

05-08-2021

**STATUTORY AUDIT POLICY FOR FY 2021-22**

This policy is with reference to RBI Circular dated 27<sup>th</sup> 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 reappointment / appointment of Statutory Auditors (SAs). Since it is implemented for the first time in UCBs, we have the flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

**2. Prior approval of RBI**

1. UCBs are required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, we have to apply to Department of Supervision, RBI before 31st July of the reference year within one month of receipt of list of eligible audit firms from RBI.
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. 65480.69 Lakhs **as on 31.03.2021** 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 SSM/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/ACB/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 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.

## 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 29<sup>th</sup> 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
<b>Urban Co-operative Banks including salary earners bank</b>	on working capital		<b>Rs. 20,00,000</b>
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 II as per RBI Circular on 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.

Sd/-  
MD - CEO