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## The Comptroller's Office Co-operative Bank Ltd.,

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### STATUTORY AUDIT POLICY – 2021

#### 1. INTRODUCTION:

The Reserve Bank of India has issued Guidelines for appointment of Statutory Auditors for UCBs and other entities vide Circular No. DoS. CO.ARG/ SEC. 01/ 08.91.001/ 2021-22 dt. April 27, 2021.

As per Sl.No.10 of the above circular each UCB shall formulate a Board Approved Policy to be hosted on its official website/public domain and formulate necessary procedure thereunder to be followed for appointment of Statutory Auditors.

In view of the above, it is necessary to adopt a Policy for Appointment of Statutory Auditors (SAs)

#### 2. SHORT TITLE AND COMMENCEMENT:

- 2.1. This Policy is called **Statutory Audit Policy** of THE COMPTROLLER'S OFFICE **CO-OPERATIVE BANK LIMITED., Bengaluru** and will be applicable for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SAs of the Entities.
- 2.2. As RBI guidelines regarding appointment of SAs shall be implemented for the first time from FY 2021-22, UCBs shall have the flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.
- 2.3. This Policy Guidelines, Rules, Regulations and Procedures are subject to changes, modifications, additions and deletions to be made from time to time in consonance with the directions/instructions of Reserve Bank of India and Karnataka State Co-operative Department.
- 2.4. In the case of difficulty or confusion in the meaning or interpretation of any of the provisions of the Policy herein contained, direction/instructions given in RBI Guidelines and its Circulars/ Guidelines being issued from time to time shall prevail.
- 2.5. The Policy relating to Statutory Audit will come into effect from the date they are approved by the Board of the Bank.

#### 3. DEFINITIONS AND MEANINGS:

Unless the context otherwise requires, the words and expressions in this 'Statutory Audit Policy' shall mean as under

- 3.1. '**Audit Firm**' means a firm of more than one Chartered Accountant within the meaning of the Chartered Accountants Act, 1949, which shall have a fair knowledge of the functioning of the cooperative sector and have an experience of at least six years in Statutory Audit of Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFIs and also have working knowledge of the Kannada language.
- 3.2. '**Bank**' means THE COMPTROLLER'S OFFICE **CO-OPERATIVE BANK LIMITED., Bengaluru**
- 3.3. '**Board**' means the Board of Directors of THE COMPTROLLER'S OFFICE **CO-OPERATIVE BANK LIMITED.,** duly constituted as per the Byelaws of the Bank
- 3.4. '**Statutory Auditor**' (SA) means the Audit Firms approved by the Regional Office, Reserve Bank of India.

#### **4. OBJECTIVES OF THE POLICY:**

- 4.1. To monitor and assess the independence of the auditors
- 4.2. Afford necessary transparency and objectivity for most key aspects of this important assurance function.

#### **5. PRIOR APPROVAL OF RBI:**

- 5.1. Bank will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SCAs/SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, Bank should apply to Department of Supervision, RBI (Regional office of RBI under whose jurisdiction their Head Office is located) before 31<sup>st</sup> July of the reference year.

#### **6. NUMBER OF SAs AND BRANCH COVERAGE:**

- 6.1. Bank should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It shall be ensured that joint auditors, if any, of the Bank do not have any common partners and they are not under the same network of audit firms. Further, the Bank may finalize the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.
- 6.2. UCBs Bank should decide on the number of SAs based on a Board Approved Policy, *inter alia*, 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.
- 6.3. SAs shall visit and audit the branches of the Bank (in case of Banks having less than 100 branches), 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 the Bank.

#### **7. INDEPENDENCE OF AUDITORS:**

- 7.1. 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 Bank to the concerned SSM/RO of RBI.
- 7.2. 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 SAs shall approach the Board of the Bank, under intimation to the concerned SSM/RO of RBI.
- 7.3. Concurrent auditors of the Bank should not be considered for appointment as SAs.
- 7.4. 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 for the Bank or any audit/non-audit works for its group Banks 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 to the concerned Banks which may not normally result in a conflict of interest, and Banks may take their own decision in this regard, in consultation with the Board.

**Note:** A conflict would not normally be created in the case of the following special assignments (indicative list):

- (i) Tax audit, tax representation and advice on taxation matters, (ii) Audit of interim financial statements. (iii) Certificates required to be issued by the statutory

auditor in compliance with statutory or regulatory requirements. (iv) reporting on financial information or segments thereof

7.5. The restrictions as detailed in para 7.3 and 7.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

## 8. PROFESSIONAL STANDARDS OF SAs:

- 8.1. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 8.2. The Board of the 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 two months from completion of the annual audit. Such reports should be sent with the approval/recommendation of the Board, with the full details of the audit firm.
- 8.3. In the event of lapses in carrying out audit assignments resulting in misstatement of the Bank's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SAs in relation to Bank, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

## 9. ELIGIBILITY NORMS:

### 9.1. Basic eligibility norms for audit firms:

Asset Size of Bank 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
Up to Rs.1,000 crore	2	1	1*	6	8

\* Not mandatory till the assets size of the Bank is 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 shortlisting for considering them as full time partners. Further, for appointment as SAs 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 Bank 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) The Board 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 Bank with **asset size upto ₹ 1,000 crore**, there is **no minimum requirement** in this regard. However, 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 shortlisting for considering them as professional staff for the purpose.

**9.2. Additional Consideration**

- (i) The audit firm, proposed to be appointed as SAs Bank, 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) The Bank shall ensure that appointment of 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.
- (iv) If any partner of a Chartered Accountant firm is a director in any Bank, the said firm shall not be appointed as SA of any of the group Banks of that Bank.
- (v) The auditors for Banks 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.
- (vi) For audit of 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 Bank /branch of the Bank is located.

**9.3. 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.

## **10. Audit Fees and Expenses**

- 10.1. The audit fees for SAs of the Bank shall be decided in terms of the relevant statutory/regulatory provisions.
- 10.2. The audit fees for SAs of 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.
- 10.3. The Board of Bank shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

## **11. Tenure and Rotation**

- 11.1. In order to protect the independence of the auditors/audit firms, Bank will have to appoint the SAs for a **continuous period of three years**, subject to the firms satisfying the eligibility norms each year. Further, 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.
- 11.2. An audit firm would 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 (In case an audit firm has conducted audit of Bank for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Bank for six years from completion of part-tenure).
- 11.3. One audit firm can concurrently take up statutory audit of a maximum of eight UCBs during a particular year, subject to compliance with required eligibility criteria and other conditions 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 this circular, a group of audit firms having common partners and/or under the same network, will be considered as one entity 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.

## **12. PROCEEDURE FOR APPOINTMENT OF STATUTORY AUDITORS:**

- 12.1. The Board Approved Policy to be hosted on its official website/public domain
- 12.2. The Bank shall 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 SAs does not get delayed. However, in case of reappointment of SAs by the 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.

- 12.3. The Bank 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 Bank in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of SAs.
- 12.4. The Bank shall obtain a certificate, along with relevant information as per **Form B**, from the audit firm(s) proposed to be appointed as 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 partner/s of the audit firm proposed for appointment of SAs of the Entities, under the seal of the said audit firm.
- 12.5. 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 SAs by them comply with all eligibility norms prescribed by RBI for the purpose.
- 12.6. While approaching the RBI for its prior approval for appointment of SAs, Bank shall indicate their total asset size as on March 31<sup>st</sup> the previous year (audited figures), forward a copy of Board 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.