

JANATA SAHAKARI BANK LTD, PUNE
STATUTORY AUDIT POLICY FY 2022-23
(After incorporating the proposed changes)

Version 1.0

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Version No	Approver	Date	Owner	Custodian
1.0	Board of Directors	31.05.2022	Internal Audit Department	Head Internal Audit Department

1. Introduction

Audit means an independent examination of books of account, financial statements or other documents with a view to express an opinion on the same. Audit is an important control in any industry especially in banking industry. Banking industry being a highly regulated industry, audit plays an important role. Audit is mainly of 4 types: a) Statutory Audit, b) Internal Audit and c) Audits carried out by regulatory authorities. The Policy will address all these types of audits.

The Policy has been prepared keeping in mind as per RBI circular - RBI 2015-16/3/ DCBR. CO. BPD.(PCB).MC.No.3/12.05.001/2015-16 - Master Circular on Inspection & Audit Systems in Primary (Urban) Co- operative Banks

2. Purpose

Purpose of this Policy is to define the selection and other parameters of Statutory Audit

3. Scope

This policy will cover Statutory Audit. The Policy will be applicable to the entire Bank.

4. Abbreviations

Following abbreviations are used:

- a. AIFI-All India Financial Institutions

- b. CA –Chartered Accountant
- c. CISA-Certified Information Systems Auditor, USA
- d. DISA- Diploma in Information Systems Audit, ICAI
- e. ICAI- The Institute of Chartered Accountants of India
- f. LFAR-Long Form Audit Report
- g. LLP- Limited Liability Partnership
- h. NBFC-Non Banking Finance Company
- i. NFRA-National Financial Reporting Authority
- j. RBI- Reserve bank of India
- k. SA- Statutory Auditor(s)
- l. SEBI-Security and Exchange Board of India
- m. UCB-Urban Cooperative Bank

5. Detailed Policy

The detailed Policy is as under:

5.1. Statutory Audit:

5.1.1. The appointment, qualifications, term etc. of the Statutory Auditors will be governed by RBI circular no- RBI 2021-22 /25 ref.No. DoS. CO. ARG /SEC.01 / 08.91.001/2021-22 dt. 27.04.2021 and any other notification RBI may issue in this regard. Any change (s) made by RBI in the circular will be applicable to the Bank. The Policy for Statutory Audit will cover the following aspects:

i. Number of Statutory Audit Firms and Branch coverage:

- Bank shall appoint 1 Statutory Auditor as per the above circular since the asset size of the Bank is below Rs 15,000 crores. Further, any change made by RBI in the above circular will be applicable to the Bank.
- However, Bank may appoint more than 1 Statutory Auditors based on a Board Approved Policy, 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.
- Statutory auditor shall visit and audit at least top 20 branches to be selected in order of the level of outstanding advances in such a manner as to cover minimum 15% of total gross advances of the Bank.
- In addition, the bank shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

ii. Criteria of Statutory Auditors:

The Statutory Auditor will need to satisfy the criteria as mentioned in the above circular. Currently, following criteria are required for UCB having asset size above Rs 1000 Crores and up to Rs 15,000 Crores:

- a. The Statutory Auditor should either be a Partnership Firm or LLP.
Further, there should be no common partners in the joint audit firms and are not under the same network.
- b. Minimum 3 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:
 - The full-time partner should not be a partner in other firm/s
 - She/he should not be employed full time / part time elsewhere
 - 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.
 - 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
- c. Minimum 2 Fellow Chartered Accountants associated with the firm for a period of minimum 3 years
- d. Minimum 1 full time partner /paid CA with qualification of CISA/DISA. 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.
- e. Minimum 8 years of Audit experience of the firm. Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor/ of Commercial banks (excluding Regional Rural banks) /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.
- f. Minimum 12 professional staff (including articled clerk, audit assistants with knowledge of booking 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 considering them as professional staff for the purpose.

iii. Additional Criteria:

- a. The audit firm proposed to be appointed as Statutory Auditors of the Bank should be qualified for appointment as per section 141 of the Companies Act, 2013.
- b. 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.
- c. A audit firm shall not be appointed as Statutory Auditor of the Bank if any of its partner is a Director of the bank
- d. Bank will ensure that the ICAI's code of ethics or any other applicable circular is followed while appointing the Statutory Auditor. Further, Bank will ensure that the conflict of interest is avoided in the appointment process.
- e. 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.
- f. The SA of the firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of Marathi

iv 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 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.

iv. Information to be obtained from Statutory Auditors

Bank shall obtain the following documents from the Statutory Auditors:

- a. Copy of Firm's latest Constitution Certificate
- b. Confirmation from the firm as whether it is a member of a network firm or if any partner is a partner in any other firm. If yes, details thereof
- c. Confirmation that the firm is not debarred from accepting the audit engagements by regulator/ Government agency. If Yes, details thereof
- d. Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.
- e. Form B of the above mentioned circular
- f. Whether the firm has been appointed as 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

v. Selection of Statutory Auditors:

