

Sree Subramanyeswara Co-operative Bank Ltd
BENGALURU – 560004.
Policy for Appointment of Statutory Auditors (SAs)

Approved in the Board Meeting held on 23-06-2023 vide Resolution No.14 (I) (1)

1. Objectives of Statutory Audit

The overall objective of audit is to help bank management in achieving efficiency and effectiveness in all operations. It enables bank management in finding out that the branch/office of the bank is functioning on sound footing from financial and banks' point of view. The protection of depositors' interests and ensuring financial stability are two of the major drivers for putting SA in place.

Statutory audit of banks can be defined as an audit to ensure that the financial statements and books of account presented to the regulators and the members are fair and accurate. It is an audit that is prescribed by a statute and it is mandatory. At the end of every financial year, a rigorous statutory audit is conducted in every bank. For achieving the above mentioned objective the bank has framed a policy for appointment of SA titled as "The Subramanyeswara Co-operative Bank Ltd, Bangalore-Policy for appointment of Statutory Auditors.

2. Various Act provisions for appointment of SA

a. Section 63 of KCS Act, 1959

For Urban Co-operative Banks, the Statutory Audit is conducted as necessitated in terms of Section 63 of KCS Act, 1959. The main gist of the Section 63 of KCS Act, 1959 regarding appointment of Statutory Audit is as under.

(1) Every Cooperative society shall get its accounts audited at least once in a year before the first of September following the close of the cooperative year by an auditor or an auditing firm appointed by the general body of the cooperative society from a panel of auditors or auditing firms approved by the Director of cooperative audit;

Provided that the Director of co-operative audit shall be the authority competent to prepare and maintain a list of auditors and auditing firms who satisfy the prescribed qualification and experience for undertaking the audit of accounts of co-operative societies in the state.

Provided further that the Director of cooperative audit shall communicate a panel of auditors and auditing firms, not exceeding ten, to every cooperative society within thirty days from the close of the co-operative year.

(2) The general body of every cooperative society shall at its general meeting appoint an auditor or an auditing firm to audit the accounts of the society for the cooperative year in which the general meeting is held.

(3) The manner of preparation of the list of auditors and auditing firms by the Director of co-operative audit and the procedure for giving the panel to each co-operative society shall be such as may be prescribed.

b. Section 30 of Banking Regulation Act,1949

In pursuance of the Banking Regulation (Amendment) Act, 2020 NO. 39 of 2020 published in the Gazette of India on 29 September, 2020, Section 30 of BR Act,1949 is applicable to Urban Co-operative Banks with effect from 29 June,2020. The relevant sub-section 30 (1) and Section 30(1A)of Section 30 of BR Act, 1949 are as under.

(1) The balance-sheet and profit and loss account prepared in accordance with section 29 shall be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.

(1A). Notwithstanding anything contained in any law for the time being in force or in any contract to the contrary, every banking shall, before appointing re- appointing or removing any auditor or auditors, obtain the previous approval of the Reserve Bank.

Accordingly, the provisions of KCS Act,1959 will not be applicable regarding appointment of SAs as the same has been superseded by amendments to BR Act.

3. Guidelines issued by RBI for Appointment of Statutory Auditors (SA) for UCBs

Consequent upon amendment of BR Act,1949,RBI has issued new guidelines for appointment of SA vide circular No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs for different entities. For UCBs, Section 30(1A) of the Banking Regulation Act, 1949 is applicable. These guidelines supersede all previous guidelines issued by RBI on the subject. The process of appointment of SA by UCBs in pursuance of above mentioned RBI circular is mentioned in ensuing paras.

4. Applicability:

4.1 The guidelines issued by RBI will be applicable to the UCBs for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SAs of the bank.

4.2 As RBI guidelines regarding appointment of SAs shall be implemented for the first time for UCBs from FY 2021-22, they shall have the flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

5. Prior Approval of RBI:

Bank will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SAs, on an annual basis in terms of the above-mentioned statutory provisions. **For the purpose, bank should apply to Department of Supervision, RBI (Bengaluru office) before 31st July of the reference year from the list of eligible audit firms. In case of UCBs the list of eligible audit firms will be as provided by Director of co-operative audit as mentioned in Section 63 of KCS Act, 1959.** The bank is required to apply to Department of Supervision, RBI (Bengaluru office) before 31st July of the reference year. Permission of General Body to appointment of SA is not required.

6. Number of SAs and Branch Coverage

6.1 Bank should appoint a minimum of one audit firm [Partnership firms/Limited Liability Partnerships (LLPs)] for conducting statutory audit. The Bank may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

6.2 The Bank is having Seven (7) CBS enabled branches and do not conduct any forex business and the digital depth is limited to NEFT/RTGS transactions/RuPayDebit cards under sub-membership of a member bank. The main banking business conducted by bank is lending and acceptance of deposits. During the last five years no fraud has taken place in the bank. The main concerns faced by the bank are high level of NPAs. Keeping in view the risk perception, the bank has decided to engage **one audit firm** for conducting statutory audit

6.3 The SAs shall visit and audit at least top 20% of the branches of the bank, to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the bank.

7. Eligibility Criteria of Auditors

Bank is required to appoint audit firm(s) as its SA(s) fulfilling the eligibility norms as prescribed in **Annex I**.

8. Independence of Auditors

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

8.2 In case of any concern with the Management of the bank such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SAs shall the Board of the bank.

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

9. Professional Standards of SAs

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

9.2 The Board of bank shall review the performance of SAs on an annual basis. Any serious lapses/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.

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

10. Tenure and Rotation

10.1. In order to protect the independence of the auditors/audit firms, bank 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 the concerned office of RBI (Department of Supervision.)

10.2 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 the bank for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the bank for six years from completion of part-tenure.

10.3. One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution

(NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Entity and within overall ceiling prescribed by any other statutes or rules. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. For the purpose of this circular, a group of audit firms having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of SA accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

. 11. Audit Fees and Expenses

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

11.2 The audit fees for SAs of the UCBs 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.

11.3 The Board of UCB shall decide the remuneration/fee payable to SAs as per the provisions of Karnataka Co-operative Societies Rules, 1960 and guidelines/instructions issued thereunder by the Cooperative Department of Karnataka

12. Statutory Audit Policy and Appointment Procedure

12.1 The Board Approved Policy for appointment of SAs shall be hosted on its official website/public domain and formulate necessary procedure thereunder to be followed for appointment of SAs. The bank will ensure that apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, are taken in to account while appointing SAs.

12.2 Guidelines on minimum procedural requirements are given at **Annex II**.

13. Synopsis of Procedure for appointment of SAs.

A synopsis of procedure for appointment of SAs for quick reference has been furnished in Annexure-III

ANNEX I

Eligibility Criteria for Appointment as SA

A. Basic Eligibility Criteria for Appointment as SAs is based on the basis of **Asset Size of Entity 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 years out of which minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three years, minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification, minimum No. of years of Audit Experience of the firm and minimum No. of Professional staff

Asset Size of Entity 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 Partners/ 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
Above ₹15,000 crore	5	4	2	15	18
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Upto ₹1,000 crore	2	1	1*	6	8

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as full time partners. Further, for appointment as SAs of UCBs with asset size above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years. For all UCBs with asset size above ₹ 1,000 crore, the full-time partner's association with the firm would mean exclusive association.

The definition of 'exclusive association' will be based on the following criteria:

- (a) The full-time partner should not be a partner in other firm/s.
- (b) She/He should not be employed full time / part time elsewhere.
- (c) She/He should not be practicing in her/his own name or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under Section 2(2) of the Chartered Accountants Act, 1949.
- (d) For UCBs, the Board shall examine and ensure that the income of the partner from the firm/LLP is adequate for considering them as full-time exclusively associated partners, which will ensure the capability of the firm for the purpose.

Note 2: CISA/ISA Qualification: For UCBs with asset size upto ₹ 1,000 crore, there is no minimum requirement in this regard. However, such UCBs may give priority to firms with full time partners or full time CAs having CISA/ISA qualification. There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of shortlisting 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)/ UCBs/NBFCs/ 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 typists/stenos/computer operators/ secretaries/subordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm as on the date of shortlisting (for other Entities) for considering them as professional staff for the purpose.

B. Additional Consideration

(i) The audit firm, proposed to be appointed as SAs for UCB, 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 should 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 UCB 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 bank, the said firm shall not be appointed as SCA/SA.

(v) The auditors for UCB with **asset size above ₹1,000 crore** should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree/complexity of computer environment of the Entities where the accounting and business data reside in order to achieve audit objectives. **(Applicable to UCB with asset size above ₹1,000 crore)**

(vi) 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.

ANNEX II

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 the bank till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.
2. The UCBs shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SA. Upon selection of SAs by the UCBs in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the UCBs shall seek RBI's prior approval for appointment of SCAs/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 bank, under the seal of the said audit firm.
4. The UCBs 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 SA by them comply with all eligibility norms prescribed by RBI for the purpose.
5. While approaching the RBI for its prior approval for appointment of SAs, **UCBs 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.

Annexure-III

Synopsis for appointment for Statutory Auditors in UCBs

- i. RBI has issued new guidelines for appointment of SA vide circular No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021.
- ii. As RBI guidelines regarding appointment of SAs shall be implemented for the first time for UCBs from FY 2021-22, they shall have the flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.
- iii. The guidelines have been issued in pursuance of Section 31(1) of BR Act, 1949 (After amendment of BR Act).
- iv. The UCBs shall place the name of shortlisted audit firms (Minimum 2 firms to be selected), in order of preference, before their Board for selection as SA. Upon selection of SAs by the UCBs in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the UCBs shall seek RBI's prior approval for appointment of SCAs/SAs.
- v. The audit firms are to be selected from the list provided by the Cooperative Department of Karnataka keeping in view the eligibility criteria mentioned in the policy and to be approved by the Board.
- vi. 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 the bank till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.
- vii. While approaching the RBI for its prior approval for appointment of SAs, **UCBs 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'** to facilitate expeditious approval of appointment/re-appointment of the concerned audit firm.
- viii. Bank is required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SAs, on an annual basis.
- ix. The bank is not required to obtain the permission/consent of General Body for approval of SAs
- x. The bank should apply to Department of Supervision, RBI (Bengaluru office) before 31st July of the reference year from the list of eligible audit firms.

- xi. The SAs shall visit and audit at least top 20% of the branches of the bank, to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the bank.
- xii. In order to protect the independence of the auditors/audit firms, bank 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 the concerned office of RBI (Department of Supervision.)
- xiii. 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.
- xiv. **If any partner of a Chartered Accountant firm is a director in bank, the said firm shall not be appointed as SCA/SA.**
- xv. The auditors for UCB with **asset size above ₹1,000 crore** should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree/ complexity of computer environment of the Entities where the accounting and business data reside in order to achieve audit objectives.
- xvi. 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.
- xvii. The Board Approved Policy for appointment of SAs shall be hosted on its official website/public domain and formulate necessary procedure thereunder to be followed for appointment of SAs.
- xviii. The Board of UCB shall decide the remuneration/fee payable to SAs as per the provisions of Karnataka Co-operative Societies Rules, 1960 and guidelines/instructions issued thereunder by the Cooperative Department of Karnataka

FORM B

A. Particulars of the firm:

Asset Size of Entity 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)	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 Partners/ Paid CAs with CISA/ISA Qualification	Minimum No. of years of Audit Experience# of the firm	Minimum No. of Professional staff

*Exclusively associated in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than ₹ 1,000 crore #Details may be furnished separately for experience as SCAs/SAs and SBAs

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 SCA/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.

C. Declaration from the firm

The firm complies with all eligibility norms prescribed by RBI regarding appointment of SCAs/SAs of UCBs (as applicable). 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 wilful 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:

FORM C

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

The -----(Name of the bank) is desirous of appointing M/s _____, Chartered Accountants (Firm Registration Number _____) as 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.

2. The bank 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 UCB for FY _____ along with relevant information (copy enclosed), in the format as prescribed by RBI.

3. The firm has no past association/association for _____ years with the UCB as SCA/SA/SBA.

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

Signature

(Name and Designation)

Date: