

STATUTORY AUDITORS (SAS) POLICY

1.Purpose of the Policy

1.1 The purpose of the policy on appointment of Statutory Auditors (SAs) from 2021-22 and onwards is to provide guidance on eligibility and procedures to be applied for the appointment of Statutory Auditors to the Bank in line with guidelines issued by Reserve Bank of India.

2.Scope of Application

2.1 The policy is applicable for appointment of Statutory Auditors for the Bank.

3.Objectives of the Policy

3.1 The objective of the Policy document is to provide guidance on appointment of Statutory Auditors for the Bank.

4.Regulatory Reference

4.1 RBI Circular RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 – Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).The guidelines are issued under Section 30(1A) of the Banking Regulation Act, 1949.

5. Applicability:

5.1. This Policy is called the policy for appointment of statutory auditors of Sree Charan Souhardha Co-operative Bank Ltd., Bengaluru.

5.2 'Bank' means Sree Charan Souhardha Co-operative Bank Ltd., Bengaluru.

5.3 'Board' means the Board of Directors of Sree Charan Souhardha Co-operative Bank Ltd., Bengaluru, constituted as per the Bye laws of the Bank.

5.4 This Policy guidelines, rules, regulations and procedures are subject to change/modification from time to time in consonance with the directions/instructions issued by Reserve Bank of India.

5.5 These guidelines will be applicable for Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditors. The bank will appoint same Statutory Audit for branches also.

6. Prior Approval of RBI:

6.1 Bank should take prior approval of RBI for appointment/reappointment of SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, the bank should apply to Department of Supervision, RBI Bangalore before 31st July of the reference year.

7. Number SAs and Branch Coverage

7.1 As the bank's asset size is less than ₹1,000 crore, and has one head office and ten branches, it will appoint minimum one audit firm [Partnership firm/Limited Liability Partnership Firms] (LLPs) for conducting statutory audit.

7.2 It will be ensured that SAs shall visit and audit the branches, 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.

8. Eligibility Criteria of Auditors

The bank will appoint audit firm as its Statutory Auditors, fulfilling the eligibility norms as prescribed below:

A. Basic Eligibility

8.1 The minimum number of full-time partners associated with the firm for period of at least three years should be **two**. For considering them as full-time partners (FTP), there should be at least one-year continuous association of partners with the firm as on the date of shortlisting.

8.2 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 should be **one**.

8.3 For UCBs with asset size up to Rs.1,000 crore, even though there is no minimum requirement in this regard. The bank may give priority to firms with full time partners or full time CAs having CISA/ISA qualification.

8.4 Audit Experience: The minimum number of audit experience of the audit firm as Statutory Auditor should be **six years**. Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFIs.

8.5 Professional Staff: There should be minimum **eight** 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 considering them as professional staff for the purpose

B. Additional Consideration

- (i) The audit firm, proposed to be appointed as SAs for bank, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- (ii) If any partner of a Chartered Accountant firm is a director in the bank, the said firm shall not be appointed as SA of the bank.
- (iii) 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 Kannada language.
- (iv) 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. A declaration to the effect may be obtained from the auditor.

(v) Bank shall ensure that appointment of SCAs/SAs in line with the ICAI's Code of Ethics / any other such standards adopted and do not give rise to any conflict of interest

C. Continued Compliance with basic eligibility criteria

In case of 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, NFA, 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.

9. Independence of Auditors

9.1. The Board of Directors shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board of the Bank to RBI.

9.2. 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 SCAs/SAs shall approach the Board/ACB of the Bank under intimation to the RBI.

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

9.4. The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SCAs/SAs for the Banks or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as SCA/SA, an audit firm may provide such services to the concerned Banks which may not normally result in a conflict of interest i.e. 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.

9.5. The restrictions as detailed in (9.3) and (9.4) above, should also apply to an audit firm under the same network – as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014, of audit firms or any other audit firm having common partners.

10. Professional Standards of SCAs/SAs

10.1 The SCA/SAs are strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

10.2 The Board of Directors of the bank 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 full details of the audit firm.

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

11. Tenure and Rotation

11.1. Bank shall 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 RBI Bangalore.

11.2 An audit firm would not be eligible for reappointment in the bank for six years (two tenures) after completion of full or part of one term of the audit tenure.

12. Audit Fees and Expenses

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

12.2 The audit fees for SAs 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.

13. Procedure for Appointment of SCAs/SAs

13.1 The bank should 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 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.

13.2. The bank should place the name of shortlisted audit firms, in order of preference, before their Board for selection as SA. Upon selection of SAs by the bank in consultation with its Board and verifying their compliance with the eligibility norms prescribed by RBI, the bank will seek RBI's prior approval for appointment of SAs.

13.3. The audit firms have to submit a certificate, along with relevant information as per **Form B** to the RBI circular referred to above to the effect that they comply 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 SA of the Bank, under the seal of the audit firm.

13.4 The bank should verify the compliance of audit firm 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 proposed to be appointed as SA by them comply with all eligibility norms prescribed by RBI for the purpose.

13.5 While approaching the RBI for its prior approval for appointment of bank will 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.

The Above policy is approved in the Board meeting held on 27.05.2021

FORM C

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

The bank 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 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 bank 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 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 UCBs.

Signature

(Name and Designation)

Date:

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

Asset Size of bank as on 31st March of Previous Year (Audited)	Number of Full-Time partners (FTPs)	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

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