

# **THE VARACHHA CO-OPERATIVE BANK LTD**

## **POLICY FOR APPOINTMENT OF STATUTORY AUDITORS**

We have framed this policy based on RBI circular No. RBI/2021-22/25 No: Dos.CO. ARG/ SEC. 01/08.91.001/2021-22 dated 27.04.2021 on Guidelines for Appointment of Statutory Auditors (SAs) of Urban Co-op. Banks, issued under Section 30(1A) of Banking Regulation Act, 1949 and it supersedes all previous guidelines of RBI on this subject.

### **1. Applicability:**

**1.1** These guidelines are applicable to our Bank for the Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditors of our Bank.

**1.2** RBI guidelines regarding appointment of SAs shall be implemented for the first time for our Bank from FY 2021-22, we 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 (disturbance).

### **2. Prior Approval of RBI:**

**2.1** Our Bank will be required to take prior approval of Department of Supervision (DoS), RBI, for appointment/reappointment of SAs, on an **Annual basis** in terms of the above-mentioned statutory provisions. For the purpose, we should apply to DoS, RBI, Ahmedabad before 31st July of the reference year as our Head Office is located under its jurisdiction.

**2.2** After shortlisting of applications received for appointment of SAs we shall apply to DoS, RBI, Ahmedabad the **panel of 2 SAs** mentioning preference 1 and 2 for prior approval.

### **3. Number of SAs and Branch Coverage:**

**3.1** Asset size of our bank is below Rs.15,000 crore hence, for our bank we shall appoint one audit firm (Partnership firm/LLPs) for conducting statutory audit.

**3.2** SAs shall visit and audit at least the Top 20 branches / Top 20% of the branches of our bank which shall 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 our bank.

### **4. Eligibility Criteria of Auditors:**

Our Bank shall appoint audit firm(s) as our SA(s) who fulfilling the eligibility norms as prescribed in the table of **Annex I** of this policy.

### **5. Independence of Auditors:**

**5.1** The board of directors of our bank shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by our board to the concerned SSM of RBI, Ahmedabad.

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5.2 In case of any concern with the management of our Bank such as non-availability of information / non-cooperation by the management, which may hamper the audit process, the SAs shall approach the board under intimation to SSM of RBI, Ahmedabad.

5.3 Concurrent auditors of our Bank should not be considered for appointment as SAs. The audit of our bank and any entity with large exposure in our Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.

5.4 The time gap between any non-audit works (services like tax audit, tax representation and advice on tax matters etc. and internal assignments, special assignments, etc.) by the SAs for our Bank should be at least **one year**, before or after their appointment as SAs. However, during the tenure as SA, an audit firm may provide such services to our Bank which may not normally result in a conflict of interest, and board of our Bank may take our own decision in this regard.

5.5 The restrictions as detailed in para 5.3 and 5.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

### 6. Professional Standards of SAs:

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

6.2 The Board of our 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 complete details of the audit firm.

6.3 In the event of lapses in carrying out audit assignments resulting in misstatement of our bank's 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 our Bank, the SAs would be liable to be dealt with suitably under the relevant statutory / regulatory framework.

### 7. Tenure and Rotation:

7.1 In order to protect the independence of the auditors / audit firms, our bank shall appoint the SAs for a continuous period of **three years** (one tenure), subject to the audit firm satisfying the eligibility norms each year. However, we can remove the audit firm during the above period only with the prior approval of Dos, RBI, Ahmedabd.

7.2 Our bank shall not reappoint the same audit firm for **6 years** (two tenures) after completion of full or part of one term of audit.

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7.3 Our bank shall not consider the appointment of auditors / audit firms as SA if auditors/audit firms are already appointed as SA in four Commercial Banks, eight UCBs and eight NBFCs during a particular year.

7.4 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 shall not be permitted.

7.5 The incoming audit firm shall not be eligible if it is associated with the outgoing auditor or audit firm under the same network of audit firms.

### **8. Audit Fees and Expenses:**

8.1 The reasonable amount of audit fees for SAs will be decided by the board in terms of the relevant statutory / regulatory provisions.

8.2 The audit fees for SAs shall commensurate with the scope and coverage of audit, size and spread of assets (total assets), accounting and administrative units, complexity of transactions, and level of computerization, identified risks in financial reporting, etc.

8.3 The board of our bank shall make recommendation to the competent authority as per the relevant statutory / regulatory instructions for fixing audit fees of SAs.

### **9. Procedure for Appointment of SAs:**

9.1 For appointment of SAs, our bank shall shortlist 2 audit firms so that 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, there would not be any requirement of short listing and sending names of multiple audit firms to RBI in case of reappointment of SAs till completion of tenure of continuous term of 3 years.

9.2 The name of shortlisted audit firms shall be placed before the board in order of preference for selection as SA. Upon selection of SAs by the board and verifying their compliance with the eligibility norms prescribed by RBI, our bank shall apply to DoS, RBI, Ahmedabad for prior approval for appointment of SAs.

9.3 A certificate along with relevant information as per **Form B**, shall be obtained from the audit firm(s) proposed to be appointed as SAs 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 with seal of the audit firm by the main partner/s.

9.4 Our bank shall verify the compliance of audit firm(s) to the eligibility norms as prescribed by RBI for the purpose and on satisfaction of eligibility of audit firm(s), our bank shall recommend the

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names along with a certificate, in the format as per **Form C**, stating that the audit firm(s) proposed to be appointed as SA comply with all eligibility norms.

**9.5** Our bank shall indicate the total audited figures of asset size as on March 31st of the previous year while approaching RBI for prior approval for appointment of SAs along with a copy of board resolution with recommending the names of audit firms in the order of preference and shall also furnish the information as per **Form B and Form C**.

### **10. Statutory Audit Policy:**

We have formulated this board approved policy and hosted on our bank's website.

As a policy matter, we review / revise the policy annually or as and when warranted or RBI issues fresh instructions / guidelines. The board of directors approved this policy in BoD meeting Dt.

**06.05.2024 vide resolution no. 9**

**The Varachha Co-operative Bank Ltd**

**General Manager**

**Chairman**

# THE VARACHHA CO-OPERATIVE BANK LTD

## ANNEX I

### Eligibility Criteria for Appointment as SA

#### A. Basic Eligibility:

| Asset Size as on 31 <sup>st</sup> March of Previous Year | Minimum No of Full-Time Partners (FTPs) associated with the firm for a period of at least three (3) years<br><b>Note 1</b> | 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<br><b>Note 2</b> | Minimum No. of years of Audit Experience of the firm<br><b>Note 3</b> | Minimum No. of Professional Staff<br><b>Note 4</b> |
|--|--|---|--|---|--|
| Above Rs.1000 Cr. and up to Rs.15000 Cr.                 | 3  | 2   | 1  | 8   | 12   |
| Above Rs.15000 Cr.                                       | 5  | 4   | 2  | 15  | 18   |

#### **Note 1: Partner's Association with the firm:**

There should be at least one-year continuous association of partners with the firm as on the date of short listing for considering them as full time partners. Further, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

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) He / She should not be employed full time / part time elsewhere.

(c) He / She should not be practicing in his / her 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. (**Explained as:** An associate or a fellow of the institute who is salaried employee of a chartered accountant in practice or a firm of such chartered accountants or firm consisting of one or more chartered accountants and members of any other professional body having prescribed qualifications shall, notwithstanding such employment, be deemed to be in practice for the limited purpose of the training of articled assistants.)

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To ensure the capability of the firm board of our bank 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.

## **Note 2: 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 to consider as a paid CA with CISA/ISA qualification.

## **Note 3: Audit Experience:**

Audit experience shall mean experience of the audit firm as Statutory Central / Branch Auditor of UCBs. 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 / stenographers / computer operators/ secretaries / subordinate staff etc. There should be at least one year continuous association with the firm as on the date of shortlisting for considering them as professional staff for the purpose.

## **B. Additional Consideration:**

(i) The audit firm, 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) Appointment of SAs is in line with the ICAI's Code of Ethics or 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 our bank, the said firm shall not be appointed as SA of our bank.

(v) The statutory auditor 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 bank.

(vi) The statutory auditor must have a fair knowledge of the functioning of the co-operative sector also have working knowledge of the local language.

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### **C. Continued Compliance with basic eligibility criteria:**

The audit firm (after appointment) shall have to approach the bank immediately in case of resignation, death of any of the partners / employees or action taken by Government agencies, NFRA, ICAI, RBI and/or any other Financial Regulators. Further, the audit firm shall have to take all necessary steps to become eligible within a reasonable time in case of any of the above mentioned situation and the audit firm should have to comply with before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit.

In case of any extraordinary circumstance after the commencement of audit, like death of one or more partners, employees, etc., which makes the firm ineligible with respect to any of the eligibility norms, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

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## FORM - B

Eligibility Certificate from \_\_\_\_\_ (Name and Registration Number of the firm)

### **A. Particulars of the firm:**

| Asset Size of the bank (audited) as on 31 <sup>st</sup> March of Previous Year | Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) Years | Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years | Number of Full Time Partners/Paid CAs with CISA/ISA Qualification | Number of Years of Audit Experience# | Number of Professional Staff |
|--|---|--|---|--------------------------------------|------------------------------|
|  |   |  |   |                                      |                              |

\*Exclusively associated in case of UCBs with asset size of more than ₹ 1,000 crore

#Details may be furnished separately for experience as SAs

### **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 Commercial banks (excluding RRBs) / UCBs/ NBFCs (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:**

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## FORM - C

**(Certificate to be submitted by Bank regarding eligibility of audit firm proposed to be appointed as SA)**

Our Bank is desirous of appointing M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as Statutory Auditor (SA) for the financial year \_\_\_\_\_ for our 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.

2. Our 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 our Bank 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 our Bank as SA.

4. Our Bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of UCBs.

**Signature**  
**(Name and Designation)**

**Date:**