

SURAT NATIONAL CO-OPERATIVE BANK LTD

RESOLUTION No: 47

Date: 13/07/2021

POLICY FOR APPOINTMENT OF STATUTORY AUDITORS

1. This “Policy for Appointment of Statutory Auditors” is based on 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

2. Applicability:

2.1 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.

2.2 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 H-2 (second half) of FY 2021-22 in order to ensure that there is no disruption (disturbance).

3. Prior Approval of RBI:

3.1 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.

3.2 We shall approach DoS, RBI, Ahmedabd, since our Head Office is located under its jurisdiction.

4. Number of SAs and Branch Coverage:

4.1 For our Bank we should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit.

4.2 Our Bank has decided on the number of SAs based on this Board Approved Policy, *inter alia*, taking into account the relevant factors such as the size and spread of (total) assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc.

Considering the above factors and the requirements of the Bank, the actual number of SAs to be appointed shall be decided by our Board subject to limits i.e. maximum of 4 SAs. This limit

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have been prescribed to ensure that the number of SAs appointed by our Bank are adequate, commensurate with the asset size (total assets) and extent of operations of our Bank, with a view to ensure that audits are conducted in a timely and effective manner. As of now it is decided that, we shall prepare the **Panel of 2 SAs**. This will be subject to review in future based on the experience.

4.3 SAs shall visit and audit at least the Top 20 branches / Top 20% of the branches of our 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 our Bank.

5. Eligibility Criteria of Auditors:

Our Bank is required to appoint audit firm(s) as our SA(s) fulfilling the eligibility norms as prescribed in the Table of **Annex I** (of RBI Guidelines). Different requirements are mentioned for Basic Eligibility for UCBs with asset size of upto Rs.1000 Crores and different for above Rs. 1000 crores and up to Rs.15000 crores and also different for above Rs.15000 crores in Annex-I.

6. Independence of Auditors:

6.1 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 Dos, RBI, Ahmedabad.

6.2 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 of our Bank, under intimation to Dos, RBI, Ahmedabad.

6.3 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.

6.4 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.

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6.5 The restrictions as detailed in para 6.3 and 6.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

7. Professional Standards of SAs:

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

7.2 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 the full details of the audit firm.

7.3 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.

8. Tenure and Rotation:

8.1 In order to protect the independence of the auditors/audit firms, Our 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, we can remove the audit firms during the above period only with the prior approval of Dos, RBI, Ahmedabd for prior approval for appointment, as mentioned at Para 3.2 of this circular.

8.2 An audit firm would not be eligible for reappointment in our Bank for **6 years (two tenures)** after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other UCBs/Entities.

8.3 One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks, 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 UCB and they will be considered for allotment of SA accordingly. Shared/Sub-contracted

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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.

9. Audit Fees and Expenses:

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

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

9.3 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.

10. Statutory Audit Policy and Appointment Procedure:

10.1 We have formulated this Board Approved Policy to be hosted on our official website/public domain and formulate necessary procedure there under to be followed for appointment of SAs. Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

10.2 Guidelines on minimum procedural requirements are given at **Annex II** (of RBI Guidelines).

10.3 This policy will be reviewed as and when RBI issues fresh instructions and or when it is warranted.

For, Surat National Co-op. Bank Ltd

(Devang P. Choksi)

Chairman

(Harshvadan R. Chokhawala)

Vice- Chairman

(Hitesh H. Shah)

CEO

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ANNEX I

Eligibility Criteria for Appointment as SA

A. Basic Eligibility

Asset Size of Entity as on 31 st 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 Rs.15000 Cr	5	4	2	15	18
Above Rs.1000 Cr and upto Rs.15000 Cr	3	2	1	8	12
Up to Rs.1000 Cr	2	1	1*	6	8

* Not mandatory for UCBs/NBFCs with asset size of upto ₹ 1,000 crore.

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of short listing (for other UCBs) for considering them as full time partners. Further, for appointment as SAs of other 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 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.

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(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 other UCBs, 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:

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 short listing (for other UCBs) 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 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/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 UCBs, 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 UCBs 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 any Entity, the said firm shall not be appointed as SA of any of the group entities of that Entity.

(v) The auditors for UCBs 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 UCBs where the accounting and business data reside in order to achieve audit objectives.

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(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.

C. 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 UCB 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.

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ANNEX II

Procedure for Appointment of /SAs

1. The UCBs 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 UCBs 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.
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 SAs.
4. The UCBs 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 UCB 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 UCBs, under the seal of the said audit firm.
5. 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.
6. While approaching the RBI for its prior approval for appointment of SAs, UCBs shall include 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.

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FORM B

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

A. Particulars of the firm:

Asset Size of UCB as on 31 st 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 Qualifications	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 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 SAs of UCBs. 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.

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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 our 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: