ Section 10 (1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980/ Section 41(1) of SBI Act, 1955.

The bank/UCB has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Auditor of the bank / UCB for FY along with relevant information (Copy enclosed), in the format as prescribed by RBI.

The firm has no past association / association for____ years with the bank/UCB as SA.

The bank/UCB has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of UCBs.

Signature:

(Name and Designation)

Date:

This Policy is being reviewed every year and Board have powers to make necessary changes as per the Reserve bank of India guidelines from time to time.



Chairman





Chief Executive Officer