

This policy document contains 10 pages

AUDIT POLICY

1. Preamble: The Audit policy proposed will be in force subsequent to validation by the Board. The Audit policy once approved will be subject to review by the Board from time to time as per the requirement of the Bank for effective functioning of Internal Audit. However, the Audit Policy will be subject to review atleast annually to be in tune with Regulatory/Statutory and Business requirement. Modification/Amendment if any, will be only with the approval of the Board.

The audit policy proposed is based on best practices adopted by Bankers and also based on Standards of Auditing issued by ICAI and other Regulatory Frame Work and also by Competent Authorities

2. Introduction: An Audit policy defines account limits for a set of users of one or more resources. It comprises rules that define the limits of the policy and work flows to process violations after they occur. The Audit uses the criteria defined in an audit policy to evaluate whether violations have occurred in the organisation. The main components that makes up an audit policy are as under:

- a) Policy rules which define specific violations.
- b) Remediation work flow which is launched when an audit identifies a violation of the policy rules
- c) Remediators who are designated users and who are authorised to respond to the policy violation. In this case the remediators are the Bank Officials.
- d) It is also expected to designate a Senior Officer to ensure rectification/to remedy the instances of violation pointed out in the Audit.

The internal audit activity with strict accountability for confidentiality and for safeguarding the records and the relative information should be made available along with physical assets to the authorised officials for carrying out the internal audit. The internal audit is to be assisted by all the employees of the Bank.

In order to carry out the internal audit by the engaged personnel, the Bank should provide the latter adequate infrastructure in addition to free access to all the departments and records.

3. Scope of Audit: The scope of Audit to be carried out by Internal Auditors in general is entire area of banking activities. In other words, no area of the banking activity is excluded from the scope of audit. It is also expected of the Internal Auditors to furnish and submit periodical reports -preferably monthly on their findings /observations of all the banking transactions undertaken at the field level and also at the back office level in Corporate Office

The scope mainly relates to whether all the laid down procedure have been followed in opening of accounts, whether proper documents has instructed by RBI / in the bank's policy, operations in the account especially new accounts, fixing of tolerance limits, assigning risk profile to each and every account. Checking for unusual transactions disproportionate to the risk profile, checking for transactions in employees' accounts. In respect of loans and advances, the scope of audit is expected to verify whether the bank approved procedure has

been followed before and after sanctioning loans, operations in the loan account/working capital account and to look for any unrelated transactions / diversions etc., With regard to obtention of documents and security, the audit has to verify whether all the approved procedure has been followed and to point out any deficiency in this regard.

The bank is expected to rectify /remedy all the observations in the periodical (monthly) internal audit report submitted and also has to place a review of the extent of compliance on a quarterly basis to the Audit Committee of the Board. All the irregularities / observations persisting beyond two months should be tackled on a war footing so as to ensure that such observations do not recur in the subsequent reports.

Serious irregularities if any, pointed out in the internal audit should be addressed immediately on receipt of the report besides finding the reasons for such irregularity and to initiate action against the concerned staff if warranted.

4. The bank has appointed Internal Auditors who have been assigned the scope of audit enumerated above and wherever the report submitted by the Internal Auditors falls short of expectations, the same is being brought to the notice of Internal Auditors so as to ensure an improved internal audit.

5. In addition to the engagement of internal auditors, the bank also proposes to follow due procedure in terms of Standard Operating Procedure issued by ICAI and also in terms of the Reserve Bank of India circular dated 27.04.2021 in the appointment of Statutory Auditors besides notifying the same in the official website of the bank.

PURPOSE: *The purpose of the policy is to provide guidance on eligibility and procedure for appointment of Statutory Auditors (SAs) to the bank in line with guidelines issued by the Reserve Bank of India.*

SCOPE OF APPLICATION: *This policy will be applicable to the Bank for FY 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditor (SAs).*

OBJECTIVE OF THE POLICY: *The objective of the Policy document is to provide guidance on appointment of Statutory Auditors for the bank and also relating to their work, remuneration (audit fees) etc.,*

1. APPLICABILITY: *As RBI guidelines regarding appointment of SCAs/SAs has to be implemented for the first time for UCBs from FY 2021-22, the bank has the flexibility to adopt these guidelines from the second half of FY 2021-22 in order to ensure that there is no disruption.*

