



POLICY ON APPOINTMENT OF STATUTORY AUDITORS FOR THE YEAR 2021-22 AND ONWARDS

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INDEX

S.No.	Area	Page No.
1.	Background	3
2.	Preamble	3
3.	Objective of the Policy	3
4.	Scope of the Policy	3
5.	Regulatory Guidelines by RBI	3
6.	Regulatory References	3
7.	References	3-4
8.	Prior Approval of RBI	4
9.	Number of SAs and Branch Coverage	4
10.	Eligibility Criteria of Auditors	4-5
11.	Independence of Auditors	6-7
12.	Professional Standards of SAs	7
13.	Tenure and Rotation	7
14.	Audit Fees and Expenses	7
15.	Statutory Auditor - Appointment Procedure	7-8
16.	Review of the policy	8
17.	Contact Details	8
18.	Form B	9-10
19.	Form C	10

BACKGROUND:

Provisions contained in section 30(1A) of Banking Regulation Act 1949 have since been made applicable to all cooperative banks vide clause (J) of Banking Regulation (Amendment) Act, 2020. Accordingly, all Urban

Cooperative Banks are now statutorily required to obtain prior approval of RBI for appointment /reappointment/ removal of any statutory auditors. Reserve Bank of India has therefore, vide their Circular.No: DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 issued detailed guidelines to all regulated entities for the same.

RBI has also advised Banks vide paragraph 10 of the above circular to formulate Board approved Policy to be posted on Bank's website and also formulate necessary procedure for appointment/ reappointment/removal of statutory auditors.

Based on the RBI guidelines, this policy for Appointment/Reappointment/Removal of Statutory Auditor/s is formulated as under:

PREAMBLE

This policy shall be known as "Policy on Appointment/Reappointment/Removal of Statutory Auditor". The Policy is aimed at conforming all relevant Statutory/Regulatory requirements and to afford necessary transparency and objectivity for most key aspects of Audit Function.

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/reappointment/removal of Statutory Auditors of the Bank. The Policy shall be applicable for the financial year 2021-22 and onwards in terms of Reserve Bank of India directives issued/may be issued from time to time in this regard.

3. Regulatory Guidelines by RBI

The Policy has been made by incorporating the latest guidelines for appointment of Statutory Auditors (SA's) of Urban Cooperative Banks (RBI/2021-22/25, Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22) dated April 27, 2021.

4. Regulatory Reference

Section 30(1A) and section 56 of Banking Regulation Act, 1949 read with RBI Circular No: Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021.

5. References

In these rules unless there is anything repugnant to the Act, Laws and/ or Rules in force in subject or context:-

5.1 "Bank " means "The Citizens' Cooperative Bank Ltd., Jammu"

5.2 "Board" means the committee constituted to manage the affairs of the Bank with whatsoever name it may be called or referred to.

5.3 "Audit Committee" means Audit Committee of Board.

5.4 "Statutory Auditors (SAs)" mean auditors appointed as per the policy to conduct statutory audit of the Bank.

Prior Approval of RBI:

The Bank shall take prior approval of RBI for appointment/ reappointment of SAs on annual basis. The Bank shall apply to Department of Supervision, RBI, Jammu, before 31st July of the reference year for such approval.

6. Number of SAs and Branch Coverage:

As per the RBI Circular at point No. 4, there is no condition of “Joint Audit” by Audit firms for us since these provisions are applicable to entities with asset size exceeding Rs.15,000 crore.

Therefore, we shall appoint one audit firm only as the “Statutory Auditors”. Also, there is no separate concept of “Statutory Branch Auditors” for UCB’s.

The Statutory Auditors so appointed will ensure that 100% coverage of all branches depending on geographical spread, size, operations, risks involved, etc. Core Banking Solutions has already been implemented on all branches and they are connected to the Head Office. There are no units outside the purview of CBS and therefore coverage of branches will be necessary.

The audit reports for all branches along with LFAR and Annexures wherever applicable shall be submitted by the Statutory Auditors along with the Consolidated Audit Report of the bank within mutually decided timelines.

7. Eligibility Criteria of Auditors:

7.01 (A) The Bank shall adhere to the minimum eligibility criteria as mentioned in the RBI circular for appointment of the Statutory Auditors considering the asset size of the Bank. Presently the minimum standards and eligibility norms for audit firms to be appointed as SAs of the bank shall be, as given below:

Asset size of the Bank as on 31st March of the previous year	Min No. of Full Time partners (FTPs) associated with the firm for a period of at least three (3) years Note 1	Out of 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
Upto Rs.1,000 crore	2	1	1*	6	8

* Not mandatory for UCBs with asset size of up to ` 1,000 crore.

Notes:

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.
2. **CISA/ISA Qualification:**
Priority will be given 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).
3. **Audit Experience:**
The audit firm should have minimum 6 years experience of audit 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. It is desirable that Audit Firm should have experience in Audit of Cooperative Bank.
4. **Professional Staff:**
The Audit firm should have at least 8 numbers of Professional staff which 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.)

(B) Additional Consideration :-

- (i) The audit firm, proposed to be appointed as SAs, 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 appointment of SAs shall be ensured as being 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) In case if any partner of a Chartered Accountant firm who is a director in an RBI Regulated group Entity, the said firm shall not be appointed as SA of the bank. Bank shall, as part of the process for selection of firms for appointment as SAs, obtain appropriate disclosures in this regard, including details of directorships in Group Entities that are not regulated by RBI.
- (v) 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 Jammu and Samba districts in which the branches of the Bank 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 shall 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, the Bank may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

8. Independence of Auditors:

8.01 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 RO of RBI.

8.02 Concurrent auditors of the Bank will not be considered for appointment as SAs. The audit of the Bank and any entity with large exposure (As defined in RBI instructions on 'Large Exposures Framework') to the Bank for the same reference year shall also be explicitly factored in while assessing independence of the auditor.

8.03 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 entities 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 Bank which may not normally result in a conflict of interest #, and the Bank will take a decision in this regard, in consultation with the Boards.

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.

8.04 The restrictions as detailed in para 8.02 and 8.03 above, will also apply to an audit firm under the same network (As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms or any other audit firm having common partners.

9. Professional Standards of SAs:

9.01 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

shall be sent with the approval/recommendation of the Board/ACB, with the full details of the audit firm.

10. Tenure and Rotation:

The audit firm shall be appointed for continuous period of 3 years subject to firm satisfying eligibility criteria each year. 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.

Bank may remove an audit firm before expiry of the tenure with prior permission of RBI.

11. Audit Fees and Expenses:

The Board/ACB/Chairman of Bank shall fix/negotiate the audit fees of Statutory Auditor till any statutory/regulatory instructions for fixing audit fees of SAs is issued by RBI/RCS.

12. Statutory Auditor - Appointment Procedure:

12.01 Process for reappointment of existing Auditors:

First preference will be given to existing SAs for their re-appointment subject to compliance of eligibility norms. The Bank shall obtain the willingness from the existing SAs for re-appointment. In case such consent is not received from the existing SAs, Bank shall follow the process for appointment of New SA to fill that vacancy as detailed below.

12.02 Process for appointment of New firm as SAs:

12.02.1 Applications will be invited from the eligible Audit firms / past auditors of the Bank /firms associated with Bank in past / firms having their Head Office or Branch in Jammu, subject to fulfilling the eligibility criteria as per para 7 above. A window of maximum of one week will be announced with prior approval from Chief Executive, for the firms to apply for expression of interest (EOI) for appointment of Statutory Auditors. An advertisement in Website will be given regarding the window for EOI.

12.02.2 The shortlisting of firms from applications received for EOI, will be done by an Evaluation Committee. The composition of Evaluation Committee will be finalized by CEO. An Evaluation Committee will shortlist the firms by evaluating audit firms on the parameters preapproved by Board and willingness received from the firms. The name of shortlisted audit firms, in order of preference, will be placed before the Board for selection as SA.

12.02.3 Thereafter, the bank shall seek RBI's approval for appointment/ reappointment of SAs under Sections 30 (1-A) of the Banking Regulation Act, 1949.

12.03 General process to be followed:

12.03.1 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.

12.03.2 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 (Annexure II), stating that the audit firm(s) proposed to be appointed as SA by them comply with all eligibility norms prescribed by RBI for the purpose.

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

13. Review of the policy:

The Audit Committee of the Board / Board of the Bank may review the policy as and when required / need-based.

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. The amended regulatory requirements will automatically supersede the Policy till the time the Policy is suitably amended.

14. Contact Details:

Audit firms desirous of making applications for Statutory Auditors shall ensure, they check in detail provisions of this Policy hosted on our webpage as well as ensure compliance of detailed guidelines as per RBI Circular dated 27th April, 2021. (<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0>)

The applications complete in all aspects shall be addressed to:

**The Chairman,
The Citizens Cooperative Bank Ltd., Jammu
68 B/D Gandhi Nagar,
Jammu – 180004
info@citizenscooperativebankjammu.com**

Annexure I

FORM B

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

A. Particulars of the firm

Asset size of the Bank as on 31st March of the previous year	Min No. of Full Time partners (FTPs) associated with the firm for a period of at least three	Out of FTPs Minimum No. of Fellow Chartered Accountant (FCA) Partners	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
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	(3) years Note 1	associated with the firm for a period of at least three (3) years			

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

#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 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 SAs of UCBs. 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 / directors¹⁵ have been declared as wilful 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:

¹⁵ For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.

Annexure II

FORM C

Certificate to be submitted by the UCBs regarding eligibility of audit firm proposed to be appointed as SA

The bank 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/ Section 10 (1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980/ Section 41(1) of SBI Act, 1955.

2. The bank/UCB has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Central Auditor (SCA)/Statutory Auditor of the bank/UCB 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/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 SAs of UCBs.

Signature
(Name and Designation)
Date: