

# ABHYUDAYA CO-OPERATIVE BANK LTD

## POLICY ON APPOINTMENT OF STATUTORY AUDITORS

### 1. Overview

Abhyudaya Co-op. Bank Ltd. was established on 25<sup>th</sup> June 1965, with the motto of "Prosperity through Co-operation". The Bank was conferred with Scheduled Bank Status by Reserve Bank of India on 1<sup>st</sup> September 1988. On 11<sup>th</sup> January, 2007 the Bank was registered as a Multi State Co-op. Bank by the Central Registrar, New Delhi. At present, the Bank has 108 branches spreaded over Mumbai, Navi Mumbai, Pune, Thane, Raigad, Nagpur, Nashik, Nanded, Kankavali, Aurangabad, Ahmednagar & Pen in Maharashtra State, Vadodara and Ahmedabad in Gujarat State, Udupi and Mangalore in Karnataka State.

Financial position of the Bank is as under –

(Rs. In crore)

F.Y.	Deposits	Advances	Business Mix	Asset Size
2023-24 (Unaudited)	9,118.40	5,593.70	14,712.10	11,578.31
2022-23	10,776.06	6,281.07	17,057.13	13,279.84
2021-22	11,260.55	6,713.26	17,973.81	13,503.33
2020-21	10,952.45	6,711.24	17,663.69	13,279.06

### 2. Applicability

Reserve bank of India has issued guidelines for Appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs) of UCBS vide its Circular No. RBI/2021-22/25 Ref.No.: DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27<sup>th</sup> April, 2021. Based on the said circular, Bank has framed the Policy on appointment of Statutory Auditors. The policy is applicable w.e.f. 01.04.2021 onwards.

### 3. Eligibility Criteria for Appointment as Statutory Auditor

#### 3.1 Basic Eligibility

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



#### **Note 1: Full Time Partners**

Full time partner means, at least one year continuous association of the partner with the firm as on the date of empanelment/shortlisting. At least two partners of the firm shall have continuous association with the firm for at least 10 years as on 31<sup>st</sup> March of the previous financial year.

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/Administrator's Committee 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**

There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on 31<sup>st</sup> March of the previous financial year 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 31<sup>st</sup> March of the previous financial year for considering them as professional staff for the purpose.

#### **3.2 Additional Consideration**

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



- The Bank shall ensure that appointment of Statutory Auditor 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
- If any partner of a Chartered Accountant firm is a director in the Bank, the said firm shall not be appointed as Statutory Auditor of the said Bank.
- The auditors should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATs) 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.
- The Statutory Auditor 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.

#### **4. 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 Financial Year ending 31<sup>st</sup> 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.

#### **5. Procedure of appointment of Statutory Auditors :**

##### **5.1 Empanelment of Statutory Auditor (Applicable only for appointment of new Statutory Auditor)**

Inspection Department will call for profiles from CA Audit firms for the purpose of empanelment of Statutory Auditors of the Bank for the respective financial year as per the eligibility norms prescribed by RBI. The list of the audit firms fulfilling the criteria as per Para no. 4 above and other parameters will be placed before Board/Administrator's Committee for empanelment of the **Statutory Auditors**.

The Board/Administrator's Committee will shortlist minimum of two audit firms for empanelment to be forwarded to RBI for prior approval. In order to protect the independence of the auditors/audit firms, Bank will appoint the **Statutory Auditor** for a continuous period of three years, subject to the firms satisfying the eligibility norms as mentioned above. In case of reappointment of **Statutory Auditor**, within completion of



tenure of 3 years, there would not be any requirement of empanelment/short-listing the names of multiple audit firms.

### 5.2 Number of Statutory Auditors

The Bank shall decide the number of **Statutory Auditors** 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., subject to the following limits:

Sr. No	Asset Size of the Bank at the end of previous year	Minimum Number of SAs	Maximum Number of SAs
1	Below ₹15,000 crore	1	4
2	₹15,000 crore & above and Upto ₹5,00,000 crore	2	4
3	Above ₹5,00,000 crore and Upto ₹10,00,000 crore	2	6
4	Above ₹10,00,000 crore and Upto ₹20,00,000 crore	2	8
5	Above ₹20,00,000 crore	2	12

Asset size of our Bank as on 31.03.2024 is Rs.11,578.31 crore (Unaudited). Considering the above criteria, Bank can appoint only one **Statutory Auditor** for F.Y. 2023-24.

