

The Mehsana Urban Co-Operative Bank Ltd



POLICY FOR APPOINTMENT OF STATUTORY AUDITOR

(As approved by Board of Directors vide Resolution No 8 dated 22/07/2021)

**Corporate Office,
Urban Bank Road, Highway,
MEHSANA (384002)
GUJARAT**

POLICY FOR APPOINTMENT OF STATUTORY AUDITOR

Preamble

This policy shall be known as "Policy On Appointment of Statutory Auditor" of the Mehsana Urban Co-op Bank Ltd, Mehsana and shall be applicable from the Financial Year 2021-22 onward in terms of Reserve Bank of India directives issued from time to time in this regard. The policy has been approved by the Board in their meeting vide Agenda/Resolution No 8 dated 22/07/2021.

Background:

Reserve Bank of India vide their circular No: Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dt. April 27, 2021 has brought uniformity in appointment of Statutory **Auditor** of the Bank. Before issue of this circular BOD of the Bank was proposing name of the Statutory Auditor and it was decided in AGM by Shareholders. By virtue of this Circular from the FY 2021-22 onward appointment of the Statutory Auditor will be approved by the Reserve Bank of India.

This policy on appointment of Statutory Auditors is based on recent guidelines issued by the Reserve Bank of India circular No: DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021.

1.Objective of the Policy

The objective of this policy is to provide guidance on appointment of Statutory Auditor of the Bank and lay down eligibility criteria of selection of Statutory Auditor Firm and procedure to be followed for selection in line with the guidelines issued by the RBI.

2. Scope of the Policy

This policy is applicable for appointment of Statutory Auditors of the Bank.

3. Regulatory Reference

RBI Circular No: Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021.

4. Eligibility Criteria

Eligibility Criteria as mentioned in the captioned Circular Ref. No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 are adopted for selection of Statutory Auditors.

Asset Size of Entity as on 31st 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	Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification	Minimum no. of years of Audit Experience of the firm	Minimum No. of Professional staff
	Note 1	least	Note 2	Note 3	Note 4
Above Rs.15,000 Crore	5	4	2	15	18
Above Rs.1,000 crore and Up to Rs.15,000 crore	3	2	1	8	12
Upto Rs.1,000 Crore	2	1	1*	6	8

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of empanelment shortlisting for considering them as full time partners. Further, for appointment as SAs of Entities with asset size above Rs.1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For UCBs 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) 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:

There is no regulatory mandatory requirement in this regard. Bank 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 shortlisting 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 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. Appointment of SAs will be 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 the Bank, the said firm shall not be appointed as SA of the Bank.

- v. The auditors 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 Bank in order to achieve audit objectives.
- vi. The auditor firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of the language of the Gujarat and Maharashtra states.

For FY 2020—2021 Asset size of the Bank is more than Rs.1,000 Crores and Less than Rs.15,000 Crores In view of above direction issued by the RBI, our Bank shall select the Auditor firm which will fulfill below mentioned criteria.

1. The Firm should have at least 3 Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years as on date of Appointment.
2. Out of FTPs, there should be at least 2 Fellow of Chartered Accountant (FCA) partners associated to the firm for a period of at least 3 years as on date of Appointment.
3. There should be at least 1 Full Time Partners/ Paid CAs with CISA/ISA Qualification associated with the Audit Firm as on date of Appointment.
4. There should be at least 12 Professional Staff employed by the Audit Firm as on date of Appointment.

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 and 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, bank will inform such facts to the RBI and RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

5. Procedural Guidelines

Bank shall receive application from Eligible Chartered Accountant Firms for appointment as Statutory Auditors of the Bank. Eligibility Criteria are laid down in this policy.

Account Department will receive the applications. Account Department, Inspection Department and Risk Department will jointly discuss, review and assess the profile of the firms. After assessment of Account Department, Inspection Department and Risk Department will shortlist minimum two audit firms with preference number and forward a note to GM & CEO for Consideration.

Final Note will be placed before the Board of Directors for Approval inter alia includes compliance with eligibility norms prescribed by RBI and ground for selection of SAs with order of preference of Selection of 5As.

- A letter shall be forwarded to Regional Office of RBI for approval of Statutory Auditor with preference of SAs to be re-appointment.
- * In case of reappointment of SAs by banks 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 for appointment.
- Bank will forward an application inter alia mentioning Total Asset Size of the Bank as on 31st March of previous year (Audited Figures) along with Board Resolution and Form — B & Form - C to Regional Office of RBI for appointment/reappointment of SAs.

6. Undertaking/Declaration/Certificate to be obtained from the Firm/Firms

- * Before selecting SAS, SA desired to be appointed has to provide the Certificate as per Form — B of this policy including Undertaking and declaration stated in the said Form — B

A suitable undertaking from the firm(s) to the effect that the Audit will be carried by their own staff and they will not subcontract the Audit Work.

- * There are no adverse remarks/ disciplinary proceedings pending/ initiated against the firm/any of its partners/proprietor on the records of ICAI, which would make them ineligible for appointment as auditors.

7. Tenure

The audit firm shall be appointed for continuous period of 3 years subject to firm satisfying eligibility criteria each year. Bank may remove an audit firm before expiry of

the tenure with prior permission of RBI. An audit firm would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure i.e. continuation period of three years.

8. Removal / Discontinuation

An audit firm appointed as Statutory Central Auditor may be removed during its tenure with the prior approval of the Reserve Bank of India. The Board of Directors of the Bank will be the competent authority to recommend removal of any SCA to RBI.

9. Audit Fees and Expenses

The Audit Fees shall be decided in terms of relevant statutory/regulatory provision. As on date of this policy fees will be governed by Gujarat Cooperative Societies Act, 1961./Multi State Co Operative Act 2002.

This Audit Fees is subject to change with extant rules and regulation from time to time.

10. Relinquish the Internal Assignment If any

* To protect the independence of the SA, SA shall not be given any other assignment during the tenure of SA. At the time of acceptance of appointment as SA of our Bank, the firm(s) must relinquish any internal assignment allotted to them in our Bank.

* Associate firms or sister concerns of statutory audit firm are disqualified for internal audit or for any special assignment where the main firm/partners are allotted Statutory Audit in a particular year.

11. General Guidelines applicable to Statutory Auditor Firm.

SA shall visit and audit at least the top 20 branches/top 20% of the branches of the Bank, 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 advance of the Bank.

The firms whose partner/s is/are on the Board of the Bank will not be eligible for appointment as SA.

Guidelines issued by RBI from time to time shall apply accordingly in true spirit.

Review:

The policy shall be put up for review to the Board of Directors once in a year by the Account Department, Head office, Mehsana.

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

A. Particulars of the firm:

Asset Size of Entity as On 31 st March of Previous Year	Number of Full-Time partners (FTP)s associated* with the firm for a period of three (3) years	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

*Exclusively associated in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than Rs.1,000 crore

Details may be furnished separately for experience as SCAs/SAs and SBAs

8. 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 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 willful 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 C

Certificate to be submitted by the Commercial Bank (Excluding RRBs) and UCBs regarding eligibility of audit firm proposed to be appointed as SA.

1. The Bank/UCB is desirous of appointing M/s_____Chartered Accountant (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, 1995.
2. the Bank/UCB was obtained eligibility certificate (Copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Central Auditor (SCA)/Auditor of the Bank/UCB for FY_____along with relevant Information (copy enclosed), in the format as prescribe by RBI.
3. The Firm has no past association/association for_____ y e a r with the Bank/UCB as SCA/SA/SBA.
4. The bank/UCB has verified the said Firm's compliance with **all eligibility** norms prescribed by RBI for appointment of SCAs/SBAs of **Commercial** Bank (excluding RRBs/UCBs)

Signature

(Name and Designation)

Date: