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Reserve Bank of India (Urban Co-operative Banks – Concurrent Audit) Directions, 2026

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Introduction

A High level Committee set up by the Reserve Bank of India at the instance of Government of India under the chairmanship of Shri A. Ghosh, the then Deputy Governor, to enquire into various aspects of frauds and malpractices in banks, had recommended in its report, submitted in June 1992 that 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. An informal group set up by the Reserve Bank of India comprising senior officers of some large commercial banks and the representatives from the Institute of Chartered Accountants of India examined the various aspects connected with the system.

Accordingly, Concurrent Audit was introduced in all scheduled and other Primary (Urban) Co-operative Banks with deposits over ₹50 crore and was subsequently extended to all UCBs based on the recommendations of the Joint Parliamentary Committee (JPC), which enquired into stock market scam and matters relating thereto.

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

In exercise of the powers conferred by Section 35A of the Banking Regulation Act, 1949, read with Section 56 of the BR Act (AACs), and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.



Chapter I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Urban Co-operative Banks – Concurrent Audit) Directions, 2026.
2. These Directions shall come into effect immediately upon issuance.

B. Applicability

3. These Directions shall be applicable to Urban Co-operative Banks (hereinafter collectively referred to as 'UCBs' and individually as a 'UCB').

For the purpose of these Directions, 'Urban Co-operative Banks' shall mean Primary Co-operative Banks as defined under Section 5(ccv) read with Section 56 of the Banking Regulation Act, 1949.

C. Definitions

4. In these Directions, unless the context states otherwise, the terms herein shall bear the meaning assigned to them below.

(1) '*Audit Firm*' shall mean a Proprietorship Firm or Partnership Firm or Limited Liability Partnership (LLP).

5. All expressions used in these Directions shall have the same meaning as have been assigned to them under the Reserve Bank of India Act, 1934, Banking Regulation Act, 1949, the Companies Act, 2013, or any statutory modification or re-enactment thereto or other regulations issued by RBI or the Glossary of Terms published by RBI or as used in commercial parlance, as the case may be.



Chapter II - Governance and Oversight

A. Role of the Board of Directors

6. The Board shall, once in a year, review the effectiveness of the Concurrent Audit system and take necessary measures to correct the lacunae in the system.
7. The Audit Committee of the Board (ACB) shall review the action taken on concurrent audit report and its compliance.



Chapter III - Guidelines for Concurrent Audit System

8. The UCB's management shall decide the details of the concurrent audit system. These Directions broadly define the concept and scope of concurrent audit, such as coverage of business / branches, types of activities to be covered during the audit and reporting system.

A. Scope of Concurrent Audit

9. 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. The concurrent audit process emphasises on substantive checking in key areas rather than test checking.
10. A concurrent auditor may not sit in judgement of the decision taken by the UCB. However, the concurrent auditor will necessarily have to see whether the transactions or decisions are within the policy parameters laid down by the Head Office (HO) / Board, they do not violate the instructions or policy prescriptions of RBI and that they are within the delegated authority and in compliance with the terms and conditions for exercise of delegated authority.

B. Coverage of Business / Branches

11. The coverage may be as under:
 - (1) The UCB shall subject the Departments / Divisions at the HO 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 to concurrent audit. In addition, the UCB may subject all branch offices undertaking such business, as also large branches and dealing rooms, to continuous audit.
 - (2) The concurrent audit may cover the problem branches, which are continuously getting poor or very poor rating in the UCB's annual inspection / audit and where the housekeeping is extremely poor.



- (3) The UCB may also include additional branches at its discretion on the basis of need, as per its professional judgement about the overall functioning of the branches.

C. Types of Activities to be Covered

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

(1) Cash

- (i) Daily cash transactions with particular reference to any abnormal receipts and payments.
- (ii) Proper accounting of inward and outward cash remittances.
- (iii) Proper accounting of currency chest transactions (if any) and its prompt reporting to RBI.
- (iv) Expenses incurred by cash payment involving sizeable amount.

(2) Investments

- (i) Ensure that in respect of purchase and sale of securities, the branch has acted within its delegated power having regard to its HO instructions.
- (ii) Ensure that the securities held in the books of the branch are physically held by it.
- (iii) Ensure that the branch is complying with RBI / HO / Board guidelines regarding delivery of scrips, documentation and accounting.
- (iv) Ensure that the sale or purchase transactions are done at rates beneficial to the UCB.



(3) **Deposits**

- (i) Check the transactions about deposits received and repaid.
- (ii) Percentage check of interest paid on deposits may be made, including calculation of interest on large deposits.
- (iii) Check new accounts opened. Operations in new current / savings 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.

(4) **Advances**

- (i) Ensure that loans and advances have been sanctioned properly (i.e., after due scrutiny and at the appropriate level).
- (ii) Verify whether the sanctions are in accordance with delegated authority.
- (iii) Ensure that securities and documents have been received and properly charged / registered.
- (iv) Ensure that post disbursement, supervision and follow-up is proper, such as receipt of stock statement, instalments and renewal of limits.
- (v) Verify whether there is any misutilisation of the loans and advances and whether there are instances indicative of diversion of funds.
- (vi) Check whether the letters of credit issued by the branch are within the delegated power and ensure that they are for genuine trade transactions.
- (vii) Check the bank guarantees issued, whether the UCB has properly worded and recorded them in the register and whether they have been promptly renewed on the due dates.
- (viii) Ensure proper follow-up of overdue bills of exchange.



- (ix) Verify whether the classification of advances has been done as per RBI guidelines.
- (x) Verify whether the UCB has submitted claims to Export Credit Guarantee Corporation of India Limited (ECGC) in time.
- (xi) Verify that instances of exceeding delegated powers have been promptly reported to Controlling Office / HO / Board by the branch and have been got confirmed or ratified at the required level.
- (xii) Verify the frequency and genuineness of such exercise of authority beyond the delegated powers by the concerned officials.

(5) Foreign Exchange Transactions

- (i) Check foreign bills negotiated under letters of credit.
- (ii) Check Foreign Currency Non-Resident (FCNR) and other non-resident accounts, whether the debits and credits are permissible under the rules.
- (iii) Check whether inward / outward remittance have been properly accounted for.
- (iv) Examine extension and cancellation of forward contracts for purchase and sale of foreign currency. Ensure that they are duly authorised, and necessary charges have been recovered.
- (v) Ensure that balances in Nostro accounts in different foreign currencies are within the limit as prescribed by the UCB.
- (vi) Ensure that the overbought / oversold position maintained in different currencies is reasonable, taking into account the foreign exchange operations.
- (vii) Ensure adherence to the guidelines issued by RBI / HO of the UCB about dealing room operations.



- (viii) Ensure verification / reconciliation of Nostro and Vostro account transactions / balances.

(6) Housekeeping

- (i) Ensure that the maintenance and balancing of accounts, ledgers and registers including clean cash and general ledger is proper.
- (ii) Ensure prompt reconciliation of entries outstanding in the inter-branch and inter-bank accounts, Suspense Accounts, Sundry Deposits Account and Drafts Accounts, and early adjustment of large value entries.
- (iii) Carryout a percentage check of calculations of interest, discount, commission and exchange.
- (iv) Check whether debits in income account have been permitted by the competent authorities.
- (v) Check the transactions of staff accounts.
- (vi) 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 daybook to verify as to how the differences in clearing have been adjusted. Such instances should be reported to Head Office / Board in case the difference persists.
- (vii) Detection and prevention of revenue leakages through close examination of income and expenditure accounts / transactions.
- (viii) Check cheques returned / bills returned register and look into reasons for return of those instruments.
- (ix) Checking of inward and outward remittances, Demand Drafts (DDs), Mail Transfers (MTs) and Telegraphic Transfers (TTs).



(7) Other Items

- (i) Ensure that the branch gives proper compliance to the internal inspection / audit reports.
- (ii) Ensure that the UCB deals with customer complaints promptly.
- (iii) Verification of statements, HO returns, statutory returns.

13. The aforesaid list is illustrative and not exhaustive. The UCB 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 per cent check. They may, therefore, consider adopting the following norms:

- (1) In certain areas, such as off-balance sheet items Letters of Credit (LCs) and Bank Guarantees (BGs), investment portfolio, foreign exchange transactions, fraud prone / sensitive areas, advances having outstanding balances of more than ₹5 lakh, if any unusual feature is observed, the concurrent auditors may conduct cent per cent check.
- (2) 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.
- (3) 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.
- (4) Concurrent auditors shall concentrate on high value transactions having financial implication for the UCB rather than those involving lesser amount, although number-wise they may be large.
- (5) If any adverse remark is required to be given, the concurrent auditors should give reasons thereof.



- (6) Concurrent auditors may themselves identify problem areas at branch level / UCB and offer their suggestions to overcome them.

D. Appointment and Remuneration of Concurrent Auditor

14. The UCB at its discretion may decide whether the concurrent audit should be done by the external auditors (professionally qualified Chartered Accountants) or its own staff. In case, the UCB decides to appoint external auditors for the purpose, the terms of their appointment and remuneration to be paid shall be fixed by the UCB within the broad guidelines approved by the Board and / or by the Registrar of Co-operative Societies (RCS) of the State concerned.
15. The audit firms shall 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 external concurrent auditors, the UCB may consider terminating their appointment and may report the matter to the Institute of Chartered Accountants of India (ICAI) for such action as they deem fit under intimation to RBI / RCS.
16. In case, the UCB prefers to entrust the audit to its own officers, the UCB may ensure that these officers are well experienced and of sufficient seniority in order to exercise necessary independence and objectivity while conducting concurrent audit.
17. It will be desirable and necessary to rotate the auditors, whether internal or external, periodically. Progressively, the UCB may consider reducing reliance on external auditors as soon as requisite skills for audit work are developed from within by proper selection and training of officers.

E. Reporting System

18. The concurrent auditors may report the minor irregularities and wrong calculations to the Branch Manager for an on-the-spot rectification and reporting compliance.
19. If these irregularities are not rectified within a reasonable period of time, say a week, the concurrent auditors may report them to the HO. If the concurrent



auditors observe any serious irregularities, these should be straight away reported to HO immediately. The concurrent auditor will have to lay emphasis on the propriety aspect of the audit. UCBs 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.

F. Other Instructions

20. While framing a concurrent audit system, the UCB may clearly spell out the linkages between different forms of internal inspections and audits already in existence and the proposed concurrent audit.
21. The concurrent auditors shall certify that the investments held by the UCB as on the last reporting Friday of each quarter as reported to RBI are actually owned / held by it as evidenced by physical securities or the custodian's statement. The certificate should be submitted to the concerned Senior Supervisory Manager (SSM), RBI, within thirty days from the end of the relative quarter.
22. The concurrent auditors should specifically verify compliance to the instructions contained in RBI Master Direction [Reserve Bank of India \(Urban Co-operative Banks – Classification, Valuation and Operation of Investment Portfolio\) Directions, 2025](#) regarding transactions in Government Securities.
23. The concurrent auditors should immediately report serious irregularities brought out in the concurrent audit report to the concerned SSM, RBI.
24. Chartered Accountants / audit firms associated with the UCB for concurrent audit assignments should not undertake statutory audit assignment of the same UCB during the same period. The audit firms associated with concurrent audit should relinquish the concurrent audit assignment before accepting the statutory audit assignment during the year.

G. Conclusion

25. While reviewing the concurrent audit system, the attempt should be to integrate the same with other systems of internal audit / inspections, which are already in existence and to address shortcomings, if any, like 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.



Chapter IV - Repeal and Other Provisions

A. Repeal and Saving

26. With the issue of these Directions, the existing directions, instructions, and guidelines relating to Concurrent Audit as applicable to Urban Co-operative Banks stand repealed, as communicated vide [circular no. DoS.CO.PPG.66/11.01.005/2026-27 dated July 31, 2026](#). The directions, instructions, and guidelines already repealed vide any of the directions, instructions, and guidelines listed in the above circular shall continue to remain repealed.
27. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions. Further, the repeal of these directions, instructions, or guidelines shall not in any way prejudicially affect:
- (1) any right, obligation or liability acquired, accrued, or incurred thereunder;
 - (2) any penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
 - (3) any investigation, legal proceeding, or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture, or punishment as aforesaid; and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those directions, instructions, or guidelines had not been repealed.

B. Application of Other Laws Not barred

28. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.



C. Interpretations

29. For giving effect to the provisions of these Directions or to remove any difficulties in the application or interpretation of the provisions of these Directions, RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by RBI shall be final and binding.

(C. Saravanan)
Chief General Manager