In case of joint auditors, they should not have any common partners and they should not be under the same network (as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms. Further, before commencement of statutory audit, Bank may finalize the work allocation among **Statutory Auditors**, in consultation with them.

### 5.3 Prior approval of RBI

After Board approval of empanelled/shortlisted Audit Firms, Bank will seek prior approval of Central Office of RBI (Department of Supervision) for appointment/reappointment of Statutory Auditor, on an annual basis before 31<sup>st</sup> July of the reference year.

Bank shall follow the procedure given below while obtaining prior approval of Reserve Bank of India -

- i. **In case Bank is appointing new Statutory Auditor** - The list of shortlisted auditors of minimum two audit firms to be submitted to RBI for appointment of **Statutory Auditor**.
- ii. **In case of reappointment of existing Statutory Auditor within their tenure of three years** - Bank will reappoint the **Statutory Auditor** for a continuous period of three years, subject to the firms satisfying the eligibility norms as mentioned in para no. 4 above. In such case within completion of tenure of 3 years of the Statutory Auditor, there would not be any requirement of empanelment/short-listing the names of multiple audit firms.
- iii. The Bank shall obtain a certificate, along with relevant information as per from B.F. (as enclosed), from the shortlisted audit firm/existing audit firm whose three years term is not completed. Such certificate should be signed by the main partner/s of the



the audit firm proposed for appointment of statutory auditor of the Bank under the seal of the said audit firm.

iv. Bank shall recommend the name in Form C (**as enclosed**), stating that the shortlisted audit firms comply with all eligibility norms.

v. Bank shall submit its asset size as on March 31<sup>st</sup> of the previous year (audited figures) alongwith a copy of Resolution recommending names of audit firms for appointment as **Statutory Auditors** in the order of preference and information as per Form B & Form C as mentioned above to the Reserve Bank Of India.

#### **5.4Appointment of Statutory Auditor**

After obtaining approval from RBI for appointment of Statutory Auditor, the same along with fixation of fees thereof shall be approved by the members of the Bank in Annual General Meeting.

Bank shall then issue an appointment letter to the Statutory Auditor and get acceptance letter from them within 10 days from the acknowledgement of the appointment letter.

#### **6. Branch Coverage by Statutory Auditor:-**

Statutory Auditor shall visit and audit at least Top 20 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. In addition, adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches shall be ensured.

Statutory Auditor shall also cover the following aspects -

- To ensure that financial statements and cash flows of bank give true & fair picture in conformity with the accounting principles generally accepted in India.
- All material & significant transactions during the financial year.

#### **7. Independence of Auditors**

- The Board/Administrator's Committee shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board/Administrator's Committee to the concerned SSM/RO of RBI. 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 **Statutory Auditors** shall approach the Board/Administrator's Committee, under intimation to the concerned SSM/RO of RBI.
- Concurrent auditors of the Bank should not be considered for appointment as **Statutory Auditors** of the Bank. 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 should also be explicitly factored in while assessing independence of the auditor.



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 - 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 concerned 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/Administrator's Committee. 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 of financial information or segment thereof.

The restrictions as detailed above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

#### **8. Professional Standards of Statutory Auditors**

The **Statutory Auditors** shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence. (Board/Administrator's Committee shall be directly approached only when ACB is non-existent in the Bank or the auditors notice a matter of concern involving any member of the ACB.) The Board/Administrator's Committee 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 should be sent with the approval/recommendation of the Board/Administrator's Committee with the full details of the audit firm

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 **Statutory Auditors** in relation to Bank, the **Statutory Auditors** would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

#### **9. Tenure and Rotation**

In order to protect independence of the auditors/audit firms, the 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 Superintension).



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.

As per guidelines issued by Reserve Bank of India, 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 NBFs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Bank and within overall ceiling prescribed by any other Statutes or rules.

Further, the audit firm which has already completed tenure of 1 year or 2 years with the Bank may be permitted to complete the balance tenure only, i.e. 2 years and 1 year respectively, if they fulfill the eligibility norms on an annual basis. In case an audit firm has conducted audit of the Bank for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the same Bank for six years from completion of part-tenure.

For clarity, the limits prescribed for Bank exclude audit of other co-operative societies by the same audit firm. A group of audit firms having common partners and/or under the same network will be considered as one entity and they will be considered for allotment of **Statutory Audit** accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

#### **10. Audit Fees and Expenses**

The Board/Administrator's Committee will fix the audit fees for **Statutory Auditors** which shall be reasonable and based on 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 payment of the audit fees will be made to **Statutory Auditors** after signing of financial statements & submitting Long Form Audit Report along with all certificates as prescribed by statutory and regulatory authorities to the Bank.

#### **11. Submission of audit report**

After completion of statutory audit, **Statutory Auditor** shall submit the audited financial statements, auditor's report along with all certificates as prescribed by statutory and regulatory authorities. Also, **Statutory Auditor** shall submit the Long form Audit Report (LFAR) within 30 days from the date of finalization of audited financial statements.

The Bank shall arrange to forward various certifications/reports required to be furnished by the **Statutory Auditors**, as detailed in the attached Annexure 1 and any other Certification/Reporting as required from time to time as per RBI instructions, to the



concerned Senior Supervisory Manager (SSM), Department of Supervision (DoS), RBI, by 30th June every year.

As per RBI communication dated 01.12.2023 there is revision in annexure I & II as given below which are to be provided to **Statutory Auditor** as a part of appointment letter:

Annex-I

Certification/Reporting requirements to be incorporated in the appointment letter of the Statutory Auditors (SAs) of Urban Co-operative Banks (UCBs)

Annex-II

Instructions to be included in the letter of appointment to be issued by the Urban Co-operative Banks (UCBs) to their Statutory Auditors (SAs).

**12. Review of the policy**

The said policy shall be subjected to annual review by the Board/Administrator's Committee.



(J. N. Arte)

**Asst. Gen. Manager  
Inspection Dept.**

\*\*\*\*\*



(R. B. Paralkar)

**General Manager  
Accounts, Audit & Treasury**





**FORM B**

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

**A. Particulars of the firm:**

Asset Size of Entity as on 31 <sup>st</sup> March of Previous Year	Number of Full-Time Partners (FTPs) 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 Qualification	Number of Years of Audit Experience #	Number of Professional staff

\*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 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 Commercial Banks (excluding RRBs)/UCBs/NBFsCs (as applicable). 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 / directors have been declared as willful 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:

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.



**FORM C**

**Certificate to be submitted by the Bank regarding eligibility of audit firm proposed to be appointed as SCA/SA**

The Bank is desirous of appointing M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as Statutory Auditor (SA) for the financial year \_\_\_\_\_ for their 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> 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 has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Auditor of the Bank 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 as **Statutory Auditor**

Signature \_\_\_\_\_

(Name and Designation)

Date: \_\_\_\_\_

Date: \_\_\_\_\_



**Certification / Reporting requirements to be incorporated in the appointment letter of the Statutory Auditors (SAs) of Urban Co-operative Banks (UCBs)**

1. The SAs shall furnish, by June 30 every year, to the concerned Senior Supervisory Manager (SSM), RBI, certificates / reports<sup>1</sup> to the effect as detailed below and any other Certification / Reporting as required from time to time as per RBI instructions:
  - i (a) The SA shall verify and certify compliance to SLR requirements under Section 24 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) [BR Act, 1949(AACS)] on 12 odd dates (not being Fridays) spread over the financial year. The SA shall also verify CRR / SLR returns prescribed by RBI, as per the Reporting Requirements of UCBs (scheduled / non-scheduled), on a sample basis on at least 12 occasions during the financial year.
    - (b) While undertaking this exercise, the SA shall keep in view the instructions contained in RBI circular DCBR.BPD (PCB). MC.No.5/12.03.000/2015-16 dated July 01, 2015 (as updated from time to time). The confirmation of the accuracy in the computation of net DTL and corresponding SLR shall be conveyed to the concerned SSM.
- ii. The SA shall verify and certify the correctness of the CRAR calculation based on DOR.CAP.REC.2/09.18.201/2022-23 dated April 1, 2022 (as updated from time to time).
- iii. The SA shall verify and certify that the income recognition, asset classification and provisions have been made as per the guidelines issued by RBI vide notification no DOR.STR.REC.14/21.04.048/2023-24 dated May 08, 2023, read with Circulars DOR.No.BP.BC.47/ 21.04.048 /2019-20 dated March 27, 2020, DOR.No.BP.BC.71/21.04.048/2019-20 dated May 23, 2020, DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020, DOR.STR.REC.4/21.04.048/2021-22 dated April 07, 2021, DOR.STR.REC.11/21.04.048/2021-22 dated May 05, 2021, DOR.STR.REC.12/21.04.048/2021-22 dated May 05, 2021, DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021, DOR.STR.REC.85/21.04.048/2021-22 dated February 15, 2022 and DOR.STR.REC.5/21.04.048/2022-23 dated April 1, 2022, and other related instructions as issued from time to time.
- iv. SA shall submit certificate in respect of reconciliation of UCB's investments on own account and compliance of key areas in terms of the Master Direction – Reserve Bank of India (Classification, Valuation and Operation of Investment Portfolio of Primary (Urban) Co-operative Banks) Directions, 2023 (DOR.MRG.REC.01/00-00-011/2023-24) dated April 01, 2023 read with Master Circular on 'Prudential Norms on Classification, Valuation and Operations of Investment Portfolio by UCBs' - DBR No BP.BC.6/21.04.141/2015-16 dated July 1, 2015 and other related instructions as issued from time to time.

<sup>1</sup> SAs shall indicate in every certificate as to whether the same has been issued with limited assurance or reasonable assurance. In case of limited assurance, the SAs shall indicate the reasons for the same.



- v. (a) SA shall verify and certify whether the UCB is in compliance with the exposure norms related to single and group borrowers / parties and Large Exposure, contained in the circular DOR (PCB).BPD.Cir No.10/13.05.000/2019-20 dated March 13, 2020, and other instructions as issued from time to time.
- (b) The SAs shall verify and certify, whether the eligible UCB is reporting 'Large Exposures' to Central Repository of Information on Large Credits (CRILC) as per the provisions of DOR (PCB).BPD.Cir.No.7/13.05.000/2019-20 dated December 27, 2019, and DoS.OSMOS.No.4633/33.05.018/2019-20 dated January 16, 2020 (as updated from time to time).
- vi. SA shall verify and certify whether the UCB has ensured adherence to the instructions of RBI Circular Ref. No. DoR (PCB). BPD. Cir. No.1/13.05.001/2020-21 dated August 12, 2020, on 'System-based asset classification - UCBs'. (As per applicability).
- vii. SA shall verify and certify the UCB's compliance to the instructions on 'COVID19 - Regulatory Package', viz. DOR.No.BP.BC.47/21.04.048 /2019-20 dated March 27, 2020; DOR.No.BP.BC.71/21.04.048/2019-20 dated May 23, 2020; and DOR.No.BP.BC/3/21.04.048/2020-21 dated August 6, 2020; DOR.No.BP.BC/4/21.04.048/2021-22 dated April 07, 2021, DOR.STR.REC.11/21.04.048/2021-22 dated May 05, 2021, DOR.STR.REC.12/21.04.048/2021-22 dated May 05, 2021, and other instructions as issued from time to time.
- viii. SA shall verify and certify as to whether calculation of interest rate is done as per the instructions contained in Master Direction on "Management of Advances" issued vide circular no DOR.CRE.REC.No.27/07.10.002/2023-24 dated July 25, 2023 read with DOR.CRE.REC.No.17/13.05.000/2022-23 dated April 8, 2022 (as updated from time to time).
- ix. SA shall verify and certify the computation of 'assessable deposits' and 'premium' in terms of the circular DICGC.IOD.No./ 4413/05.60.999/2017-18 dated June 02, 2017, and CO.DICG.IOD.No.S1563/05.60.999/2022-2023 dated November 28, 2022 (as updated from time to time). Further, SA shall verify the correctness of the calculation of interest payable and whether the same has been included while calculating DICGC premium. In case, the UCB has amounts held in deposit suspense or Credit balances in CC / OD accounts, the same shall also be subject to verification by SA for calculation of 'assessable deposits'.
- x. SA shall verify and certify as to whether the loans classified under Priority Sector, across various categories, are strictly as per their eligibility detailed in DOR.CRE.REC.18/07.10.002/2023-24 dated June 08, 2023 read with DCBR.BPD (PCB).Cir.No.07/09.09.002/2017-18 dated May 10, 2018, DOR (PCB).BPD.Cir No.10/13.05.000/2019-20 dated March 13, 2020, and in Chapter III of Master Directions on Priority Sector Lending - Targets and Classification FIDD.CO.Plan.BC.5/04.09.01/2020-21 dated September 04, 2020 and other instructions / updations issued from time to time).
- xi. SA shall verify and certify the correctness of the interest subvention claims made under the Interest Subvention Scheme for MSMEs as per extant circular No. DOR (PCB).BPD.Cir No.3/13.05.001/2020-21 dated October 7, 2020 (as updated / other instructions issued from time to time).



- xi. SA shall verify and certify the reconciliation status of General Ledger as well as the Profit and Loss Statement, including whether provisions have been made and if any such difference(s) exist in the balance sheet of the UCB.
- xii. The SA shall verify and certify details of contingent liabilities and comment on any contingent liability which may devolve into an outside liability. Further, the SA shall also comment on any contingent liability / liabilities which has / have not been brought into the books, such as Income Tax Demand Notice, etc., and whether the required provisions have been made against such liability / liabilities.
- xiii. SA shall verify and certify whether there are outstanding amounts pending for more than three years under "Other Assets" in the UCB's balance sheet. The SA shall also verify the composition of 'Other Assets' and comment on whether any of the items comprising 'Other Assets' are intangible in nature.
- xiv. (a) The SA shall examine activities suspected to be a fraud or fraudulent activity in any transaction and certify whether the UCB has (a) made adequate provisioning for such transactions, and (b) reported such transactions in FMR 1 within three weeks of detection of such fraud / fraudulent activity.  
(b) The SA shall examine and comment on the appropriateness of the fraud risk management system and process for early detection, investigation of frauds, and deviations observed in compliance with directives issued by RBI. Special focus should be given to the potential risk areas which might lead to the perpetuation of fraud.
- xv. The SA shall certify that the UCB has made appropriate provisions for the divergence identified by SSM.
- xvi. The SA shall verify and certify compliance with the pending observations of the previous year's Statutory Audit Report. The SA shall also comment on persisting deficiencies and their systemic and bank-wide impact / implications.
- xvii. The SA shall verify and certify whether the UCB is in compliance with cyber security guidelines as contained in circular DoS.CO/CSITF/BC.4083/31.01.052/ 2019-20 on 'Comprehensive Cyber Security Framework for Primary (Urban) Cooperative Banks (UCBs) - A Graded Approach' dated December 31, 2019 (and other related instructions / updation issued time to time). The SA shall also comment on the preparedness of the UCB on the applicable Cyber Security controls based on inputs such as the self-assessment made by the UCB, the IS Audit report and VAPT report in that financial year, etc.
- xviii. The SAs shall submit a certificate on the Non-Banking Assets (NBAs), if any, held by the UCB and the details thereof. The SAs shall also comment on the practice, if any, adopted for conversion of Non-Performing Assets (NPAs) to Non-Banking Assets (NBAs), including aspects such as recognition of unrealized income, income booking without receipt of cash flow by UCBs during such conversions, etc. They should also comment on whether such conversions are in compliance with extant accounting standards, guidelines issued by RBI, and applicable legal provisions. In addition, the SAs shall also comment on aspects such as any income shown from NBAs, pending litigation issues, valuation and likelihood of recovery in these assets, etc.
- xix. The SA shall verify and certify the bucketing of Assets and Liabilities of the UCB in its ALM statement as per UBD. PCB. Cir. No12/12.05.001/2008-09 dated September 17, 2008 (as updated from time to time).

