

The Mehsana Nagrik Sahakari Bank Ltd., Mehsana.



THE MEHSANA NAGRIK SAHAKARI BANK LTD.

Head Office: Arvind Baug, Mehsana-384001

Policy for Appointment of Statutory Auditors - 2021



Policy for Appointment of Statutory Auditors.

The Policy for Appointment of Statutory Auditors (SAs) of our bank is prepared to follow RBI guidelines issued vide Ref. No. DoS. CO.ARG/SEC.01/08.91.001/2021-22. Dated - April 27, 2021.

1. The Mehsana Nagrik Sahakari Bank Ltd. is a, Non-Scheduled Co-operative Tier II Bank. The area of operation is entire Gujarat State. As on 31-03-2021, the total deposits was Rs. 407.54 crores. As per the extant guidelines issued by the Reserve Bank of India, bank shall appoint Statutory Auditors (SA).
2. **Applicability.** These guidelines are applicable to our Bank for the Financial Year 2021-22 and onwards in respect of appointment, reappointment of Statutory Auditors. RBI guidelines regarding appointment of SAs shall be implemented for the first time for our Bank from the FY 2021-22, we shall have the flexibility to adopt these guidelines from second half of FY 2021-22 in order to ensure that there is no disruption.
3. **Prior Approval of RBI.** Our Bank is required to take prior approval of Department of Supervision (DoS), RBI, Ahmedabad for appointment reappointment of SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, bank shall apply to DoS, RBI, Ahmedabad before 31st July of the reference year. The bank shall approach DoS, RBI, Ahmedabad, since our Head Office is located under its jurisdiction.
4. **Number of SAs and Branch Coverage:** For our Bank, we should appoint minimum **one audit firm** (Partnership firm/LLPs) for conducting statutory audit.
 - 4.1 Our Bank has decided on the number of SAs based on this Board Approved Policy, *inter alia*, taking into account the relevant factors such as the size and spread of (total) assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc



5. Eligibility Criteria of Auditors. Our Bank is required to appoint audit firm as our SA(s) fulfilling the eligibility norms as prescribed in the **Annex I (of RBI Guidelines)**. **The total Assets size of our bank is below Rs. 1000/- Crores.**

6. Independence of Auditors. The Board of Directors of our Bank shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by our Board to DoS, RBI, Ahmedabad. In case of any concern with the Management of our Bank such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SAs shall approach the Board of our Bank, under intimation to DoS, RBI, Ahmedabad.

6.1. Concurrent auditors of the bank should not be considered for appointment as SAs of our bank. The audit of the Entity and any entity with large exposure to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.

6.2. The time gap between any non-audits works (services like Tax Audit, tax representation, advice on tax matters, internal assignments and special assignments, etc.) by the SAs for the Entities 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 SAs, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest, and Entities may take their own decision in this regard, in consultation with the Board/ACB/LMC.

7. Professional Standards of SAs

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

7.2 The BoD 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 of the bank with the full details of the audit firm.

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

8. Tenure and Rotation.

8.1. In order to protect the independence of the auditors/audit firms, our 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, our bank can remove the audit firms during the above period only with the prior approval of the of RBI (Department of Supervision), Ahmedabad as applicable for prior approval for appointment.

8.2. An audit firm would not be eligible for reappointment in our bank for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other Entities.

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

10. Statutory Audit Policy and Appointment Procedure. Our bank has formulated this Board Approved Policy to be hosted on our official website/public domain and formulate necessary procedure there under to be followed for appointment of SAs. Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions,



The Mehsana Nagrik Sahakari Bank Ltd., Mehsana.

this should afford necessary transparency and objectivity for most key aspects of this important assurance function. Guidelines on minimum procedural requirements are given at Annex II of RBI guidelines issued vide circular Ref. No. DoS. CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021.

REVIEW OF THE POLICY: The policy will be reviewed as and when RBI issues fresh instructions or as and when felt necessary by the Board. Policy approved by BoD in the Board Meeting held on 07-08-2021 vide Board Resolution No. 7.

For THE MEHSANA NAGRIK SAHAKARI BANK LTD

For THE MEHSANA NAGRIK SAHAKARI BANK LTD.

U. Patel
GENERAL MANAGER

General Manager

Place: Mehsana



ANNEX I

Eligibility Criteria for Appointment as Statutory Auditors.

A. Basic Eligibility

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 three (3) years	Out of total FTPs Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the	Minimum No of full Time Partners/ Paid CAs with CISA/ISA Qualification	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional Staff
Above Rs.1000 Cr and upto Rs.15000 Cr	3	2	1	8	Note 4
Up to Rs.1000 Cr	2	1	1*	6	8

* Not mandatory for UCBs/NBFCs with asset size of upto Rs. 1,000 crore.

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of short listing (for other UCBs) for considering them as full-time partners. Further, for appointment as SAs of other UCBs with asset size above Rs. 1,000 crores, at least two partners of the firm shall have continuous association with the firm for at least 10 years.



For UCBs with asset size above Rs. 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 I 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) For other UCBs, the Board/ACS 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 Rs. 1,000 crore, there is no minimum requirement in this regard. However, such UCBs 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 short listing (for other UCBs) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3: Audit Experience:

For, UCBs, audit experience shall mean experience of the audit firm as Statutory Central/ Branch Auditor of UCBs. 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 other Entities) for considering them as professional staff for the purpose.



B. Additional Consideration

- (i) The audit firm, proposed to be appointed as SAs for UCBs, 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 UCBs 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, the said firm shall not be appointed as SA of any of the group entities of that Entity.
- (v) The auditors for UCBs with asset size above Rs. 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 UCBs 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.

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 may promptly approach the UCB 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.



ANNEX II

Procedure for Appointment of /SAs

1. The UCBs 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 UCBs 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 UCBs 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 UCBs in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the UCBs shall seek RBI's prior approval for appointment of SAs.
3. The UCBs 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 UCB 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 UCBs, under the seal of the said audit firm.
4. UCBs 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 SA by them comply with all eligibility norms prescribed by RBI for the purpose.
5. While approaching the RBI for its prior approval for appointment of SAs, UCBs shall include their total asset size as on March 31st of 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.



FORM B

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

A. Particulars of the firm:

Asset Size of UCB as on 31 st March of Previous Year	Number of Full-Time partners (FTP)s associated * with the firm for a period of three (3) years	Out of total FTPs. Number of FCA Partners associated with the firm for a period of three (3) years	Number of Full Time Partners/Paid Cas with CISA/ISA Qualifications	Number of Years of Audit Experience #	Number of Professional Staff
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*Exclusively associated in case of UCBs with asset size of more than Rs.1,000 crore

#Details may be furnished separately for experience as SAs

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.
- ii. Whether the firm has been appointed as 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.
- v. 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 I members of my I 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 I company in which I am I they are partners I directors have been declared as willful defaulter by any bank I financial institution.

It is confirmed that the information provided above is true and correct.

Signature of the Partner

(Name of the Partner)

Date:



FORM -C

Certificate to be submitted by our Bank regarding eligibility of audit firm proposed to be appointed as SAs.

Our Bank is desirous of appointing M/s _____, Chartered Accountants (Firm Registration Number _____) as Statutory Auditor (SA) for the financial year _____ for our 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.

2. Our Bank has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as statutory auditor of our bank for the 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 our bank as SA.

4. Our Bank 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:

