



**THE CALICUT CO-OPERATIVE
URBAN BANK LTD.**

RBI License No : UBD. KR. 813 P No : 1538

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Policy on Appointment of Statutory Auditors (SAs)

Formulated on 15-07-2021

Approved Asper Board Resolution No. 10/21 Dtd.15-07-2021

Policy on Appointment of Statutory Auditors (SAs).

This policy is based on the RBI Circular Dtd. April 27, 2021 “Issue of Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including Housing Finance Companies)

1. Applicability: The policy will be applicable to “The Calicut Co-operative Urban Bank Ltd.” for the Financial Year 2021-22 and onwards in respect of appointment/reappointment of SA.

2. Prior Approval of RBI: The Bank will be required to take prior approval of the Regional Office of RBI (Department of Supervision) for appointment/reappointment/removal of SAs, on an annual basis. For this purpose, the Bank should apply to the Department of Supervision, Regional Office, RBI before 31st July of the reference year.

3. Number of SAs and Branch Coverage: Bank should appoint a minimum of one **audit firm (Partnership firm/LLPs)** for conducting statutory audit. The SA shall visit and audit at least the Top 20 branches/Top 20% of the branches of the Bank (in case of Bank 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.

4. Eligibility Criteria of Auditors: The Bank is required to appoint audit firm(s) as its SA(s) fulfilling the eligibility norms as prescribed below:

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	Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners associated	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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	three (3) years Note 1	with the firm for a period of at least three (3) years			
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

5. Independence of Auditors: The Board of Directors shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board to the RO of RBI.

6 Independence of Management: 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 SAs shall approach the Board, under intimation to the concerned RO of RBI.

Note:

1. Concurrent auditors of the Bank should not be considered for appointment as SAs.

2. The audit of the Bank and any entity with large exposure to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.

3. The time gap between any non-audit works, 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, which may not normally result in a conflict of interest.

7. Professional Standards of SAs: The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

7.1 The Board/ACB 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/ACB, with the full details of the audit firm.

7.2 In the event of lapses in carrying out audit assignments resulting in misstatement of 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 the Bank, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

8. Tenure and Rotation: 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.

8.1 Further, the Bank can remove the audit firms during the above period only with the prior approval of the RO of RBI (Department of Supervision).

8.2 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.

8.3. One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and eight NBFCs during a particular year.

9. Audit Fees and Expenses: The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions. The audit fees for SAs 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. The Board/ACB shall make recommendations to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of empanelment for considering them as full time partners. Further, for appointment as SAs of all Banks 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 UCBs 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/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:

For UCBs with asset size upto ₹ 1,000 crore, there is no minimum requirement in this regard. However, the Banks 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 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 considering them as professional staff for the purpose.

10. Additional Consideration

(i) The audit firm, proposed to be appointed as SAs for the 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 Entity connected with the Bank or Board Members, the said firm shall not be appointed as SA.

(v) The auditors for Entities with asset size above ₹1,000 Cr 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 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.

11. 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 the 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.

12. Procedure for Appointment of SCAs/SAs

1. The Bank shall shortlist a minimum of 2 audit firms for every vacancy of SA so that even if the 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 SA does not get delayed. However, in case of reappointment of SA by the 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.

2. The banking companies shall continue to follow the existing procedure followed by them for selection of SA. They shall place the name of shortlisted audit firms, in order of preference, before their ACB for selection as SA. Upon selection of SA by the bank in consultation with their ACB and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SA.

4. The Bank shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SA. Upon selection of SA 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 SA.

5. The Entities shall obtain a certificate, along with relevant information as per **Form B**, from the audit firm(s) proposed to be appointed as SA by the Bank to the effect that the audit firm 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 SA of the Bank, under the seal of the said audit firm.

6. The Bank shall verify the compliance of audit firm 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 SA by them comply with all eligibility norms prescribed by RBI for the purpose.

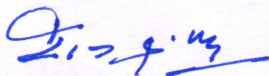
7. While approaching the RBI for its prior approval for appointment of SAs, the Bank shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board/ACB Resolution recommending names of audit firms for appointment as SA in the order of preference 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.

Note: The Forms are available with the RBI Circular Ref.No.DoS.CO.ARG.SEC.01/08.91.001/2021-22 dated April 27, 2021 Captioned "Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)"

Note: Prepare the Audit report as per the latest Guidelines issued by the ICAI.

Note: For all Statutory Audit, an LFAR should be prepared as per the RBI Circular.No.DOS.CO.PPG./SEC 01/11.01.005 /2020-21 dated September 05, 2020.


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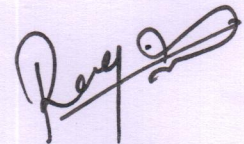
Chairman



Director



Director



General Manager