SAs shall examine and certify the correctness of the Net Worth disclosed by the UCB in terms of circular no DOR.CAP.REC.11/09.18.201/2023-24 dated April 20, 2023, read with DOR.CAP.REC. No.109/09.18.201/2022-23 dated March 28, 2023 and



DOR.CAP.REC.No. 86/09.18.201/2022-23 dated December 1, 2022 (as updated from time to time).

xxi. The SAs shall verify and certify the correctness of the assessment of Provision requirement in terms of DOR.STR.REC.12/21.04.048/2023-24 dated April 24, 2023, read with Clause 77 of Master Direction on 'Transfer of Loan Exposure' (DOR.STR.REC.51/21.04.048/2021-22) dated September 24, 2021, and clarification issued by RBI on June 28, 2022 (DOR.STR.REC.51/21.04.048/2022-23) (as updated from time to time).

xxii. The SA shall verify and certify that the Housing finance exposure and Real estate exposure of the UCB are in terms of RBI Circular DOR.CRE.REC.No. 9/07.10.002/ 2023-24 dated April 11, 2023 (as updated from time to time).

xxiii. The SA shall verify and certify that the payment of interest on deposits is made as per the Master Direction DBR.Dir.No.84/13.03.00/2015-16 issued on March 03, 2016 and updated as on September 16, 2022. (as updated from time to time).

2. While conveying terms of appointment, the SAs shall be advised to specifically report, simultaneously to the Chief Executive Officer of the UCB, and, if necessary, to the Audit Committee of the Board (ACB), and to the concerned SSM any matter suspected to be a fraud or fraudulent activity or any foul play in any transaction. In cases where the amount involved in fraud is ₹100.00 lakh or above, SAs shall be advised to report such instances directly to the Fraud Monitoring Group, DoS, RBI, Central Office, Bengaluru, the top management of the UCB concerned, and, if necessary, to the ACB of the UCB.



**Instructions to be included in the letter of appointment to be issued by the Urban Co-operative Banks (UCBs) to their Statutory Auditors (SAs)**

1. The SA shall be guided by the provisions of Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 on 'Guidelines for Appointment of SA for Commercial Banks, UCBs and NBFCs' dated April 27, 2021. The SA shall also adhere to the direction prescribed in respect of the preparation and submission of LFAR.
2. The SAs shall ensure that the 'qualifications', if any, made in the Audit Report / Financial Statements is / are quantified (wherever possible), if the same is material, in clear and unambiguous manner. The SA shall comment on / flag serious concerns (if any) observed on the conclusion of the audit in the form of a 'qualified opinion' and bring it to the attention of the RBI in a timely manner, by sending the "Qualified opinion" to the Board of the UCB and submit a copy of the same to the SSM.
3. However, exceptions, if any, requiring immediate reporting and matters of concern, involving Senior Management who are part of the Audit Committee of the Board of Directors (ACB) of the UCB, is / are noticed by the Auditors during the audit, the same shall be reported to the Board of Directors (BOD) of the UCB and also to the SSM as soon as the matter arises / is noticed.
4. SAs may be advised to conduct a more intense examination of large-value accounts and the nature of security provided for such accounts, as also of the financial statements of the borrower, to gain greater insight into the determination of NPAs and also on several areas of concern, such as end use of the funds, frauds, etc., which may need more detailed investigation.
5. The SAs, in verifying whether an NPA has been correctly identified by the UCB, should not confine themselves to the objective tests laid down but also devote greater attention to the scrutiny of large-value accounts, and, in doing so, display a greater degree of skepticism and independence.
6. The SAs shall verify that instructions contained in the following RBI Circulars / letter are complied with:

Subject matter	Circular Reference No. and date
The Depositor Education and Awareness Fund (DEA Fund) Scheme, 2014 – Aspects related to	DBOD.No.DEAF Cell.BC.114/30.01.002/ 2013-14 dated May 27, 2014, to be read with DBOD.No.DEAF
a) Transfer of Unclaimed Deposits and other credit amounts to the DEA Fund, b) Submission of Annual Certificate (AC) as on March 31 every year and, half yearly Reconciliation Certificate (RC) as on March 31 and September 30 of each year	Cell.BC.123/30.01.002/ 2013-14 dated June 25, 2014; DBOD.No.DEAF Cell.BC.126/30.01.002/ 2013-14 dated June 26, 2014; DBR.No.DEA.Fund Cell.3044/30.01.002/ 2017-18 dated September 27, 2017; DBR.No.DEA.Fund Cell.110/30.01.002/ 2017-18 dated June 7, 2018; DBR.No.DEA.Fund Cell.1642/30.01.002/ 2018-19 dated August 27, 2018 and DBR.No.DEA.Fund Cell.6700/30.01.002/ 2018-19 dated February 12, 2019, and any other instruction, as issued from time to time





7. Auditors shall verify in CBS the granular data of all dormant accounts that are eligible for transfer to DEA Fund. They shall also comment on the capability of CBS to correctly identify / mark eligible accounts as 'Dormant'.
8. The SAs shall ensure that the Memorandum of Changes (MOC) in the audited financial statements are accounted for by passing entries in the CBS.
9. The SA shall comment on the CBS, MIS, data integrity issues, etc., to eliminate the possibility of data manipulation / fabrication in the CBS systems and misreporting, non-compliance, etc. The SA shall also comment on the capability of the CBS to generate an 'exception report' and the same should be monitored thoroughly during the audit.
10. The SA shall comment on the adoption, methodology, risk management and assessment and effectiveness of Risk Based Internal Audit (RBIA) at the bank.
11. The SA shall comment on the accuracy and timely reporting of all delinquent accounts by the UCB to CICs.
12. The SA shall adequately highlight instances of under-provisioning and give necessary effect in the audited financials of the bank. The SAs shall also comment on income / interest income booked from NPAs.
13. The SAs shall comment on ever greening of loans, through modalities such as window dressing, routing of funds either within the bank or through the banking system, genuineness of Related Party Transaction (RPT) to borrower-related entities, and end use thereof, etc.
14. The SAs shall provide a separate certificate for each of the items / areas covered in **Annex-1**, along with details such as the sample size, documents seen / verified, etc.
15. The SAs shall ensure that the disclosures in the 'notes to accounts', accompanying the financial statements, are as envisaged in the formats specified in Annexure III to DOR.ACC.REG.No.45/21.04.018/2021-22 dated August 30, 2021 (as applicable to UCBS and updated from time to time).
16. The SAs shall conduct interaction with the bank on an ongoing basis, to ensure that the bank has adequate opportunity to respond to the queries / findings of the audit.
17. The SAs shall actively participate in the structured periodical meetings held with the SSM and utilize the said platform for meaningful discussion on issues of mutual interest.
18. The SA shall comment on level of integration of Treasury software with Core Banking Solution (CBS) and Letter of Credit & Bill Discounting (LCBD) portfolio maintained out of CBS.
19. The SA shall comment on Deferred Tax Assets (DTA) created by the bank, whether they relate to timing differences or accumulated losses or other such assets. The SA shall also verify them as per Accounting Standards and norms and assess their future realisability.
20. As soon as the audit work is completed, the SAs shall report to the top management of the UCB any serious irregularities noticed in the working of the UCB, i.e., instances such as a spike in NPAs (suddenly exceeding 6%), drastic reduction in net worth, a spike in complaints including whistle-blower complaints indicating financial irregularities, etc. A copy of the report shall also be submitted by the SA to the SSM. In case of non-observance of any serious irregularity, a 'nil' report shall be submitted by SAs to the top management of the UCB. A copy of the same may also be submitted to the SSM.