2. PRIOR APPROVAL OF RBI: *The bank is required to obtain prior approval from the Regional Office, RBI (Department of supervision) under whose jurisdiction it is functioning for appointment/ reappointment of SAs, on an annual basis. For this purpose, the bank is required to apply to the Department of Supervision, RBI, Bangalore before 31st July of the reference year.*

3. NUMBER OF STATUTORY AUDITORS: In terms of RBI guidelines, the Bank shall decide on the number of Statutory Auditors after taking into account the 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., However, the bank should appoint a minimum of **one** audit firm (Partnership firm/LLPs) for conducting statutory audit. It should be ensured that joint auditors of the bank do not have any common partners and they are not under the same network of audit firms. Further, the bank should finalise the work allocation among SCAs/SAs, before commencement of the statutory audit in consultation with SCAs/SAs appointed.

4. COVERAGE OF AUDIT: The Statutory Auditor should visit and audit all branches. In addition, the Bank should ensure adherence to the provision of Sec 143(B) of the Companies Act 2013 regarding the audit of accounts of all branches.

5. ELIGIBILITY CRITERIA FOR APPOINTMENT OF AUDITORS: The Bank should adhere to the eligibility criteria as mentioned in RBI Circular dated 27.04.2021 cited above. As per the said RBI circular, the appointment of SAs to be based on assets size of the bank as on the last day of preceding financial year. Since our bank falls in the asset range of above Rs. 1000 crore, the eligibility criteria stipulated is as below

Asset Size as 31st March 2021	Min.No. of FTPs associated with the firm for a period of at least 3 years	Out of total FTPs Min.no of FCA partners associated with the firm for a period of atleast 3 years	Min.no. of Full Time Partners/paid CAs with CISA/ISA qualification	Min.no of years of audit Experience of the firm	Min.no of Professional staff
Above Rs.1000 Crore and upto Rs.15000 Crore	3	2	1	8	12

Note-1: There should be at least one-year continuous association of partners with the firm as on the date of short listing for considering them as full time partners .

For all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size above Rs.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) For other banks including UCBs, the Board/ACB/ should 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note-3: Audit Experience: Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor in 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.

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 short listing for considering them as professional staff for the purpose.

Additional Consideration

- (i) The audit firm, proposed to be appointed as SCAs/SAs for the Bank should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013. A declaration to this effect has to be obtained from the audit firm.
- (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. A declaration to this effect has to be obtained from the audit firm.
- (iii) The Bank should 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.
- (iv) If any partner of a Chartered Accountant firm is a director in any Bank, the said firm should not be appointed as SCA/SA of any of the group entities of that bank.
- (v) For Audit of the Bank, 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.

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 shall comply 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.

6. INDEPENDANCE OF AUDITORS:

a) The Audit Committee of the Board shall monitor and assess the Independence of the auditor and conflict of interest position in terms of relevant regulatory provisions, standards and best practices Any concern in this regard may be flagged by the ACB to the Board of Directors of the bank and concerned senior supervisory manager (SSM) regional office of RBI.

b) In case of any concern with the Management of the bank such as non availability of information/non co-operation by the management which may hamper the audit process the SCAs/SAs shall approach the Board /ACB of the Bank under intimation to the concerned SSM/RO of RBI

c) In case of any concern with the Management of the Entities such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the Statutory Auditors shall approach the Board/ACB of the Bank under intimation to the concerned SSM/RO of RBI.

d) Concurrent auditors of the Bank should not be considered for appointment as Statutory Auditors. The audit of the Bank and any entity with large exposures to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.

e) The time gap between any non-audit works (services mentioned in Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory Auditors for the Bank or any audit/non-audit works for its group entities should be at least one year before or after its appointment as Statutory Auditors. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the Bank which may not normally result in a conflict of interest and the Bank may take their own decision in this regard in consultation with the Board/ACB.

The restrictions as detailed in para 6 (d) and 6 (e) 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 STATUTORY AUDITORS.

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

The Board/ACB of Bank shall review the performance of Statutory Auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditors 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 with full details of the audit firm.

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

8. TENURE AND ROTATION :*In order to protect the independence of the auditors/audit firms, the Bank will have to appoint the Statutory Auditors for a continuous period of three years subject to the firms satisfying the eligibility norms each year. Further, 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), as applicable for prior approval for appointment.

An audit firm will 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. However, audit firms can continue to undertake statutory audit of other banks.

9. AUDIT FEES AND EXPENSES:*The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions.*

The audit fees for Statutory Auditors for the Bank 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. The ACB shall make recommendation to the board for fixing audit fees of Statutory Auditors.

10. STATUTORY AUDIT POLICY AND APPOINTMENT PROCEDURE:*The Bank shall formulate a Board approved policy to be hosted on its official website/public domain and formulate necessary procedure there under to be followed for appointment of SCAs/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.*

Guidelines on minimum procedural requirements are given in Annexure-1 of this note.

General process to be followed:

- *The Bank shall obtain a certificate, along with relevant information as per [Form B](#) (Annexure I), from the audit firm(s) proposed to be appointed/ reappointed as SAs, 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/ reappointment of SAs of the Bank, under the seal of the said audit firm.*
- *The Bank 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](#) annexed to this note stating that the audit firm(s) proposed to be appointed as Statutory Auditor by them comply with all eligibility norms prescribed by RBI for the purpose.*

The Statutory Auditors are required to declare the list of their major corporate clients to avoid conflict of interest. In case any of the Statutory Auditors is auditors of a corporate client who is assisted by the Bank, then files of such corporate client shall be audited by the other Statutory Auditor.

11. Review of the Policy: *The Policy shall be updated periodically by the Internal Audit Department of the bank in line with latest RBI guidelines prevailing at the time of updation both in respect of internal audit /concurrent audit and statutory audit. Going forward, the same shall be placed to Audit Committee of the board for review and approval by the Board (as amended and approved by the Board in its meeting dated 27.12.2022)*

(L.GANESH)
Chief Executive Officer-I/c.

Italic font denotes amendments

(Amended and approved by the Board in its meeting dated 27.12.2022)

ANNEXURE – 1 - Procedure for Appointment of SCAs/SAs

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. However, in case of reappointment of SCAs/SAs by the bank till completion of tenure of continuous term of 3 years, there will not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval of appointment.

- 1. The Entities shall obtain a certificate along with relevant information as per Form-B from the audit firms(s) proposed to be appointed as SCAs/SAs by the Entity 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 partners of the audit firm proposed for appointment of SCAs/SAs of the Entities under the seal of the audit firm*
- 2. The Bank shall place the name of shortlisted audit firms, in order of preference, before their Audit Committee/Board for selection as SCA/SA. Upon selection of SCAs/SAs by the UCBs in consultation with their Audit Committee/Board and verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of SCAs/SAs.*
- 3. The Bank 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 by them comply with all eligibility norms prescribed by RBI for the purpose.*
- 4. While approaching RBI for its prior approval for appointment of SCAs/SAs, the bank 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 SCAs/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/reappointment of the concerned audit firm.*

Form B

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

A. Particulars of the Firm:

(Name & Address of the Firm)

<i>Asset Size of the Bank as on 31 March of previous Year</i>	<i>Number of Full-Time partners (FTPs) associated with the firm for a period of three (3) years</i>	<i>Out of total FTPs, Number of FCA partners associated with the firm for a period of three (3) years</i>	<i>Number of Full Time Partners/ Paid CAs with CISA/ISA Qualification</i>	<i>Number of Years of Audit Experience#</i>	<i>Number of Professional staff</i>
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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 or 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 hereby certify that it complies with all eligibility norms prescribed by RBI regarding appointment of SCAs/SAs of the Bank. 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 information provided above is true and correct.

Signature of the Partner :

Name of the Partner :

Seal & Date :

Form C

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

Sir M.Visvesvaraya Co-operative Bank Limited , 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.

2. The Bank has obtained eligibility certificate (copy enclosed) from _____ firm and their Registration Number _____ proposed to be appointed as Statutory Central Auditor (SCA)/Statutory Auditor of the 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 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 the Bank.

Signature

(Name, Designation & Seal)

Date: