

**THE KANARA DISTRICT CENTRAL CO-OPERATIVE BANK LIMITED,
HEAD OFFICE, SIRSI(UTTARA KANNADA)**

POLICY FOR THE APPOINTMENT OF STATUTORY AUDITORS (SAS)

(Approved by Board Meeting Resolution No.34 dated 06-12-2024)

1. Objective and Purpose

This Policy on Appointment of Statutory Auditors (this "Policy") is designed to govern the appointment of Statutory Auditor/s (SA) of **THE KANARA DISTRICT CO OPERATIVE BANK** (the "Bank").

This policy aims to ensure a transparent and standardized process for the appointment, re-appointment, and removal of Statutory Auditors (SAs) for Audit of our Banks in alignment with Reserve Bank of India ("RBI") Guidelines and regulations. It also outlines procedures to uphold auditor independence and oversee performance, ensuring rigorous standards of audit quality and regulatory compliance.

2. Background/Rationale

Reserve Bank of India (RBI) vide its circular dated January, 2024, has issued guidelines for appointment of Statutory Auditors (SAs), Guidelines on Appointment / Re-appointment of Statutory Auditors of State Co-operative Banks and Central Co-operative Banks vide Ref.No.DOS.ARG/SEC.8/08.91.001/2023-24 dated 15.01.2024.

The Bank has accordingly prepared this policy for appointment of SAs in conformation with the extant norms of RBI;

3. Applicability

This policy applies to the Bank for appointment of central Auditors with effective from April 1, 2024.

4. Definitions

4.1 "Central co-operative bank" as defined under sub-section (d) of Section 2 of National Bank for Agriculture and Rural Development Act, 1981

4.2 "NABARD" means "National Bank" established under Section 3 of National Bank for Agriculture and Rural Development Act, 1981

4.3 "BANK" means "The Kanara District Central Co operative Bank Ltd., Sirsi (U.K.)"

4.4 Board means "The board of directors of the bank"

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4.5 Audit Committee (ACB) means "The Committee formulated by the board"

4.6 'Year' means the financial year of the Bank commencing from 1st of April and ending on 31st. March of the next year as defined in the Act and for which Statutory Auditors are to be appointed.

4.7 'Firm' means a Partnership firm or Limited Liability Partnership as defined in section 4 of Indian Partnership Act, 1932 or LLP Act

5. RBI Approval for Appointment or Re-appointment of Statutory Auditors (SAs)

The Bank shall take prior approval of RBI for appointment/ reappointment of SAs on annual basis.

The Bank shall apply to RBI before 31st July of the respective financial year for such approval.

6. Eligibility and Selection Criteria of Audit Firms for Statutory Audit

6.1 Basic Consideration

6.1.1 Firm should be a partnership firm of Chartered Accountants

6.1.2 Firm should be Registered with ICAI having Registration number

6.1.3 Firm should be Registered with RBI having Unique Code Number

6.1.4 Firm should have Minimum No. of 3 (Three) Full-Time partners (FTPs) associated with the firm for a period of at least three years. There should be at least one-year of continuous association of partner(s) with the firm as on the date of short listing (by banks) for considering them as FTPs.

6.1.5 The definition of 'exclusive association' will be based on the following criteria:

- The FTP should not be a partner(s) in other firm/s.
- She / He shall not be employed full time/part time elsewhere.
- She / He shall not practice 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.



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- The Board / ACB shall examine and ensure that the income of the partner(s) from the firm / LLP is adequate for considering him / her as full-time exclusively associated partner(s).

6.1.6 Out of total FTPs of the Firm, Minimum No. of 2 (Two) Fellow Chartered Accountant (FCA) Partner(s) associated with the firm for a period of at least three years.

6.1.7 The firms should have Minimum 1 (one) partner or paid CA with CISA / ISA / DISA Qualification. There shall be at least one-year continuous association of Paid CAs (with CISA / ISA / DISA qualification) with the firm, as on the date of short listing, to consider them as Paid CAs with CISA / ISA / DISA qualification for the purpose.

6.1.8 The Firm should have Minimum No. of 4 (Four) years of Audit Experience and Minimum No. of 1 (One) years of Statutory Audit experience in StCBs/CCBs. Audit experience shall mean experience of the audit firm as Statutory Central / Branch Auditor of Commercial Banks / UCBs / NBFCs (including HFCs) / AIFIs / Statutory Auditor of StCBs / CCBs / RRBs. In case of merger and demerger of audit firms, merger effect will be given two years after merger, while demerger will be given effect immediately.

