

# The Sonapat Urban Co-Operative Bank Ltd, Sonapat

Head Office: New Subji Mandi, Sonapat

## POLICY ON APPOINTMENT OF STATUTORY AUDITOR

### Background

This policy on appointment of Statutory Central Auditors is framed based on the Guidelines issued by the Reserve Bank of India vide Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27-04-2021 in respect of appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).

### Applicability

The Policy shall be applicable for appointment of Statutory Auditor by the Bank for the financial year 2021-22 and onwards.

### Basic Eligibility norms, Empanelment and Selection of SCAs

- a. The Bank shall adhere to the following norms before proceeding to appoint SCAs and/ or amended by RBI from time to time.

Category	Asset Size of the Bank 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  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
A	Above <input type="checkbox"/> 15,000 crore	5	4	2	15	18
B	Above <input type="checkbox"/> 1,000 crore and Up to <input type="checkbox"/> 15,000 crore	3	2	1	8	12
C	Upto <input type="checkbox"/> 1,000 crore	2	1	1*	6	8



As on 31<sup>st</sup> March 2020, the asset size of the Bank is Rs.49,733 crore as per which the Bank is required to comply with category "A" in the above slab for appointment of SCAs/SAs for FY 2021-22 onwards. Further, at least two partners of such firm shall have continuous association with the firm for at least 10 years.

**Note: 1**

Full time partners: 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. 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.

The Audit Committee / Board of the 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, 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 shortlisting for considering them as Paid CAs with CISA / ISA qualification for the purpose.

**Note 3: Audit Experience**

The audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ 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 / 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 shortlisting for considering them as professional staff for the purpose.





**b. The Bank shall adhere to following additional criteria:**

- i. The audit firm, proposed to be appointed as SCAs / SAs for Entities, should be duly qualified for appointment as auditor.
- 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 appointment of SCAs/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.

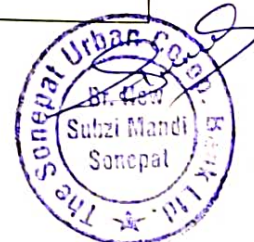
**c. Continued Compliance with basic eligibility norms**

- i. 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.
- ii. 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, the Bank shall make an application to RBI alongwith relevant documents forwarded by the Auditor to allow the concerned audit firm to complete the audit, as a special case.

**I. Number of Auditors**

- i. Taking into account relevant factors such as the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc. the Audit Committee and the Board of the Bank shall decide on the number of Auditors to be appointed over and above minimum applicable auditors. However, the actual number of SCAs/SAs to be appointed shall be decided by the AC /Board, subject to the following limits prescribed by RBI:

Sl. No.	Asset Size of the Entity	Maximum number of SCAs/SAs
1.	Upto <input type="checkbox"/> 5,00,000 crore	4
2.	Above <input type="checkbox"/> 5,00,000 crore and Upto <input type="checkbox"/> 10,00,000 crore	6
3.	Above <input type="checkbox"/> 10,00,000 crore and Upto <input type="checkbox"/> 20,00,000 crore	8
4.	Above <input type="checkbox"/> 20,00,000 crore	12



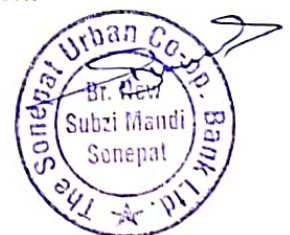
- ii. Considering the asset size of the Bank stated above, **the statutory audit of the Bank shall be conducted by minimum of 2 (two) audit firms [Partnership firms/Limited Liability Partnerships (LLPs)].** The Bank shall ensure that the joint auditors do not have any common partners and they are not under the same network of audit firms. The Bank shall finalise the work allocation among SCAs/SAs, before the commencement of the statutory audit, in consultation with their SCAs/SAs.

## II. Procedure for Appointment of SCAs/SAs

- i. The Bank shall shortlist minimum of 2 audit firms for every vacancy of SCAs/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 SCAs/SAs does not get delayed. In case of reappointment of SCAs/SAs 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.
- ii. The bank shall continue to place the name of shortlisted audit firms, in order of preference, before the BoD for selection & recommendation to the Bank's Board. Upon selection of SCAs/SAs by the bank in consultation with their BoD and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek prior approval of RBI (Department of Supervision) for appointment/ re-appointment of SCAs/SAs, on an annual basis. For the purpose the Bank shall approach RBI before 31<sup>st</sup> July of the reference year.
- iii. The Bank shall obtain the following documents from the shortlisted firms:
  - a. Complete profile of the firm
  - b. Certificate of Membership and Practice of Individual partners issued by ICAI.
  - c. to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. The format prescribed by RBI is enclosed at the end of this policy.

The above certificates should be signed by the main partner/s of the audit firm proposed for appointment of SCAs/SAs of the Entities, under the seal of the said audit firm.

- iv. The Banks 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 SCA/SA comply with all eligibility norms prescribed by RBI for the purpose.
- v. While approaching the RBI for its prior approval for appointment of SCAs/SAs, following documents / information's shall be provided to RBI along with the application:





- a. total asset size of the Bank as on March 31<sup>st</sup> of the previous year (audited figures).
- b. A certified copy of Board / ACB Resolution recommending names of audit firms for appointment as SCAs/SAs in the order of preference.
- c. Information as per Form B and Form C.

### **III. Professional Standards of SCAs / SAs**

- i. The SCAs/SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- ii. The Board shall review the performance of SCAs / SAs on an annual basis. Any serious lapses / negligence in audit responsibilities or conduct issues on part of the SCAs/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.
- iii. 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 SCAs / SAs, the SCAs / SAs would be liable to be dealt with suitably under the relevant statutory / regulatory framework.

### **IV. Tenure and Rotation**

- i. The SCAs / SAs shall be appointed for a continuous period of three years, subject to the firms satisfying the eligibility norms each year but 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 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. The Bank can remove the audit firms during the above period only with the prior approval of the concerned office of RBI (Department of Supervision).

### **V. Audit Fees and Expenses**

- i. The audit fees for SCAs/SAs of all the Entities 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.
- ii. The Board of the Bank shall decide the Audit fees and expenses which would be subject to the approval of shareholders in their A.G.M

### **VI. Disclosure / Transparency**

This policy shall be hosted in the website of the Bank and that the appointment(s) made shall be disclosed to concerned authorities as per relevant regulatory / statutory provisions.



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

**A. Particulars of the firm:**

Asset Size of Entity 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 Profession al staff

\*Exclusively associated in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with assetsize 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 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:**



**Certificate to be submitted by the Commercial Banks (excluding RRBs) and UCBs regarding eligibility of audit firm proposed to be appointed as SCA/SA**

1. The bank/UCB is desirous of appointing M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as Statutory Central Auditor (SCA)/ Statutory Auditor (SA) for the financial year \_\_\_\_\_ for their 1<sup>st</sup> / 2<sup>nd</sup> / 3<sup>rd</sup> 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/UCB has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Central Auditor (SCA)/Statutory Auditor of the bank/UCB for FY enclosed), in the format as prescribed by RBI.
3. The firm has no past association for \_\_\_\_\_ years with the Bank as SCA / SA / SBA.
4. The bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of Commercial Banks (excluding RRBs) / UCBs.

Signature:

(Name and Designation)

Date:

