

उत्तर प्रदेश ग्रामीण बैंक की सभी शाखाओं एवं कार्यालयों हेतु परिपत्र

अंकेक्षण एवं निरीक्षण विभाग द्वारा जारी

महोदय/महोदया,

विषय: "Risk Based Internal Audit Policy 2025" का क्रियान्वयन

भारत सरकार के दिनांक 07 अप्रैल 2025 के राजपत्र अधिसूचना CG-DL-E-07042025-262329 (F. No. 7/6/2024/ (11)-RRB) के अनुसार, पूर्ववर्ती बड़ौदा यू.पी. बैंक, पूर्ववर्ती आर्यावर्त बैंक एवं पूर्ववर्ती प्रथमा यू.पी. ग्रामीण बैंक के समामेलन के फलस्वरूप 01.05.2025 से "उत्तर प्रदेश ग्रामीण बैंक" अस्तित्व में है। नवगठित बैंक में एकरूपता, पारदर्शिता और परिचालन दक्षता सुनिश्चित करने के लिए मौजूदा नीतियों को एकीकृत कर "Risk Based Internal Audit Policy-2025" को बैंक की Steering Committee द्वारा मंजूरी दी गई है एवं उत्तर प्रदेश ग्रामीण बैंक हेतु तत्काल प्रभाव से लागू करने का निर्णय लिया गया है।

Risk Based Internal Audit Policy में समाहित बिन्दुओं /मार्गदर्शी प्रक्रियाओं पर पूर्ववर्ती बैंकों में पूर्व निर्गत निर्देश तदनुसार संशोधित माने जाएंगे।

सभी शाखाएं/कार्यालय इस परिपत्र की विषय वस्तु को भली भांति समझ लें एवं तदनुसार कार्य करते हुए शत-प्रतिशत अनुपालन सुनिश्चित करें।

भवदीय


(घनश्याम सिंह)

महाप्रबन्धक

संलग्नक: Risk Based Internal Audit Policy-2025

Uttar Pradesh Gramin Bank

Risk Based Internal Audit/Inspection(RBIA) Policy

**Audit & Inspection Department
Head Office-Lucknow**



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2	All Functional Heads at Head Office/ Other Centralized Centers
3.	All Regional Offices & Branches



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1. Introduction:

A sound internal Audit/Inspection function plays an important role in contributing to the effectiveness of the internal control system. The Audit/Inspection function should provide information to management on the effectiveness of risk management and internal controls including regulatory compliance by the Bank. The Bank has implemented a Risk Based Internal Audit/Inspection (RBIA) System in line with the guidelines issued by NABARD vide their circular no. **NB.IDD.RRBCD/727/316 (MN)/2013-14 dated 09.07.2013.**

The Internal Audit function provides vital assurance to the Bank's Board of Directors and Senior Management as to the quality of the Bank's internal control system. In doing so, the function helps to reduce the risk of loss and reputational damage to the Bank. It is, therefore, an indispensable and an integral function for the safe and sound operation of a Bank.

Internal Audit Function serves the role of the last line in the 3 lines of defence model. The first line of defence being the Operations / Business Units themselves who have the responsibility to prevent the risk at the source. The second line of defence being the Compliance and Risk Management Function of the Bank. Audit being 3rd line of defence plays the vital role in the Bank in terms of safeguarding the Bank against risks and assessing the risk profile of the Bank itself.

The policy sets out the principles, standards and approach for Internal Audit at the Bank. It puts in place a comprehensive framework to ensure that the internal audit function will independently assess the effectiveness of the internal control, risk management, governance systems and processes set by the Bank.

2. Objectives of Risk Based Internal Audit / Inspection (RBIA):

Key Objectives of Risk Based Internal Audit / Inspection systems areas mentioned below:

- Provide independent assurance to the Board of Directors & Senior Management on quality and effectiveness of Bank's internal control, risk management, governance systems and processes
- Remain independent of Audit / Inspection activities thereby enabling internal Audit / Inspection to carry out their assignments with objectivity
- Ensure appropriate professional competence, including the knowledge and experience of each internal Audit / Inspection and of internal Audit/Inspections collectively, for the effectiveness of the Bank's internal Audit/ Inspection function
- Define, design and implement a suitable risk based internal audit strategy commensurate with the underlying risks, organizational structure.
- Undertake an independent risk assessment for the purpose of formulating the risk-based Audit Inspection plan keeping in view the inherent business risks of an activity, business profile and effectiveness of the underlying control systems for monitoring the inherent risks of the business activity.
- Enable risk identification, prioritization of audit areas and allocation of audit resources in accordance with risk assessment.
- Ensure every activity (including out sourced activities) and every entity of the Bank, should fall within the overall scope of the internal Audit / Inspection function.
- Ensure adequate coverage of matters of regulatory interest with in the Audit/ Inspection.
- Identify / Anticipate areas of existing /potential risks, highlight them to Senior Management and provide suggestions to safeguard Bank from various risks.
- Lay emphasis on internal Audit / Inspection's role in mitigating risks in the Bank.
- To have effective internal Audit/Inspection as a deterrent and preventive mechanism for frauds.
- Follow up for rectification of irregularities pointed out in the Audit /Inspection Reports for corrective action and get confirmations from Controllers regarding rectification of irregularities.
- To assess the effectiveness of internal control and report level of compliance in respect of internal instructions, regulatory and statutory compliance to the Management.
- Access all information, records, systems and personnel of the Bank to carry out the above activities and achieve the objectives.



