



ASSOCIATE CO-OPERATIVE BANK LTD.

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POLICY FOR APPOINTMENT OF STATUTORY AUDITORS

1. This "Policy for Appointment of Statutory Auditors" is based on RBI/2021-22/25 No.Dos.Co.ARG/SEC.01/08.91.001/2021-22 dated 27.04.2021 on Guidelines for Appointment of Statutory Auditors (SAs) of Urban Co-Op. Banks.
2. **Applicability:**
 - 2.1 These guidelines are applicable to our Bank for the Financial Year 2021-22 and onwards in respect of appointment/ reappointment of Statutory Auditors of our Bank.
 - 2.2 RBI guidelines regarding appointment of SAs shall be implemented for the first time for our Bank from FY 2021-22, We shall have the flexibility to adopt these guidelines from H-2 (second half) of FY 2021-22 in order to ensure that there is no disruption (disturbance).
3. **Prior Approval of RBI :**
 - 3.1 Our Bank will be required to take prior approval of Department of Supervision (Dos), RBI, for appointment of SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, we should apply to DOS, RBI, Ahmedabad before 31st July of the reference year.
4. **Number of SAs and Branch Coverage :**
 - 4.1 For our Bank we should appoint a minimum of one audit firm (Partnership Firm/LLPs) for conducting statutory audit.
 - 4.2 Taking into account the relevant factors such as the size and spread of (total) assets. Accounting and administrative units complexity of transaction level of computerization, availability of other independent audit inputs, identified risk in financial reporting, etc. and with a view to ensure that audits are conducted in a timely and effective manner, Bank shall appoint one audit firm (partner firm /LLPs) for conducting statutory audit.
 - 4.3 SAs shall visit and audit at least the Top 7 branches / Top 20% of the branches of our 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 advances of our Bank.
5. **Eligibility Criteria of Auditors:**

Our Bank is required to appoint audit firm(s) fulfilling the eligibility norms as prescribed in the Table of Annex I (of RBI Guidelines) As our Bank has Asset size of Rs.203.24/- Crore, we require to appoint.

 - 5.1 one C.A. firm having Two full time partners (FTP) associated with the firm for a period of at least three years
 - 5.2 Out of total FTPs, minimum One fellow chartered accountants (FCA) should be partners associated with the firm for a period of at least three years
 - 5.3 A CA Firm should have minimum Six Years audit experience. A firm Should have minimum 8 Professional Staff.



6. Independence of Auditors :

- 6.1 The Board of Directors of our Bank shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by our Board to Dos, RBI, Ahmedabad.
- 6.2 In case of any concern with the Management of our Bank such as non-availability of information /non-cooperation by the Management, which may hamper the audit process, the SAs shall approach the Board of our Bank, Under Intimation to Dos, RBI, Ahmedabad.
- 6.3 Concurrent auditor of our Bank should not be considered for appointment as SAs. The audit of our Bank and any entity with large exposure in our Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 6.4 The time gap between any non-audit works (services like Tax Audit, tax representation and advice on tax matters etc. and Internal assignments. Etc.) by the SAs for our Bank should be at least One Year, before of after the appointment as SAs However during the tenure as SA, an audit firm may provide such services to our Bank which may not normally result in a conflict of interest and Board of our Bank may take our own decision in this regard.
- 6.5 The restrictions as detailed in pare 6.3 and 6.4 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 SAs:

- 7.1 The SAs shall be strictly guided by the relevant professional standars in discharge of their audit responsibilities with highest diligence
- 7.2 The Board of our Bank 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 tow months from completion of the annual audit. Such reports should be sent with the approval/recommendation of the Board with the full detailes of the audit firm.
- 7.3 In the event of lapses in carrying out audit assignment resulting in misstatement of our Bank's financial statements. And any violations/lapses vis-à-vis the RBI's direction /guidelines regarding the role and responsibilities of the SAs in relation to our Bank. The SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

8. Tenure and Rotation :

- 8.1 In Order to protect the independence of the auditors/audit firms. Our Bank will 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 Dos, RBI ,Ahmedabad for prior approval for appointment, as mentioned at para 3.2 of the circular.
- 8.2 An audit firm would not be eligible for reappointment in our Bank for 6 Year (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 UCBs/Entities.
- 8.3 One audit firm can concurrently take up statutory audit of a maximum of four commercial Banks, eight UCBs and eight NBFCs during a particular year, subject to compliance with required eligibilicity criteria and other conditions for each Entity and within overall celling 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 the circular, a group of audit firms having common partners and /or under the same network, will be considered as one UCB and they will be considered for allotment of 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.



9. Audit Fees and Expenses :

- 9.1 The audit fee for SAs of all the UCBs shall be decided in terms of the Relevant statutory/regulatory provisions.
- 9.2 The audit fees for SAs of all the UCBs shall be reasonable and commensurate with the scope and coverage of audit. Size and spread of assets (total assets), accounting and administrative units, complexity of transactions, level of computerization, indentified risks in financial reporting etc.
- 9.3 The Board of our Bank shall make recommendation to the competent authority as per the relevant statutory /regulatory instructions for fixing audit fees of SAs.

10. Statutory Audit Policy and Appointment Procedure :

10.1 We have formulated this Board Approved Policy to be hosted on our official website/public domain and formulate necessary procedure there under to be followed for appointment of 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.

10.2 Guidelines on minimum procedural requirements

- 10.2.1 The Bank shall shortlist minimum of two audit firms for 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 SCA/SA by Bank ,till completion of tenure of continuous term of 3 years, there would not be any requirement of short listing and sending names of multiple audit firms to RBI while seeking approval to appointment.
- 10.2.2 The Bank shall place the name of shortlisted audit firm, in order of preference before the Board for selection as SCA/SA. Upon selection of SCA/SA by the Bank in consultation with the 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.
- 10.2.3 The Bank shall obtain a certificate, along with relevant information as per Form B. from the audit firm(s) proposed to be appointed as SCAs/SAs by 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 partners of the audit firm proposed for appointment of SCAa/SAs of the Bank , Under the seal of the said audit firm.
- 10.2.4 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 firms(s) proposed to be appointed as SCA/SA by them comply with all eligibility norms prescribed by RBI for the purpose.
- 10.2.5 While approaching the RBI for its prior approval for appointment of SCAs/SAs, 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 SACs/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

Associate Co. Op. Bank Ltd.
C.E.O.



ANNEX I

Eligibility Criteria for Appointment as SCA/SA

A. Basic Eligibility

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 Note 1	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 Full Time Partners/ Paid CAs with CISA/ISA Qualification Note 2	Minimum No. of years of Audit Experience of the firm Note 3	Minimum No. of Professional staff Note 4
Above ₹15,000 crore	5	4	2	15	18
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Upto ₹1,000 crore	2	1	1*	6	8

* Not mandatory for UCBs/NBFCs with asset size of upto ₹ 1,000 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) For other UCBs, the Board/ACB 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.

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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.



ANNEX II

Procedure for Appointment of SCAs/SAs

1. The UCBs 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 banks/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. The UCBs shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SCA/SA. Upon selection of SCAs/SAs by the UCBs in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the UCBs shall seek RBI's prior approval for appointment of SCAs/SAs.
3. The UCBs shall obtain a certificate, along with relevant information as per **Form B**, from the audit firm(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 partner/s of the audit firm proposed for appointment of SCAs/SAs of the Entities, under the seal of the said audit firm.
4. UCBs 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.
5. While approaching the RBI for its prior approval for appointment of SCAs/SAs, Commercial Banks (excluding RRBs)/UCBs shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board/ACB Resolution (resolution not needed for foreign banks operating under branch mode) 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/re-appointment of the concerned audit firm.