- a. The bank shall shortlist minimum of 2 audit firms for every vacancy of SA 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.
- b. However, in case of reappointment of SAs by Bank 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.
- c. The shortlisted firms will be put forth to the Hon. Board for approval by order of preference after verifying that the shortlisted firms satisfy the eligibility criteria laid down by RBI in the aforesaid circular.

d. Bank shall obtain a certificate, along with relevant information as per Form B from the audit firm(s) proposed to be appointed as Statutory Auditors of the Bank 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 of Statutory Auditors of the Bank under the seal of the said audit firm.

vi. Prior Approval from RBI:

a. 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 to RBI along with a certificate, in the format as per Form C, stating that the audit firm (s) proposed to be appointed as Statutory Auditors by them comply with all eligibility norms prescribed by RBI.

b. While approaching the RBI for its prior approval for appointment of SAs, Bank shall:

- Indicate Total asset size as on March 31st of the previous year (audited figures) in the letter
- Attach copy of Board / Audit Committee resolution to the letter
- Give names of audit firms for appointment as SAs in the order of preference in the letter
- Attach duly filled in and signed Form B as mentioned in the circular to the letter
- Attach duly filled in and signed Form C as mentioned in the circular to the letter

vii. Appointment of Statutory Auditors:

The final name of the firm to be appointed as Statutory Auditor will be put forth to the Hon. Board upon receipt of approval from RBI. The Audit department will issue the appointment letters to the auditor upon approval of the Hon. Board.

viii. Declaration from Statutory Auditors:

Following declarations will be obtained from the statutory auditors:

- a. Firm complies with the eligibility norms prescribed under section 72 of the Multi State Co-operative Act,2020
- b. There are no adverse remarks/disciplinary action by The Institute of Chartered Accountants of India (ICAI) against the firm

- c. There is no disciplinary action taken by National Financial Reporting Authority (NFRA) against the firm
- d. Declaration of Fidelity and secrecy
- e. Copy of Acceptance conveyed to the Central Registrar

ix. Tenure and Rotation of Statutory Auditors:

- a. The tenure of the Statutory Auditors will normally be for a period of continuous 3 years as per the above mentioned RBI circular. Any change in the maximum permissible duration by RBI will automatically be applicable to Bank.
- b. Bank may choose to appoint another firm(s) in this period due to performance issues / operational issues subject to prior approval of RBI.
- c. 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.
- d. One audit firm can concurrently take up statutory audit of maximum eight UCB 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. Bank will take appropriate confirmation /undertaking from the appointed firm.

xi. Fees and Expenses:

- a. Fees will be paid as per the Government regulations. Currently, as per order dt.03.02.2001 of Ministry of Agriculture, Department of Agriculture and Cooperation. Any change in the fee structure made by Government/ RBI will be automatically applicable to Bank.
- b. Out of pocket expenses at actuals will be reimbursed to the statutory auditors

xii. Removal of Statutory Auditors

An audit firm which is appointed as Statutory Auditor may be removed during its tenure with prior approval from RBI (Department of. The Board of Directors shall recommend such removal to RBI.

xiii. Appointment of new Statutory Auditors in place of removed/resigned Statutory Auditors:

Bank shall follow steps given above in v to viii above while filling the vacancy caused by removal/resignation of the Statutory Auditor

xv. Co-ordination:

Head Internal Audit will act as coordinator between the Bank and Statutory Auditors.

xvi. Independence of Auditors

- a. 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 the concerned SSM/RO of RBI
- b. 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 SA shall approach the Board of the bank, under intimation to the concerned SSM/RO of RBI.
- c. Concurrent auditors of bank shall not be considered for appointment as SA of the same bank.
- d. The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SA for the bank or any audit /non audit work for its group entity should be at least one year, before or after its appointment as SA.

xvii. Professional Standards of SA

The board shall review the performance of SA on an annual basis. Any serious irregularities in audit responsibilities shall be reported to RBI within 2 months from completion of annual audit .Such reports should be sent with the approval/recommendation of the Board with the full details of the audit firm.

Any change/modification in the RBI circular mentioned above will be automatically be part of this policy and will be applicable to bank.

5.1.2. Closure of Statutory Audit Reports:

Statutory Auditors issue the Lang Form Audit Report (LFAR) after completion of the Statutory Audit. Branches and departments are required to send compliance/ replies to Audit department on the observations in LFAR Audit department shall compile all the replies received and provide the reply for all the observations in the

LFAR within 60 days of receipt of LFAR. The compliance of the LFAR shall be sent to the central Registrar of the Co-operative Societies, New Delhi within 60 day of receipt of LFAR from the Statutory Auditor.