

4th, July 2019

**INDEPENDENT AUDITOR'S REPORT**

**To**

**The Members,**

**The Kodungallur Town Co-operative Bank Ltd No.102,**

**Kodungallur.**

**Report on the Financial Statements**

We have audited the accompanying financial statements of **THE KODUNGALLUR TOWN CO-OPERATIVE BANK LIMITED – No.102** which comprise the Balance sheet as at 31<sup>st</sup> March, 2019 and the Profit and Loss Account and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting standards issued by the Institute of Chartered Accountants of India. This responsibility includes the design, implementation and maintenance of Internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error .

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing

**THE KODUNGALLUR TOWN CO-OPERATIVE BANK LTD**

issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained are sufficient and appropriate to provide a basis for our qualified audit opinion.

The Balance sheet, Profit and Loss account and Cash Flow Statement have been drawn in Form – A and B respectively of Third schedule to the Banking Regulation Act, 1949 and in accordance with directives/guidelines issued by the Reserve Bank of India.

#### **Basis for Qualified Opinion**

- a) Provision for liability towards Earned Leave Encashment made is not in accordance with Actuarial Valuation - "Accounting Standard 15 – Employee Benefits." The total provision made upto 31.03.2019 amounts to Rs.2.41 Crores on the basis of actual liability computed by the bank. In our opinion the actual liability has to be ascertained and provided for on the basis of Actuarial valuation certificate.
- b) The bank has paid during the year Rs.72697/- under the Group Gratuity Insurance Scheme of Life Insurance Corporation of India. An additional demand of Rs.1.65 crores was raised by LIC due to enhancement of Group Gratuity limit of employees

from Rs. 10.00 lakh to Rs.20.00 lakh. The bank has made a provision of Rs.50.00 lakhs only against this liability.

The shortfall in the provision of Gratuity has resulted in understatement of current liability and overstatement of profit of the bank to the extent of 1.15 crores during the year.

c) As per the directions of Reserve Bank of India vide Circular UBD No.BPD.PCB.Cir 12/09.29.00/2003-04 dt 04.09.2003, a minimum reserve upto 5% of the total investment portfolio of the bank in AFS category has to be created as Investment Fluctuation Reserve (IFR). The investment of the bank as on 31.03.2019 under AFS category is Rs.116.29 crores. The balance at the end of the year in Investment Fluctuation Reserve is Rs. 2.82 crores. The minimum requirement of IFR at the end of the year is Rs.5.81 crores and there is a short fall of Rs.2.99 crores.

After the end of the year, the bank has transferred Rs.56.31 crores from AFS to HTM category and also sold Rs.5.02 crores from AFS category. The balance in investment account under AFS category as on date of report is Rs. 54.96 crores. The required provision is Rs.2.75 crores as against the current balance in Investment Fluctuation Reserve of Rs.2.82 crores.

d) The fixed asset register has to be maintained with full particulars, the physical verification of assets has revealed damages to the extent of Rs.9.8 lakhs in furniture account and Rs.12.8 lakhs in computer and electronics account, which has been taken at cost. The loss if any, has not been ascertained and written off in the account.

e) The bank has taken Membership in two credit information agencies instead of four such agencies as required by Reserve Bank of India.

### **Qualified Opinion**

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matters described in the basis for Qualified

Opinion Paragraph, the financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- a) in the case of the Balance Sheet, of the State of the affairs of the bank as at 31st March, 2019 and
- b) In the case of Profit and Loss Account of the Profit for the year ended on that date and
- c) in the case of the Cash Flow Statement, of the cash flow for the year ended on that date.

### **Report on other Legal and Regulatory Requirements**

#### **We report that:**

- i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) In our opinion, proper books of accounts as required by law have been kept by the Bank so far as appears from our examination of those books;
- iii) The transactions of the bank which have come to our notice are within the powers of the bank;
- iv) The Balance sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with books of Accounts.
- v) The accounting standards adopted by the Bank are consistent with those laid down by accounting principles generally accepted in India so far as applicable to bank.

**ACCOUNTANTS**

**FOR JAYAN AND KRISHNANKUTTY  
CHARTERED**

**FIRM REGN NO.01295S**

**M.JAYAN**