6.1.9 Firm should have Minimum No. of 4 (Four) 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 / stenographers / computer operators / secretaries / subordinate staff, etc. There shall be at least one year of continuous association of professional staff with the firm, as on the date of short listing, for considering them as professional staff.

6.1.10 The firm name should be listed in the State-wise Auditor list of eligible audit firms (A or B Category) compiled Annually by the NABARD.

6.1.11 The firm is having fair knowledge of the functioning of cooperative sector and knowledge of language of the state of Karnataka.

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6.1.12 The Firm should have empanelled with the Directorate of Cooperative Audit, Bengaluru.

6.1.13 The firm should submit the Form B (Eligibility Certificate) as prescribed by the RBI along with the other relevant document time within the prescribed time specified by the Bank for that year.

6.1.14 The Firm should not have any credit relationship with the Bank/branch other than borrowings against their own deposits/jewels.

The above consideration has been drawn up considering the Bank Asset size of up-to Rs.15,000 Crore.

6.2 . Additional Consideration

6.2.1 The audit firm, proposed to be appointed as SA, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.

6.2.2 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.

6.2.3 The bank shall ensure that appointment of SA is in accordance with the ICAI's Code of Ethics / any other such Standards adopted and does not give rise to any conflict of interest.

6.2.4 If any partner(s) of a Chartered Accountant firm is a director in any bank, the said firm shall not be appointed as SA of that particular bank.

6.2.5 The auditors should have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree / complexity of computerization of the banks.



6.3 Continued Compliance with basic eligibility criteria

- 6.3.1 In case an audit firm (after appointment) does not comply with any of the eligibility norms (on account of resignation, death, etc., of any of the partner(s) / employee(s), action by Government Agencies / NFRA / ICAI / RBI / other Financial Regulators, etc.) as stated in B (ii) above, it shall promptly approach the bank with full details. Further, such audit firm shall take all necessary steps to become eligible within a reasonable time and, in any case, the audit firm should be in compliance with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit.
- 6.3.2 In case of any extraordinary circumstance after the commencement of audit, such as death of one or more partner(s) / employee(s), etc., which may render the firm ineligible with respect to one or more of the eligibility norms, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

7. Independence of Auditors

The Board/ACB is responsible for monitoring auditor independence, avoiding conflicts of interest. The following aspects need to be specifically considered while assessing independence as specified in the RBI circular.

- 7.1 SAs cannot simultaneously engage in other non-audit roles or concurrent audits for the same bank.
- 7.2 A minimum one-year gap is mandatory for any previous non-audit work before an SA can be appointed.
- 7.3 If any conflict of interest arises, it should be reported to NABARD.



8. Procedure for Appointment

8.1 Process for appointment of New firm as SAs:

The Bank shall shortlist audit firms for every vacancy of SAs basis a due diligence process as per established procedures. 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 short listing firms and approval will be sought from RBI to reappoint existing auditors unless auditors are proposed to be changed for any justifiable reason.

The name of shortlisted audit firms, in order of preference, shall be placed before the Board/ACB for selection as SAs. Upon selection of SAs by the bank and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SAs.

8.2 Process for annual review of existing Auditors (within three year period):

Existing SAs will be re-assessed annually (within their three year period) for 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 any of the existing SAs, Bank shall follow the process for appointment of New SA to fill that vacancy as detailed below.

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 Bank, under the seal of the said audit firm.

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



9. Tenure and Rotation of Auditors

- 9.1 Auditors are appointed for a one-year term and may be reappointed annually for up to three consecutive years, subject to continued eligibility.
- 9.2 After completing a full or part-term, audit firms are ineligible for re-appointment at the same bank for six years.
- 9.3 Early termination of an auditor's term requires RBI approval.

10. Review of Performance

- 10.1 The Board/ACB must annually assess the performance of the SAs. Serious lapses or negligence must be reported to NABARD within two months post-audit.
- 10.2 Any misstatement in financial statements due to audit lapses will invoke penalties as per statutory or regulatory frameworks.

11. Limit on Audits carried by the proposed Audit Firm

- 11.1 Each audit firm can conduct statutory audits for a maximum of five banks in a given year, inclusive of not more than one StCB per state.
- 11.2 This limit aligns with the cap on auditing regulated entities per RBI's existing guidelines for SCAs and SAs of commercial banks dated April 27, 2021.
- 11.3 In a year, an audit firm cannot simultaneously take up statutory audit of both StCB and CCBs operating in the same State.

12. Audit Fees

The Board/ACB will set SA audit fees, ensuring they are proportionate to the audit's scope, bank asset size, complexity, and geographic coverage. Fees should comply with relevant statutory and regulatory standards.



13. Board's Responsibilities:

Following are the responsibilities of the Board of the Bank.

13.1 To verify the profile of audit firms with necessary declarations as required by RBI for obtaining prior approval of Bangalore Regional Office of the Reserve Bank of India for appointment of Statutory Auditors and if satisfied passing of resolution in that regard.

13.2 To monitor and assess the independence of the statutory auditors. Any concerns in this regard shall be flagged to the Bangalore Regional Office of RBI.

13.3 To review the performance of statutory auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on the 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.

13.4 To seek prior approval of RBI for removal of statutory auditors, if found necessary.

14. Audit Committee Responsibilities:

14.1 To prepare a shortlist of minimum two Partnership/Limited Liability Partnership (LLP) Firms for appointment as Statutory Auditors for the Bank. For this purpose detailed information in Form No. 'B' along with declaration and certificate as prescribed RBI given in the Annexure duly signed by the main Partner shall be obtained from each Audit Firm.

14.2 To place before the Board the names of shortlisted Audit Firms, in order of preference, for selection.

14.3 To obtain Board's permission for approaching RBI for prior approval for appointment of Statutory Auditors upon selection of Audit Firms by the Board after verification of the compliance of the Audit Firms proposed to be appointed as Statutory Auditors with the eligibility norms prescribed by RBI.



- 14.4 To submit Form B containing the details of shortlisted Audit Firms along with their declarations and certificates and Form C relating to Bank's certificate along with extraction of the Board's resolution recommending the names of audit firms for appointment as SAs in the order of preference to Bangalore Regional Office of the Reserve Bank of India and seek its approval for appointment of Statutory Auditors.
- 14.5 On receipt approval for appointment statutory auditor\$ from RBI, to, send necessary appointment letter to the concerned audit firm with a request to take up the audit work and furnish five copies of their report along with Balance Sheet and Profit & Loss Statement duly certified.
- 14.6 To provide the auditors with a meeting room and access to computerized books, files and records for verification.
- 14.7 To provide a senior official for furnishing all physical books, loan files, documents, records as are required for examination and give all necessary information and explanations called for by the Auditors.
- 14.8 To inform all staff and officers working in AO departments and branches to give all information and explanations called for by the Auditors.
- 14.9 To take steps for spot correction/rectification/compliance to be made in respect of errors/mistakes/ irregularities pointed out by Auditors.
- 14.10 To inform RBI with the permission of the Board any conflict of interest position in terms of relevant regulatory provisions; standards and best practices; 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 auditors in relation to the Bank; death of one or more partners, employees.



For The Regional Director
Central
12/12/2018
10:05 AM

Managing Director



15. Branch / business coverage under the Statutory Audit,

To decide the branch / business coverage under the Statutory Audit, the bank shall follow following Norms while making selection of branches for audit ;

15.1 The branches selected for audit should cover at least 70% of the total advances outstanding.

15.2 Top 20 branches / Top 20% of the branches of the banks (in case of banks having less than 100 branches) to be selected in order of level of outstanding advances should be compulsorily included for audit.

15.3 Branches where fraud, embezzlements or transactions of a suspicious nature are suspected or have taken place may be taken up for audit, if not covered with reference to (15.2) above.

15.4 Branches where the loan, business growth is 50% and more over the preceding year should also be compulsorily taken for audit, if not covered with reference to criteria (15.2) and (15.3) above.

15.5 The actual selection of branches to be taken up for audit should be decided by the Board / ACB keeping in view the above guidelines.

15.6 While deciding the branches and business coverage, the bank shall interalia consider bank-specific characteristics such as degree of centralisation of processes, need to address fraud risk and credit risk, adverse report from internal / concurrent auditors, whistle blower complaints, and unusual patterns / activity shown by internal MIS reports.

15.7 The bank shall also disclose on its website / public domain the extent of branch / business coverage under Statutory Audit for the respective year and the previous year.

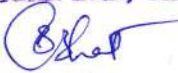
16. Governance/Oversight :

The Board/ACB 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. The Board approved Policy will be hosted on Banks official website.



TRUE COPY
For The Kanara Dist. Central
Co-op Bank Ltd., Sirsi


Managing Director


MANAGING DIRECTOR

