



NAV JEEVAN CO-OP. BANK LTD.

Head Office – Bhawani Saw Mills Compound, Ulhasnagar 421 003

15.07.2022

STATUTORY AUDIT POLICY FOR FY 2022-23

This policy is with reference to RBI Circular dated 27th April, 2021 (RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22) on **Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).**

1. Applicability

The captioned circular is applicable to All Primary (Urban) Co-operative Banks (UCBs) from FY 2021-22 and onwards for appointment / re-appointment of Statutory Auditors (SAs).

2. Prior approval of RBI

1. UCBs are required to take prior approval of RBI (Department of Supervision) for appointment / re-appointment of SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, UCBs have to apply to Department of Supervision, RBI before 31st July of the reference year.
2. For the purpose, all UCBs under Mumbai Region shall approach the Central Office of RBI (Department of Supervision).

3. Number of SAs and branch coverage

As per our bank's asset size of Rs. 68,710.43 Lakhs as on **31.03.2022** 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. of our bank, one audit firm (Partnership firm / LLP) should be appointed as Statutory Auditor of our bank.

4. Independence of Auditors

1. For UCBs, 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 UCB to the concerned Senior Supervisory Manager (SSM) / Regional Officer (RO) of RBI.
2. 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 SA shall approach the Board/Audit Committee of the Board (ACB) / Local Management Committee (LMC) of the Entity, under intimation to the concerned SSM/RO of RBI.
3. Concurrent auditors of the Entity should not be considered for appointment as SCAs/SAs of the same Entity. The audit of the Entity and any entity with large exposure to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.
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 SAs or any audit/non-audit works for its group entities should be at least one year, before or after its

appointment as SAs. However, during the tenure as SA, an audit firm may provide such services which may not normally result in a conflict of interest, and we may take our own decision in this regard, in consultation with the Board/ACB/LMC.

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

5. Professional Standards of SCAs/SAs

1. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
2. The Board/ACB/LMC of Entities 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/ACB/LMC, with the full details of the audit firm.

6. Tenure and Rotation

1. In order to protect the independence of the auditors/audit firms, we 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 the concerned office of RBI (Department of Supervision), as applicable for prior approval for appointment.
2. An audit firm would not be eligible for reappointment in the same Entity 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 any Entity 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 same Entity for six years from completion of part-tenure.
3. 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 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 entity and they will be considered for allotment of SCA/SA accordingly. Shared/Sub-contracted 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. We may check the details of the audit firm while checking the eligibility of the firm as declared by the firm in Form B.

7. Audit Fees and Expenses

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

As per the notification dated 29th October, 2014 by Maharashtra State Co-operative department, the structure of payment for Statutory audit fees is as mentioned below:

Type of Society	Details of Parameter	Amount as per Parameter	Maximum Amount
Urban Co-operative Banks including salary earners bank	on working capital		Rs. 20,00,000
working capital upto 10 crore		5 paise for every 100 rupees (Rs. 50000)	
for next 90 crore working capital		2 paise for every 100 rupees (Rs. 180000)	
for next above 100 crore working capital		1 paise for every 100 rupees	

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

8. Statutory Audit Policy and Appointment Procedure

As per the RBI circular, we have to formulate a Board / LMC Approved Policy to be hosted on its official website/public domain and formulate necessary procedure thereunder to be followed for appointment of SAs.

9. Annex I of mentioned RBI Circular for Eligibility Criteria for Appointment as SCA/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	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 FTPs / Paid CAs with CISA / ISA Qualification	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional Staff
	Note 1		Note 2	Note 3	Note 4
Upto Rs 1000 crore (applicable to our bank)	2	1	1*	6	8
* CISA / ISA qualified FTP / Paid CA not mandatory for UCBs with asset size of upto Rs 1000 crore					

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as full time partners. Further, for appointment as SCAs/SAs of all Commercial Banks (excluding RRBs), and other Entities 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 all Commercial Banks (excluding RRBs), and UCBs/NBFCs 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.
- (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) In case of PSBs, the income of the partner from the firm/LLP should not be below the threshold limits prescribed by the Office of C&AG for the purpose of consideration as full-time partners for appointment as auditors of Public Sector Undertakings. For other Entities, the Board/ACB/LMC 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 and NBFCs with asset size upto ₹ 1,000 crore, there is no minimum requirement in this regard. However, such Entities 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3: Audit Experience:

For Commercial Banks (excluding RRBs), audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs. For UCBs and NBFCs, 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 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 empanelment (for PSBs)/ 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 SCAs/SAs for Entities, 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 Entities shall ensure that 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.

(iv) If any partner of a Chartered Accountant firm is a director in any Public Sector Bank (PSB), the said firm shall not be appointed as SCA/SA of any PSB. Further, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SCA/SA of any of the group entities¹³ of that Entity.

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

(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 Entity 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.

10. Annex II of mentioned RBI Circular for Procedure for Appointment of SAs

1. We have to 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 SCAs/SAs does not get delayed. However, in case of reappointment of SAs/UCBs 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.
2. We 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, we shall seek RBI's prior approval for appointment of SAs.

3. We shall obtain a certificate, along with relevant information as per **Form B**, from the audit firm proposed to be appointed as SAs by the Entity to the effect that the audit firm 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 Entities, under the seal of the said audit firm.
4. We shall 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(s) proposed to be appointed as SA by them comply with all eligibility norms prescribed by RBI for the purpose.
5. While approaching the RBI for its prior approval for appointment of SAs, we 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 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.

Dinesh Harchandani
MD - CEO