

POLICY FOR APPOINTMENT OF STATUTORY AUDITORS

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OF
STATUTORY AUDITORS**

SUCO Souharda Sahakari Bank is guided by the Karnataka State Souharda Sahakari Act, 1997 and the Guidelines issued, from time to time, by the RBI in all the matters relating to the appointment of statutory auditors and audit of the Bank. Some of the important Provisions of the Karnataka State Souharda Sahakari Act, 1997 and the Guidelines issued by the RBI are hereunder.

These provisions shall be part and parcel Bank's policy on appointment "Statutory Auditors". The policy shall be subject to review annually.

1. Audit Provisions of Karnataka State Souharda Sahakari Act.– (1) Every Cooperative shall get its accounts audited at least once in a year before the first day of September following the close of the cooperative year by an auditor or an auditing firm appointed by the general body of the cooperative 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 the co-operatives 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 within thirty days from the close of the co-operative year.

2. The general body of every cooperative shall at its general meeting appoint an auditor or an auditing firm to audit the accounts of the cooperative 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 shall be as prescribed.

4. The audit under sub-section (1) shall include an examination of overdue debts, if any, the physical verification and valuation of the assets and liabilities, verification of the cash balance and securities, certification of the profits or losses, compliance with the transparency law and other laws applicable to the cooperatives including the instructions and directives of NABARD or Reserve Bank of India and an examination of the working and the other prescribed particulars of the cooperative.

5. The Auditor or Auditing firm shall conduct and complete the audit of accounts as provided for in this Act or the rules and send copies of the audit report and communicate the results of audit to the cooperative, the Federal cooperative, the Registrar, the Director of co-operative audit and to the financing bank or credit agency, and if the cooperative is affiliated to any other cooperative, to such cooperative, within the first day of September every year.

6. The auditor or auditing firms shall have right to receive all notices and every communication relating to the general meeting of a cooperative and, at the cost of the cooperative, shall be entitled to attend such meeting and to be heard at the general body meeting, in respect of all or any part of the business with which he is concerned as auditor or auditing firm.

7. If the result of the audit held under sub-section (1) discloses any defects in the working of the cooperative, the board shall take steps to rectify the defects and remedy the irregularities pointed out in the audit report and place the audit report along with the action taken report before the general meeting to be held before the twenty-fifth day of the September every year and explain therein the said defects or the irregularities. The board shall continue to take steps for rectification of all the defects and remedying of all the irregularities in the audit report and apprise the general meetings every year till all the defects are rectified and the irregularities are remedied. The board shall send a report of action taken to the Registrar, the Federal cooperative and the Director of Co-operative Audit within thirty days from the date of the general meeting

8. The Director of Co-operative Audit shall submit the audit reports of the apex

cooperatives to the State Government annually for being laid before the legislature in the manner prescribed.

9. If it appears to the general body of a co-operative that there is a prima-facie case of fraud or misappropriation or embezzlement of funds not detected or properly examined by the auditor during the regular audit or misclassification of accounts, the general body may resolve to provide for a re-audit of any account of the cooperative with a view to truly reflect the financial position of the cooperative and the provisions of the Act and the rules applicable to the audit shall apply to such re-audit;

10. If it appears to the State Government on an application by a cooperative or otherwise that it is necessary or expedient to re-audit the accounts of a cooperative, the State Government may, by an order provide for such re-audit and the provisions of the Act and the rules applicable to the audit shall apply to such re-audit.

Provided that such re-audit shall be ordered only when there is a prima-facie case of fraud or misappropriation or embezzlement of funds not detected or properly examined by the auditor or auditing firms during regular audit or misclassification of accounts or for any other valid reasons with a view to truly reflect the financial position of the cooperative.

Background

Reserve Bank of India (RBI) vide their letter No.RBI/202122/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27/04/2021 Issued guidelines for appointment of Statutory Auditors of the Bank. The following guide lines are issued 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. These guide lines supersede all previous guidelines issued on the subject.

Prior Approval of RBI

Bank will be required to take prior approval of RBI (Department of Supervision) for appointment / reappointment of Statutory Auditors of the Bank, on an annual basis in terms of the above-mentioned statutory provisions.

For the purpose, Bank shall approach the Central Office of RBI (Department of Supervision), RBI before 31st July of the reference year.

Norms on Eligibility, Empanelment and Selection of Statutory Auditors

The Eligibility norms (as advised by Reserve Bank of India) for asset size of Rs.1,000 crore and above are as under:

Basic Eligibility

Eligibility parameters	
Minimum No. of Full-Time partners (FTPs) associated with the firm for period of at least three(3) years-Note 1	3
Out of total FTPs, Minimum No. of Fellow Chartered Accountant(FCA) Partner associated with the firm for a period of at least three(3)years	2
Minimum No. of Full Time Partners/Paid CAs with CISA/ISA Qualification–Note 2	1
Minimum No.of years of Audit Experience of the firm-Note 3	8
Minimum No.of Professional staff-Note 4	12

Note 1:

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:

- i. The full-time partner should not be a partner in other firm/s.
- ii. She/he should not be employed fulltime/ part time elsewhere.
- iii. 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.
- iv. The Board/ACB 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:

There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of short listing for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3: Audit Experience:

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 affected 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 of professional staff with the firm as on the date of short listing for considering them as professional staff for the purpose.

Additional Consideration

- i. The audit firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of Kannada.
- ii. The audit firm, proposed to be appointed as Statutory Auditors for the Bank, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- iii. 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.
- iv. The Bank shall ensure that appointment of Statutory Auditors 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.
- v. If any partner of a Chartered Accountant firm is a director in the Bank, the said firm shall not be appointed as Statutory Auditors of the Bank.
- vi. The auditors 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 where the accounting and business data reside in order to achieve audit objectives.
- vii. Auditors 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.

Continued Compliance with basic eligibility criteria

In case any audit firm (after appointment) does not comply with any of the eligibility norms (on

account of resignation, death etc. of any of the partners, employees, action by Government Agencies, NFRA, ICAI, RBI, other Financial Regulators, etc.), it may promptly approach the Bank with full details. Further, the audit firm shall take all necessary steps to become eligible within a reasonable time and in any case, the audit firm should be complying with the above norms 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.

Additional Information from the Statutory Auditors

Bank to obtain following information from the Statutory Auditors:

- Copy of Constitution Certificate.
- 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.
- 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.
- Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.
- The 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 Institutions (NABARD, SIDBI, NHB, EXIM Bank) or RBI), eight UCBs and eight NBFCs during a particular financial year. The audit firm shall provide information about the banks for which they have been appointed as Statutory Auditors for the particular financial year.

Declaration from the Statutory Auditors

- Declaration from the Statutory Auditors stating that the firm complies with all eligibility norms prescribed by RBI regarding appointment of Statutory Auditors shall be obtained.
- A suitable undertaking from the firm(s) to the effect that the Audit will be carried out by their own staff and they will not subcontract the audit work.
- None of the disqualifications under section 141 of the Companies Act, 2013 applies to them and they are qualified for appointment as Statutory Auditor of the Bank.
- None of the partners or their spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them or the Firm/ Company in which they are partners/ Directors are not indebted to our Bank. Further, they have not been declared as willful defaulters by any Bank or financial institution.
- In the event of acceptance of the appointment as a statutory auditor of the Bank, the audit firm will have to relinquish all the internal assignments in our Bank.
- There are no adverse remarks/disciplinary proceedings pending/initiated against the firm/any of its partners/proprietor on the records of ICAI, which would make them ineligible for appointment as auditors.
- Associate firms or sister concerns of statutory audit firm are disqualified for any internal assignment where the main firm/partners are allotted Statutory Audit in a particular year.

Independence of the Statutory Auditor

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

In case of any concern with the Management such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the Statutory Auditors shall approach the Board/ACB, under intimation to the concerned SSM/RO of RBI. Board shall be directly approached only when the auditors notice a matter of concern involving any member of the ACB.

Concurrent auditors should not be considered for appointment as Statutory Auditors. The audit for the same reference year should also be explicitly factored in while assessing independence of the auditor.

The time gap between any non-audits works (services mentioned at Section 144 of Companies Act, 2013, internal assignments, special assignments, etc.) by the Statutory Auditors or any audit/non-audit works should be at least one year, before or after its appointment as Statutory Auditors. However, during the tenure as Statutory Auditors, an audit firm may provide such services which may not normally result in a conflict of interest*, and Bank may take own decision in this regard, in consultation with the Board/ACB.

*A conflict would not normally be created in the case of the following special assignments (indicative list):

- Tax audit, tax representation and advice on taxation matters.
- Audit of interim financial statements.
- Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
- Reporting on financial information or segments thereof

Professional Standards of Statutory Auditors

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

The ACB shall review the performance of Statutory Auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditors 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/ACB, with the full details of the audit firm.

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

Tenure and Rotation

In order to protect the independence of the auditors/audit firms, Bank shall appoint the Statutory Auditors for a continuous period of two years, subject to the firms satisfying the eligibility norms each year.

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

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 and within over all ceiling prescribed by any other statutes or rules.

For clarity,

1. The limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm.
2. 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 Statutory Auditors accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible.

3. 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.

Audit Fees and Expenses

The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions.

The audit fees for Statutory Auditors 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.

The Board/ACB of Bank shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of Statutory Auditors.

Statutory Audit Policy and Appointment Procedure

Bank shall host appointment of Statutory audit Policy, duly approved by Board/ACB, on Bank's official web site/public domain and follow necessary formulated procedure there under for appointment of Statutory Auditors of the Bank. Bank shall afford necessary transparency and objectivity for most key aspects of this important assurance function.

The Bank shall shortlist minimum of 2 audit firms for every vacancy of Statutory Auditors so that even if firm at first preference is found to be in eligible/refuses appointment, the firm at second preference can be appointed and the process of appointment of Statutory Auditors does not get delayed. However, in case of reappointment of Statutory Auditors till completion of tenure of continuous term of 3 years, there would not be any requirement of short listing and sending names of multiple audit firms to RBI while seeking approval to appointment.

Based on the eligibility norms mentioned on this policy, Bank shall prepare a list of shortlisted audit firms. Bank shall obtain willingness in writing to accept the assignment of Statutory Audit work of the Bank from the above shortlisted audit firm(s). At the time of obtaining the willingness letters from such shortlisted audit firms, there will be no commitment on the part of our Bank to allot the Statutory Audit work to the auditors.

The name of shortlisted audit firms, in order of preference, shall be placed before ACB and Board for their concurrence before it is forwarded to RBI for final approval.

After ACB & Board approval, Bank shall obtain a certificate, along with relevant information as per Form B from the audit firm(s) proposed to be appointed as Statutory Auditors of 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 Statutory Auditors of the Bank under the seal of the said audit firm.

Bank 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 Statutory Auditors by them comply with all eligibility norms prescribed by RBI for the purpose.

On selection of Statutory Auditors by the Bank in consultation with ACB & Board and after verifying compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of Statutory Auditors of the Bank.

While approaching the RBI for its prior approval for appointment of Statutory Auditors, Bank shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board/ACB Resolution recommending names of audit firms for appointment as Statutory Auditors 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.

Resolution for appointment of Statutory Auditor shall be passed in Annual General Meeting after RBI approval for selected Audit firms.

Relinquishment of the internal assignments, if any

In the event of acceptance of the appointment as Statutory Auditor of the Bank, all the internal assignments of the Auditor in our Bank, if any, will stand withdrawn.

Removal and Discontinuation

An audit firm appointed as Statutory Auditor can be removed during its tenure with the prior approval of Reserve bank of India. The Board of Directors of the Bank will be the competent authority to recommend removal of any Statutory Auditors to Reserve Bank of India (Department of Supervision), as applicable for prior approval for appointment.

Redressal of Grievances

Head of Internal Audit with consultation with Managing Director under guidance of ACB will dispose off grievances/ complaints (if any) with regard to the selection of Statutory Auditors.

RBI Guidelines & Validity of policy

This policy is valid for 3years. However, the policy shall review periodically as and when guidelines are revised by RBI in this regard. This policy shall remain in force till the next review.

The modification/changes, if any, made by RBI in norms/criteria/procedure from time to time shall construe to be part of our policy.