

Annual Statement of Internal Controls

Internal Control systems comprises of various inter-related components including Control Environment, Risk Assessment, Control Activities, Information & Communication and Monitoring. Control Environment is the foundation for the other components of internal control, providing discipline and structure.

It is the responsibility of the bank's management to establish Internal Control System to maintain an adequate and effective Internal Control Environment. It's a process designed to manage rather than eliminate the risk of failure to achieve overall business strategies of the bank. Internal controls and policies are designed to provide reasonable assurance regarding effectiveness and efficiency of the operation, reliability of financial information and compliance with applicable laws and regulations.

Management ensures efficient and effective Internal Control System by carrying out risk assessment, identifying control, reviewing pertinent policies/procedures, establishing relevant control procedures and monitoring system.

Evaluation:

The implementation of internal controls was reviewed, on an ongoing basis, by the CCAG (Compliance & Control Assurance Group) during Year-2008. Audit group monitored control activities and reviewed adequacy, effectiveness & implementation of internal controls system during their audits of branches & other units in accordance with the audit plan.

During the year emphasis was laid on MIS reports and System based audits, regulatory violations remained a focal point by Internal Audit and CCAG.

Observations and weaknesses identified by the Internal & External Auditors and Regulators have been addressed on priority basis while initiating necessary measure of mitigation so as to ensure timely cure of Internal Control System Gaps. Since it is an ongoing process management of significant issues, capacity for enhanced Internal Control Environment still exists, which is expected to further improve with centralization of monitoring controls system.

During the year bank went through a transformation phase which affected/influenced its control environment/operations to some extent. Appropriate measures taken by the Management to monitor the control environment using Central Data Base and imparting need base training has starting producing results in terms of identification and initiation of self corrective measures. Measures have also been taken by the field management to avoid repetition of the exceptions in order to further strengthen the Internal Control Environment.

Management's consistent & continuous efforts, through need based training programs, shall further enhance field staffs knowledge & understanding on internal policies, procedures and regulatory requirements.

Based upon the results achieved from reviews and audits conducted during the year, we evaluate that existing Internal Control System is "Effective and Acceptable", which provides reasonable assurance of effective operations covering financial and operational controls and compliance with laws and regulations though room for improvement still exist.

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