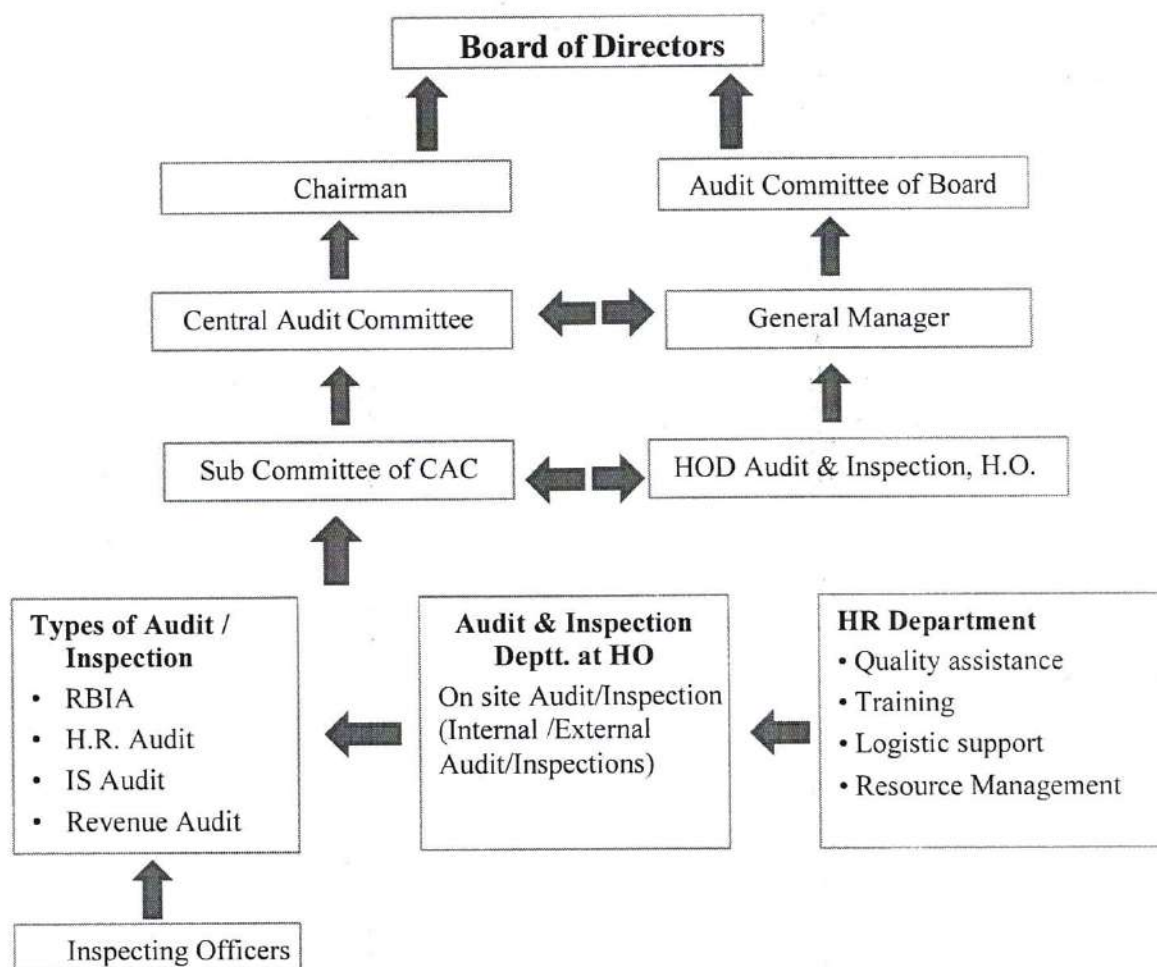
3. Internal Audit / Inspection frame work

i. Independence:

Incompliance of NABARD guidelines, Internal Audit / Inspection function will be independent from the internal control process to avoid any conflict of interest. The Board of Directors and top management of the bank are responsible for having in place an effective Risk Based Internal Audit/ Inspection System and to ensure that its importance is understood throughout the bank. The Internal Audit function shall not be outsourced. However, where required, experts, including former employees, could be hired on contractual basis subject to the ACB being assured that such expertise does not exist within the audit function of the bank. Any conflict of interest in such matters shall be recognised and effectively addressed. Ownership of audit reports in all cases shall rest with regular functionaries of the internal audit function.

ii. Structure:

The structure of the Internal Audit Framework of the Bank is given below:



Risk Based Internal Audit / Inspection (RBIA) frame work will be headed by General Manager, who will report to the Chairman and Board of Directors. The General Manager convene meeting of Audit/Inspection Committee of the Board (ACB). Brief over view of roles & duties of various stake holders involved in Risk Based Internal Audit / Inspection (RBIA) are given in subsequent section of the policy.



iii. Execution Framework

Internal Audit/ Inspection execution frame work will be divided into following:

- a. **Centralized Audit/Inspection:** Internal Audit /Inspection of Branches will be conducted by Inspection Department under the supervision of HOD Audit & Inspection Department.
- b. **Off-site Audit/Inspection:** Under this system, Desk Officer, Audit & Inspection at Regional Office will monitor the transactions through CBS System of Branches/Offices and communicate the same to the Concern Branches/Offices for rectification of the same.

Monitoring of compliance should be executed through RAC (Regional Audit Committee) at Regional Offices and to close the compliances, it should be discussed in Sub Committee of CAC & CAC.

The Sub Committee of CAC will be headed by General Manager and the members should be Chief Manager posted at RO. CAC will be headed by the Chairman & all Regional Heads are member of CAC.

4- Coverage:

Various types of Inspections / Audit are undertaken under Risk Based Internal Audit/Inspection of Branches by Audit & Inspection Department covering the below mentioned areas (explicit details are given later in this document).

- A. Risk Based Internal Audit
- B. H.R. Audit
- C. Information System Audit
- D. Revenue Audit
- E. VLE Centre Inspection
- F. Zero Tolerance Areas

The reporting of irregularities of serious nature on immediate basis through SOL, SOL DNR, Formalization Letter, etc. to mitigate the risk without any time lag and should also be part of RBIA system.

Formalization- cum- Synopsis Letter:

The Internal Audit / Inspection has to ensure that before leaving the branch on conclusion of the Audit/Inspection, a formalization meeting is held with the Branch Head in the presence of representative from Controlling / Regional Authority. The letter of formalization cum synopsis is to be invariably signed by the Branch head as also of representative from Region also. The formalization cum synopsis letter covers major areas where urgent attention of the branch is needed. The formalization cum synopsis letter should be put up before Regional Manager/ General Manager to appraise them about the major irregularities / deficiencies observed during course of inspection. The representative of RO shall be senior person/ Chief Manager RO/RM.

Audit/Inspection Reports will be prepared in a standard format along with Risk Based Internal Inspection & composite Branch rating sheets. The Audit/Inspection Report will comprise of the following:

- Risk Based Internal Audit Report
- Annexure I, II & III - (Advances)
- Annexure IV - (NPA)
- Annexure V - (KYC,AML)
- Annexure VI - (Frauds & Misappropriations)
- Annexure VII - (Revenue Audit)
- Annexure VIII - (IS Audit)
- Annexure IX - (HR Audit)
- Annexure X - (VLE/Kiosk Centre Inspection)
- Composite Branch Ratings

5- Audit Planning & Periodicity:

For the purpose of Audit/Inspection planning the Audit & Inspection department will carry out an Audit planning exercise to identify the Branches to be covered under RBIA on an annual basis. Frequency of Audit/Inspection of these Branches will be decided Based on the previous/ last risk category.



A. Periodicity for Inspection of Branches:

The periodicity of inspection of a Branch will be decided on the basis of its Composite Risk category and scheduled as under -

- | | |
|--|-------------------|
| a. High Risk Branches | : 9 Months |
| b. Medium Risk Branches | : 12 Months |
| c. Low Risk Branches not covered under concurrent Audit/Inspection | : 12 to 15 Months |
| d. Low Risk Branches covered under concurrent Audit/Inspection | : 15 to 18 Months |

B. Selection Criteria for Inspection of Branches:

The schedule for inspection will be planned as under-

- Quarterly/ Half Yearly / Yearly calendar for inspection of branches due will be prepared considering their Composite Risk Category.
- Uninspected Branches of the previous year will be inspected in the first quarter of succeeding year.
- Fraud detected Branches will be categorized as High Risk Branches.

6- Risk Assessment:

Identification of risk is a process where in each product; process is evaluated for their risks. The risk identification process includes an assessment of inherent business risks in various activities and an evaluation of the effectiveness of control system for monitoring the business risk. As advised by NABARD, Bank has devised a risk profile document applicable for Branches in which Risk Profile Templates (RPT) have been standardized with a view to determine the level of risk to which a Branch is exposed.

The Risks are divided in to three types of Risks viz. Business Risk, Control Risk & Business Performance Risk. However, the Business Performance Risk is not to be considered for determining of Composite Risk.

A-Categorization of Branches Considering Total Score:

Composite Risk Category of Branch is determined on the basis of Risk Matrix Chart comprising of Business and Control Risks. The Business Performance Risk is not to be considered for determining of Composite Risk.

- | | |
|--------------------------------|-------------------|
| i. Business Risk | : 500 Marks (Max) |
| ii. Control Risk | : 500 Marks (Max) |
| iii. Business Performance Risk | : 500 Marks (Max) |

B- Risk Matrix:

The measurement of Risk will be done as under:

- | | |
|------------------|---------------|
| Marks 351 to 500 | : Low Risk |
| Marks 201 to 350 | : Medium Risk |
| Marks 1 to 200 | : High Risk |

The Risk category determined in each parameter is placed in the following matrix to reach at the Composite Risk Category, i.e. intersection of two categories. For example if Control Risk is Medium and Business Risk will be Low then Composite Risk Category (CRC) will be Medium.

Business Risk Category		Composite Risk Category		
High	↓	High	Very High	Extremely High
Medium		Medium	High	Very High
Low		Low	Medium	High
Control Risk Category →		Low	Medium	High

Illustration

Serial No	Business Risk	Control Risk	Composite Risk
1	Low	Low	Low
2	Low	Medium	Medium
3	Low	High	High
4	Medium	Low	Medium
5	Medium	Medium	High
6	Medium	High	Very High
7	High	Low	High
8	High	Medium	Very high
9	High	High	Extremely High



Apart from Risk Based Rating, branch performance will be categorized considering total marks obtained by allocating marks against each parameter (Business Risk, Control Risk and Business Performance Risk) thus arriving at the total marks obtained out of 1500 marks as under-

- a. Effectively Run Branch (A+) : >1200
- b. Well Run Branch (A) : >900 to 1200
- c. Satisfactorily Run Branch. (B) : >750 to 900
- d. Below Average Branch (C) : >500 to 750
- e. Poor (D) : up to 500

The Business Risk inter alia includes:

Type of Risk	Allotted Marks
Credit Risk	171
Earning Risk	75
Liquidity Risk	25
Strategy and business environment Risk	73
Operational Risk	156
Total	500

Parameters of Business Risks for Negative Scores:

Type of Risk	Negative Marks
If the Revenue leakage is more than 2% of Total Interest Earned	10
If the Revenue leakage is more than 1.00 lakh in a single account or Revenue leakage was found in two continuous inspection in a single account	05
Fraud Cases found during review period	10
Security forms not opened & not entered in system	05
Forms used of erstwhile banks and bearing old logo	05
Total	35

The Control Risk inter alia includes:

Type of Risk	Allotted Marks
Internal Control Risk	269
Organizational and Management Risk	50
Compliance Risk	86
I.T. Risk	95
Total	500

Parameters of Control Risks for Negative Scores:

Type of Risk	Negative Marks
Wrong reporting on housekeeping during the review period	10
Management of security forms	10
Management of Debit Card /PIN / Password(Not keeping in dual control/not destroying the undelivered PIN)	10
Wrong Asset classification Data	10
Wrong reporting in compliance of RBIA/Concurrent Audit/Inspection/NABARD Inspection /LFAR Reports	05
Total	45

The Business Performance Risk inter alia includes:

Type of Risk	Allotted Marks
Deposits	125
Advances	125
Profitability	125
NPA Management	75
Performance in other parameters	50
Total	500



Parameters of Business Performance Risks for Negative Scores:

Type of Risk	Negative Marks
Negative growth in Core Deposits excluding Bulk Deposits (2.5 Marks in each quarter)	10
Negative growth in Advance outstanding excluding Bulk advances (2.5 Marks in each quarter)	10
Total	20

Bonus Score for Business Performance Risks:

Parameter	Bonus Marks
If the incremental growth of SME sector during last four quarter is 20% or more of total incremental growth of advances	10
If the incremental growth of Advances during last four quarter is 50% or more at branch level as a result of using the branch own DLP	10
If the Branch having zero NPA during the following period	
1) last 4 quarter	10
2) last 8 quarters	15
3) last 12 quarters	20
Reduction of controllable expenses up to 10% during the last four quarter in comparison of four quarter of previous period	10
Total	50

7-HUMAN RESOURCE AUDIT/INSPECTION:**INTRODUCTION:**

Human Resource Audit/Inspection is a systematic process, which examines the important aspects of Human Resources (HR) functions and its management and is a means to identify strengths, weaknesses and areas, where rectification may be warranted. The objective of HR Audit/Inspection is to determine overall effectiveness of HR system in terms of effective manpower utilization, preventive vigilance, etc.

PARAMETERS:

- Manning of branches and proper utilization of manpower;
- Leave administration;
- Salary administration;
- Staff loans;
- TA/DA, LTC/LFC;
- Medical and Hospitalisation expenses;
- Establishment expenses;
- Compliance with the statutory provisions of labour laws;
- Unique HRD practices

PERIODICITY:

It is integral part of RBIA and carried out along with the regular inspection of the Branch.

REPORTING:

The reporting of HR Audit/Inspection will be done along with the RBIA Audit/Inspection

COMPLIANCE AND CLOSURE:

Since it is a part of RBIA Audit/Inspection the compliance and closure will be done along with the Regular Inspection.

8- INFORMATION SYSTEM AUDIT/ INSPECTION:**INTRODUCTION:**

Information & Technology are valuable assets like other business assets and therefore it is absolutely essential that the value of these assets is maintained. Information and their hardware, software, electronic data, log process, network are important business / information assets. These assets are required to be safely preserved.



PARAMETERS:

The IO has to report on following parameters –

- Environmental Controls in terms of proper installation and maintenance of electrical / electronic hardware have been ensured as per guidelines
- Physical access to server room, etc is restricted to authorized persons only.
- Logical access controls are as per prescribed norms.
- Operating system controls: regarding holding of original license CDs, etc by the branch
- Reports generation and preservation as per norms.
- Registers maintenance regarding Hard Ware /Soft Ware/ MC, etc
- Miscellaneous, like Internet installation on separate PC, etc
- Details of Modules not implemented / live / activated

PERIODICITY:

It is integral part of RBIA and carried out along with the regular inspection of the Branch.

REPORTING:

The reporting will be done along with the RBIA Audit/Inspection.

COMPLIANCE AND CLOSURE:

Since it is a part of RBIA Audit/Inspection the compliance and closure will be done along with the Regular Inspection

9- REVENUE AUDIT/INSPECTION:

INTRODUCTION:

The Revenue Audit/Inspection is aimed at prevention of income leakage in a Branch by way of non / incorrect application of various service charges, interest, etc..

PARAMETERS:

It covers all parameters of income regarding Loans & Advances/Deposits/Services etc to check revenue leakage.

PERIODICITY:

It is integral part of RBIA and carried out along with the regular inspection of the Branch.

REPORTING:

The reporting will be done along with the RBIA Audit/Inspection.

COMPLIANCE AND CLOSURE:

Since it is part of RBIA Audit/Inspection the compliance and closure will be done along with the Regular Inspection.

10- INSPECTION OF VLE CENTRE:

INTRODUCTION

IO will visit VLE centre and find out the functioning of the centre in terms of the prescribed norms.

PARAMETERS :

IO will submit comments on following parameters-

- KYC compliance at the time of opening of account
- Required documents are deposited in branch viz. original A/c Opening Form, Attested Photo, KYC documents, etc
- Distribution of Pass Book as per norms.
- Display of information recommended / suggested by the bank.
- Maintenance of required registers, like account opening, complaint, bank officer's visit register

PERIODICITY :

It is integral part of RBIA and carried out along with the regular inspection of the Branch.

REPORTING:

The reporting will be done along with the RBIA Audit/Inspection

COMPLIANCE AND CLOSURE:

Since it is a part of RBIA Audit/Inspection the compliance and closure will be done along with the Regular Inspection



11-ZERO TOLERANCE AREA:**INTRODUCTION**

On the lines of Sponsor Bank, It has been decided to introduce the verification of Zero Tolerance Parameters on the first day and the last day of RBIA on critically sensitive issues.

PARAMETERS :

Hereunder are given parameters where the bank will observe zero tolerance because of the criticality involved with them

- Non compliance of KYC norms in newly opened accounts.
- Non compliance of guidelines in handling Debit cards.
- Status of signature scanning.
- All security forms including personalized returned Cheque Book to be entered in Finacle/CBS System.
- Generation, checking and filing of exceptional reports.
- Generation, checking and filing of inter SOL transaction reports.
- PSR submission by branch.
- Generation/ obtaining of CIBIL report, etc before any sanction of Advances.(as per norms)
- Registration of all movable/ immovable assets through CERSAI.
- Availability of Ultra Violet lamps.

PERIODICITY:

It is integral part of RBIA and carried out along with the regular inspection of the Branch.

REPORTING:

The reporting will be done along with the RBIA Audit/Inspection

COMPLIANCE AND CLOSURE :

Since it is a part of RBIA Audit/Inspection the compliance and closure will be done along with the Regular Inspection.

12- REPORTING SYSTEM / FOLLOW-UP/ CLOSURE:**A- Formalization Letter:****Purpose**

It contains summary of the performance of branch on various parameters such as business, operational, compliance, risk, etc, along with the irregularities of serious nature. The purpose is to bring findings/ observations in notice of the HO without waiting for submission of detailed Inspection report. The report facilitates HO for issuing suitable instructions to RO/ branch, thereby ensuring that most of the irregularities are rectified by the time detailed inspection report is received by the branch. Thus timely rectification nullifies the possibility of non-rectification due to time factor involved in submission of main inspection report.

Submission

The Inspecting Officer will carefully prepare this letter and discuss the issues mentioned therein with Br. Manager in presence of RO representative on the concluding day and handover the same to Branch, RO & HO immediately.

Follow Up

The RO will monitor that the branch has initiated rectification process of issues raised in Formalization Letter.

Closure

The Formalization Letter will automatically stand closed along with the closure of the main inspection report.

B- SOL (Special Observatory Letter) Purpose

The purpose of SOL is to take quick and prompt action regarding serious irregularities such as misuse of discretionary powers, non-verification of end use of loan amount, allowing drawings in CC accounts without stock, loan sanctioned for prohibited business,



sanctioning of disproportionate limit, abnormal transactions in employees accounts, unauthorized debits in P&L Accounts, misappropriation of funds, etc.

Submission

The Inspecting Officer will take immediate notice of serious irregularities and inform to HO by a separate letter. HO will examine gravity of seriousness of these irregularities and issue SOL to branch through RO, if required.

Follow Up

The RO will monitor the submission of compliance by branch within 15 days from the date of receipt of this letter.

Closure

- The Regional Office will examine the compliance report submitted by the branch along with sample verification either through "On-Site" or "Off-Site" inspection of branch record and if satisfied recommend for closure to HO with their comments.
- The HO will place the compliance report in ensuing meetings of CAC and Sub Committee of CAC (Central Audit Committee) for discussion and closure.
- The HO will inform closure to the branch by way of Advisory Letter through RO

Monitoring by Audit Committee of Board

The Inspection department of HO will place the status of SOL before ACB for their perusal and guidance.

C- Special Letter

Purpose

The purpose of Special Letter is to take quick and prompt action regarding serious irregularities however not so serious as to qualify for issuing SOL.

Submission

HO will examine serious irregularities informed by IO and if satisfied that the irregularities are not so serious as to qualify for issuing SOL the Special Letter will be issued to branch through RO.

Follow Up

- The RO will monitor that the branch submits compliance report within 15 days from the date of receipt of this letter.

Closure

- The Regional Office will examine the compliance report submitted by the branch along with sample verification either through "On-Site" or "Off-Site" inspection of branch record and if satisfied recommend for closure to HO.
- The Inspection Department of HO will discuss the compliance report along with sample verification of branch record and if satisfied the matter will be closed in concurrence with G.M.
- The HO will inform closure to the branch by way of Advisory Letter through RO

Monitoring by Audit Committee of Board

The Inspection department of HO will place the status of Special Letters before ACB for their perusal and guidance.

D-SOL DNR (Documents Not Renewed): Purpose

The purpose is to take quick and prompt action for renewal of documents and safeguard bank's interest.

Submission

The Inspecting Officer will carefully examine status of renewal of documents and mention the factual status in the inspection report. The IO will inform to HO regarding status of DNRs in prescribed format through a separate letter recommending for issue of SOL. HO will examine the status and if satisfied with the recommendations, will issue-

- SOL will be issued by G.M. : For more than 24 DNRs
- SOL will be issued by C.M. (A&I at HO) : For up to 24 DNRs

Follow Up

The RO will monitor that the branch submits compliance within 15 days from the date of receipt of this letter. SOL (DNR) issued by GM will be discussed in every Sub Committee of CAC/ CAC till pending status.

Closure

Regional Office will examine the compliance report submitted by the branch along with sample verification either through "On-Site" or "Off-Site" inspection of branch record and if satisfied-

- SOL up to 24 DNRs will be closed by RO itself under information to HO.
- SOL above 24 DNRs will be recommended by RO for closure to HO.
- The HO will place the Compliance Report in ensuing meetings of CAC and Sub Committee of CAC (Central Audit Committee) for discussion and closure.
- The HO will inform closure to the branch by way of Advisory Letter through RO.

Monitoring by Audit Committee of Board

The Inspection department of HO will place the status of DNRs before ACB for their perusal and guidance.

13- Submission of RBIA Inspection Report, Follow up & Closure Purpose

The Branch during the course of performing of operations may inadvertently commit errors and omissions. The purpose of inspection is to find such errors & omissions and ensure timely rectifications / suitable action to safeguard bank's interest.

Submission of Inspection Report

- The Inspecting Officer will submit Inspection report to Head Office within a week from the date of completion of inspection.
- Inspection Reports will be sent to Branch through Regional Office, within 7 days from the date of receipt the same from I.O.
- RO will submit the report to branch within 3 days from the date of receipt from HO.

Follow Up**Submission of Commented Report by Branch**

Branch will submit the Commented Report to RO within 30 days from the date of receipt of Inspection Report.

Observation on Commented Report by RO

RO will observe the report and advise branch accordingly within 7 days from the date of receipt of the same.

Submission of CRC (Clean Rectification Certificate) by Branch

Branch is expected to submit CRC (Clean Rectification Certificate) within 60 days from the date of receipt of Inspection Report.

QRC (Qualified Rectification Certificate)

- In case complete rectification is not possible within 60 days from the date of receipt of the Inspection Report then the branch will submit QRC (Qualified Rectification Certificate). RO can allow maximum 120 days (Including 60 days earlier given for submission of CRC, considering unavoidable circumstances) for submitting CRC.
- QRC of every branch will be discussed in subsequent meetings of Sub Committee of CAC as well as CAC till pending issues are resolved/ rectified.
- In case even after granting additional time, rectification is pending/ incomplete, the matter will be referred to the competent authority for further action viz. further investigation, transfer the matter to vigilance department, etc.

Closure of Audit/Inspection Report:

- The Region Office will examine the compliance report submitted by the branch along with sample verification either through "on site" or "off site" inspection of branch record and if satisfied recommend for closure to HO.
- The Audit/Inspection & Inspection Department of HO will finalize the closure in concurrence



with GM.

- The HO will inform closure to the branch by way of Advisory Letter through RO
- In case irregularities mentioned in CRC of previous inspection found persistent during the current Inspection, the closure of previous CRC may be accepted.

Monitoring by Audit Committee of Board (ACB)

The Inspection department of HO will place the status of Inspection Reports before ACB for their perusal and guidance.

14- Key Stakeholders and their Roles

A- Hon'ble members of Board:

Status of Inspection & Audit / Inspection Department is monitored by Hon'ble Board in every meeting.

B- Audit Committee of Board:

Audit committee of Board is the medium to the Board of Directors through which the Board can exercise better control over Accounts, Finance, and Inspection & Audit Functions. The main functions of Audit Committee are periodical review of Internal Audit/Inspection, Review of Vigilance cases etc. in the bank.

C- Central Audit Committee:

Monthly review of Internal Inspection compliance, Vigilance cases etc. under Central Audit Committee headed by Chairman.

D- Sub- Committee of CAC:

Monthly review of Internal Inspection compliance etc. under Central Audit Committee headed by General Manager.

Responsibilities of the CAC will include:

- a) Reviewing the scope and nature of the Inspection Department at HO and review internal Audit / Inspection reports and compliances thereof,
- b) Review of the significant findings arising from all internal Audit/Inspection reports, including concurrent and Information Systems(IS) Audit reports,
- c) Review and recommend Annual Risk Based Audit Plan of the Bank to CAC for consideration and approval,
- d) Review the progress of Audit/Inspection scheduled Audit as per the approved Annual Inspection Plan,
- e) Review coverage area of various types of Audit/Inspections.
- f) Review of Audit/Inspection report /checklist
- g) Review of various Audit/Inspection policies
- h) To report the significant findings of Audit/Inspection reports and also other matters as required for consideration of ACB.
- i) Critical findings of all High & Very High Risk Branches(due to lowers core under Control Risk) should be placed before ACB.

Role of The Audit & Inspection Department at HO

- a. To function independently of Audit & Inspection functions of the Bank
- b. Formulation, review and updation of Internal Audit Policy in respect of Inspection keeping in view:
 - i. Reserve Bank of India / NABARD / Sponsor Bank guidelines
 - ii. New Products / Policies / processes / operating frame work designed of the Bank.
 - iii. Observations made by the Inspectors during their inspection of the Bank.
- c. Conduct Risk Assessment for the Branches on various parameters.



- d. Design Annual Action Plan for Audit / Inspection and place the same for approval to ACB.
 - f. Conduct Dynamic Risk Assessment to identify changes in risk profile of the Branches.
 - g. Conduct Man-power assessment for the internal Audit / Inspection function of the Bank
 - h. Identify and on-board staff or internal Audit / Inspection functions.
 - i. Assessment of training needs of the Audit / Inspections and the staff at inspection department HO and arrange training sessions for them as and when required.
 - j. Regular monitor of compliance with the Audit / Inspection Plan and ensure that the Audit / Inspections are completed as per the approved plan.
 - k. Keep track of regulatory changes and Internal Policy / process changes in the Bank
 - l. Update the Audit / Inspections on the change in the Bank's Policy / processes and appropriately revise the Audit / Inspection checklist.
 - n. Ensure adequate support to the Audit / Inspections is available in terms of Policy, Manual, IA Charter, regulations, Audit / Inspection check list, sampling criteria, reports from other Audit / Inspections such as Concurrent Audit / Inspection / IS Audit / Inspection etc.
 - o. Review of Audit / Inspection reports to identify the High Risk Audit / Inspection findings and high lighting them to the appropriate authority
 - p. Review / Analysis of Audit / Inspection findings to identify relevant trends across process / products / Regions and suggest thematic / special Audit / Inspections to identify root cause and suggest remedial measures.
 - q. To appraise the Top Management about the major irregularities / deficiencies observed.
 - r. To conduct special / thematic Audit / Inspection studies as per the directions of Senior Management and CAC / ACB.
 - s. To monitor / track changes in the risk profile of the branches high lighting the down-gradation in the rating of the branches to Senior Management and ACB.
 - t. To interact with the RAC's for the purpose of Audit / Inspection execution, reporting and closure.
 - u. Communicate to the Audit / Inspections on regular basis the Audit / Inspection findings noted across various products/process / regions to ensure that they cover such aspects as part of their review.
 - v. To set up, maintain and oversee operations of the Offsite Audit / Inspection Team.
 - w. To identify Audit / Inspection checks which can be performed / monitored via Off-site Audit / Inspection Team.
 - x. To oversee the Audit / Inspection checks performed by the Off-site Audit / Inspection cell and monitor compliance with the Audit / Inspection findings.
- v. Role of RAC's**
- a. Prepare and support branches for internal Audit / Inspection as per the Audit / Inspection program designed by Insp. Deptt. at HO.
 - b. Regular monitoring of compliance with the Audit / Inspection Plan and ensure that the Audit / Inspections are completed as per the approved plan.
 - c. Ensure timely submission of the Audit / Inspection reports from the Audit / Inspections.
 - d. Circulation of Audit / Inspection reports to the concerned branches.
 - e. Monitoring timely and closure of the Audit / Inspection reports via submission of Clean Rectification Certificate / Qualified Rectification Certificate.
 - f. To monitor closure of open Audit / Inspection issues / findings, post submission of Qualified Rectification Certificate.
 - g. Participate in Sub Committee of CAC & CAC Meetings and discuss the major



observations and findings their compliances.

- h. Plan Snap Audit functions of the High Risk Branches which are categorized during regular internal inspection & newly opened Branches.
- i. Provide feedback to enable management to continuously review and test the efficacy of various systems and procedures. Undertaking investigations covering Examination from Staff Accountability angle in case fraud / NPA accounts etc. as directed by Top Management
- j. Regional Office is to ensure that formalization of RBIA takes place before close of Audit / Inspection and is attended by officials as per schedule prescribed in Manual.

vi. Internal Auditors/Inspecting Officers:

- a. To have high standard of integrity and professional competence through objective and unbiased reporting.
- b. To ensure rectification of audit findings during Internal Audit to the extent possible to safeguard bank's interest.
- c. Conduct Internal audit of the branches allotted to them on an on-going basis.
- d. To comply with the Bank's guidelines / Manual on Internal Audit.
- e. To familiarize themselves with the Bank's Policies, processes, systems, Book of Instructions, Circulars, Guidelines, regulatory guidelines, etc. They should be able to guide and interpret the instructions in the manner identical with the objectives of issuing authority.
- f. Ensure compliance with audit coverage as per the check list and timely submission of the audit / Inspection reports within the stipulated timelines.
- g. Identify irregularities and discuss them with the Branch / operating unit for immediate rectification.
- h. Detect and report instances of suspected frauds / major irregularities to HO.
- i. Review compliance certificate / evidence submitted by the branch / operating unit for compliance with the current / past audit / inspection observations.
- j. Identify and report recurring irregularities to the Inspection Department HO and controlling authority and determine root cause for the recurring irregularities.
- k. Commenting upon the business performance of a branch vis-à-vis its targets
- m. Consider whether the procedures laid down by the Bank are conducive to further development of business in the existing conditions at a particular Branch.
- n. Finalizing risk category of the branch taking into consideration the Risk Matrix.
- o. The Internal Auditor has to ensure that before leaving the branch on conclusion of the Audit, a formalization meeting is held with the Branch Head and wherever possible in the presence of representative from Controlling / Regional Authority. The letter of formalization is to be invariably signed by the Branch head as also of representative from Region. The formalization letter covers major areas where urgent attention of the branch is needed.
- p. Ensure every effort is made to recover the entire amount of revenue leakage detected, if for any reason any amount remains unrecovered, the same should be brought to the notice of Inspection Department giving the detailed reasons. A copy of the letter from Branch Head to respective higher authorities is to be obtained recommending waiver of unrecovered amount.



vii. Operating Units/Branches:

- a. Provide adequate support to inspecting officer carrying out Internal Audit / Inspection.
- b. Ensure that necessary documents and infrastructure are provided to Internal Auditors.
- c. To ensure availability of Branch Head, Credit Incharge & Key Persons during the course of Audit / Inspection enabling the Internal Auditor for smooth conduction of Audit and as also for spot rectification of irregularities pointed out during the course of audit / Inspection.
- d. Ensure compliance with findings of Internal Audit in totality i.e. attending full and comprehensive reports and timely reporting of the same by way of a Rectification Certificate.
- e. Ensure reply to the queries received from IO's & Inspection Department.
- f. Ensure that the Clean Rectification Certificate is submitted along with reply / observations of RO's, within a period of 60 days from the date of receipt of inspection reports by respective Branches (notional transit period be given for delivery of reports)
- g. Regional Office to advise the branches under their control that on receipt of the report, process of rectification be undertaken by the branch immediately.
- h. Wherever, immediate compliance can not be ensured, action plan and time line for the same should be provided in Qualified Rectification Certificate (QRC).
- i. To ensure that the formalization is attended / discussed by the representing Region.
- j. The synopsis received after completion of Audit / Inspection should be critically analyzed / discussed with the Branch Head / Representative of the Region. Irregularities of serious nature should be followed up vigorously by respective Controlling Authority / ies. Special Observation Letters or Special Letters issued to the Branch should be closed only after satisfactory compliance.
- k. Controlling Authority as defined in Manual should accept the Clean Rectification Certificate (CRC) from the Branch through Regional Office only after ascertaining that it has attended all the irregularities pointed out in Inspection Report.

15- Corrective Action Plan

In case the Audit / Inspection Report arrives at a Medium or Low Audit / Inspection rating and or the trend of movement of Risk is very adverse the concerned Regional Office may consider taking any of the following actions. Based on the findings during Risk Based Internal Audit / Inspection of the Branch / Branches, the Bank may take one or more of the following steps as corrective action plan:

- a. Change in the Branch Leadership.
- b. Withholding the Delegated powers.
- c. Visits by the Controlling Authorities for monitoring the compliance.
- d. Introduction of Concurrent Audit / Inspection wherever necessary.
- e. Any other steps that may be deemed fit and considered necessary.

These are only suggestive and illustrative steps, hence the actual steps may be invariance with the above. Inspection Department will be reporting such branches along with details any of actions as above to CAC and ACB.

16- Code of ethics

The Auditors / Inspecting Officers carrying out the Audit / Inspections including the one under Risk Based Internal Audit / Inspection strategy are expected to apply the principles of integrity, objectivity, confidentiality and competency while carrying out the assignments. They should



continually improve their proficiency, the effectiveness and quality of their services. They should maintain the Audit / Inspection evidences / work papers / documents obtained during the Audit / Inspection assignment and same should be retained at respective Regional Office level for the period that may be required or till then assignment of that particular unit / branch / activity is carried out.

17. Audit/Inspection Reporting

- i. Audit/Inspection Reports will be prepared in a standard format and issued after conclusion of each Audit/Inspection assignment and will be submitted as appropriate.
- ii. The observations will be graded and classified based on their impact.
- iii. Audit/Inspection observations are to be supported by relevant evidences and working papers to substantiate the observations
- iv. Audit/Inspection Report shall be sent post completion of the Audit / Inspection to Insp. Deptt. and the Reporting Authority of the Branch after due vetting by Insp. Deptt.

18. Checking of Compliances

Checking of Compliances on Audit / Inspection Findings can contribute to improving the efficacy of the Audit / Inspection process. A system of Checking of Compliances is being proposed from the next Audit / Inspection Cycle i.e. F.Y. 2025-26 and the same will be carried out regularly on quarterly basis. The procedure to be followed for Compliance Checking will be as follows:

- a. Every year 10 % of Branches (which are under High & Medium Risk) Audit/Inspected in the previous year will be taken up for Compliance checking.
- b. The selection of Branches will be from mix of locations at Metro/Urban/Semi-urban/Rural.
- c. Such Checks will be spread uniformly across the year.
- d. Findings of such compliance checking reports be discussed in Audit / Inspection Committee.
- e. Branch incumbents are responsible if wrong reporting in compliance checking is observed. In this regard, all the Branch Managers are advised to issue an Office Order to all the section in-charges submitting reply of the Inspection Report that they would be personally held responsible for any wrong reporting.

19. Guidelines Review:

General Manager (Audit & Inspection) is the owner of the Policy. This Policy would be approved/ reviewed by the Board. This policy shall remain in force for **three years** from the date of approval. However, the existing Policy will be in force till renewal of the Policy.

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