

Textile Co-operative Bank Limited

**“Devanga Market”, Jumma Masjid Road
Bengaluru – 560 002**

STATUTORY AUDIT POLICY

Version - 1.1

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STATUTORY AUDIT POLICY

01. INTRODUCTION:

The Statutory Audit Policy of the Bank is based on the RBI directions to UCBs to formulate a Board approved Statutory Audit Policy containing therein the procedure to be followed for Appointment / Re-appointment / Removal of Statutory Auditors (SAs).

The Statutory Audit Policy of the Bank is guided based on the RBI Guidelines vide its Circular No: RBI / 2021-22/25 Ref. No: DoS. CO. ARG / SEC.01 / 08.91.001 / 2021-22, Dated 27th April 2021.

02. SCOPE OF THE POLICY:

- 2.1 The Statutory Audit Policy is applicable for Appointment / Re-appointment / Removal of Statutory Auditor of the Bank.
- 2.2 The Policy shall be applicable for the Financial Year 2021-22 and onwards.
- 2.3 The Policy is to conform to all the relevant statutory / regulatory requirements and to provide necessary transparency and objectivity for most key aspects of audit function.

03. APPLICABILITY:

Bank's Asset Size as on 31st March of the previous year is below Rs.1,000 crore. As per RBI guidelines, the following Eligibility Criteria are fixed for appointment of Statutory Auditors in the Bank:

- 3.1 **BASIC ELIGIBILITY:** Bank should appoint minimum of one audit firm, [Partnership firm/ Limited Liability Partnerships (LLPs)] for conducting Statutory Audit, considering the asset size of the Bank, as mentioned in the RBI Circular.



- 3.2** Such Audit firm should have at least 2 full time Partners associated with the firm for a period of at least 3 years, of which at least one should be Fellow Chartered Accountant (FCA) Partner associated with the firm for a period of at least 3 years.
- 3.3** There should be at least 1-year continuous association of partners with the firm as on the date of shortlisting for considering them as full-time partners.
- 3.4** The firm should have minimum 6 years of Audit Experience and 8 professional staff. The audit experience shall mean experience of the audit firm as Statutory Central / Branch Auditor of Commercial Banks (excluding RRBs) UCBs / NBFCs / AIFIs. 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 / stenographers / 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.
- 3.5** The priority will be given to firms having at least one Full Time Partners / Paid CAs with CISA / ISA qualification.
- 3.6** The firm should have a fair knowledge of the functioning of the co-operative sector and shall preferably have working knowledge of Kannada.

NOTE:

If any shortlisted audit firm undergoes change in its constitution after the date of shortlisting, the audit firm will take all necessary steps to become eligible within a reasonable time and in any case, audit firm should be complying with the above norms before the following events:



A. *Appointment of the audit firm by the Bank as SA: For this, the audit firm while giving consent to the Bank for appointment may ensure that it complies with the norms before commencement of Annual Statutory Audit for financial year ending 31st March and till the completion of annual audit.*

B. *In case of any audit firm (after appointment) does not comply with any one of the norms (on account of resignation, death, etc., of any partners, employees, etc.), it may promptly approach the Bank with full details. The Bank in turn will approach RBI.*

3.7 NUMBER OF STATUTORY AUDITORS: The Bank shall decide on the number of SAs after 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.

04. PRIOR APPROVAL OF RBI:

As per the provisions of Section 30 (1A) of the Banking Regulations Act, 1949, all UCBs are now required to obtain prior approval of RBI before appointment, re-appointment and removal of Statutory Auditors. The Bank is required to take prior approval of concerned Regional Office of RBI (Department of Supervision) for appointment/re-appointment of Statutory Auditors, on an annual basis, before 31st July of the reference year.

05. INDEPENDENCE OF AUDITORS:

5.1 Audit Committee of the Board (ACB) shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard may be flagged by the ACB to the Board of Directors of the

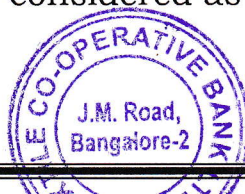


Bank and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

- 5.2** 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 Statutory Auditors shall approach the Board / ACB of the Bank, under intimation to the concerned SSM/RO of RBI.
- 5.3** Concurrent auditors of the Bank should not be considered for appointment as Statutory Auditors. The audit of the Bank and any entity with large exposures to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 5.4** The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory Auditors 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 Statutory Auditors. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the Bank, which may not normally result in a conflict of interest, and Bank may take their own decision in this regard, in consultation with the Board / ACB.
- 5.5** The restrictions as detailed in para 5.3 and 5.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

06. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS:

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

07. TENURE AND ROTATION:

- 7.1** In order to protect the independence of the auditors / audit firms, Bank will have to appoint the Statutory Auditors 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.
- 7.2** 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.

08. AUDIT FEES AND EXPENSES:

- 8.1** The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory / regulatory provisions.
- 8.2** The audit fees for Statutory Auditors for 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.
- 8.3** ACB shall make recommendation to the RBI for fixing audit fees of Statutory Auditors.



09. PROCEDURE FOR SELECTION AND APPOINTMENT OF STATUTORY AUDITORS:

- 9.1** The audit firms have to submit a certificate, along with relevant information as per Form 'B' to RBI circular referred above, to the effect that they comply 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 appoint of SA of the Bank, under the seal of the audit firm.
- 9.2** Based on the above parameters, Bank will prepare a list of shortlisted audit firms. Willingness in writing from the above shortlisted audit firm(s) will be obtained to accept the assignment of Statutory Audit work of the Bank. At the time of obtaining the willingness letters from such shortlisted audit firms, there will be no commitment on the part of the Bank to allot the Statutory Audit work to the auditors and such shortlisted audit firms are free to give similar willingness to multiple Banks / UCBs, if approached by them. The list of shortlisted audit firms will be placed before the Board. The Board will approve five audit firm(s), in order of preference. The number of audit firms approved should be adequate enough, to take care of the situation, where some firms may not give consent.
- 9.3** On due approval by the Board, the Bank will approach the audit firms to obtain their consent in writing strictly in order of preference. The audit firm should give their consent in writing for consideration of appointment in the Bank for the particular year and the subsequent continuing years subject to their fulfilling the eligibility. If the approached audit firm does not give consent, the Bank will approach the next audit firm in order of preference for obtaining consent till the time the number of audit firms which have given the consent equals to two for the particular year.



The consent letter should clearly state that the selection of the audit firm as Statutory Auditor is subject to approval of RBI and any force majeure events and, in such cases, the audit firms will not have any claim against the Bank and RBI. The appointment of SA is subject to complying with the stipulated norms or eligibility and guidelines issued by RBI from time to time. The audit firm should declare that consent is given for maximum of 4 Commercial Banks [including not more than 1 PSB or 1 All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], 8 UCBs and 8 NBFCs during a particular year. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. The consent given by an audit firm will be treated as irrevocable and request, if any, from audit firms for changing the Bank, after giving its consent to the Bank will not be entertained.

- 9.4** The list of such selected firms who have given consent for appointment as statutory auditors in the Bank will be placed before the Board for their concurrence before it is forwarded to RBI for final approval.

10. UNDERTAKINGS / DECLARATIONS TO BE OBTAINED FROM THE AUDIT FIRM:

The following declarations / undertakings will be obtained from the firm selected:

- 10.1** At the time of acceptance of appointment as Statutory Auditor of the Bank, the firm has to relinquish any internal assignment allotted to them in the Bank. Their associate firms or sister concerns are also disqualified for internal audit or for any special assignment of the Bank.



- 10.2** A suitable undertaking from the firm to the effect that the Audit will be carried out by their own staff and they will not subcontract the audit work.
- 10.3** None of the disqualifications under Section 141 of the Companies Act, 2013, applied to them and they are qualified for appointment as Statutory Auditors of the Bank.
- 10.4** The audit firm is not under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or other Financial Regulators.
- 10.5** 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.
- 10.6** None of the partners or their spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them or the Firm / Company in which they are Partners / Directors are not indebted to the Bank. Further, they have not been declared Wilful Defaulters by any Bank or Financial Institution.
- 10.7** Associate firms or Sister concerns of Statutory audit firm is disqualified for internal assignment where the main firm / partners are allotted Statutory Audit in a particular year.

11. OTHER GUIDELINES:

- 11.1** In order to protect the independence of the auditors / audit firms, the Bank will make the appointment of SA for a continuous period of three years subject to the firms satisfying the eligibility norms each year.



11.2 One audit firm can concurrently take up statutory audit of a maximum of 4 commercial Banks [including not more than 1 PSB or 1 AIFI (NABARD, SIDBI, NHB, EXIM Bank or RBI)], 8 UCBs and 8 NBFCs during a particular year. The limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm.

11.3 In the event of acceptance of the appointment as SA of the Bank, all the internal assignments of the Auditor in the Bank, if any, will stand withdrawn.

12. REMOVAL OF STATUTORY AUDITORS:

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

13. REVIEW OF THE POLICY:

The Audit Committee of the Board and 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. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.

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