

# SHRI ARIHANT CO-OPERATIVE BANK LTD

## INSPECTION & AUDIT POLICY

PERIOD: 01.04.2022 TO 31.03.2023

Approved by the Board on 29<sup>th</sup> March, 2022.



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## 1. Introduction:

Every transaction of a Co-operative Bank is regulated by an appropriate legislation like the relevant Co-operative Acts and Rules, Banking Regulation Act etc. and in several cases, the Act provisions are further followed and reinforced with reference to their applicability and mode of preparation by circular instruction of financing agencies and administrative authorities, Bye Laws and Rules of business of institution concerned. RBI and concerned Registrar/Commissioner have been issuing various guidelines/circulars on various aspects of business of the banks to enable the Management to carry out the activities properly on a sound line, which have a direct or indirect impact on audit too. For examples, circular on exposure norms, Income Recognition, Asset Classification and provisioning thereof, One Time Settlement/Compromise and other related matters, KYC guidelines, Management of advances, Investment, Calculation of CRAR, prevention of security threat to IT infrastructure and systems etc are required to be referred by the Auditors for conducting audit and preparation of audit report.

Since Assets size of the Shri Arihant Co-operative Bank Ltd is less than Rs.500.00 crores, RBI's Master Circular no.RBI/2015-16/3 (DCBR.CO.PBD.(PCB).MC. No.3 /12.05.0012015-16 dated 03.02.2021, has been taken as guidance while preparing the Audit Policy.

Shri Arihant Co-operative Bank Ltd ("the Bank") does not have requisite resources/internal machinery to carry out effective inspection to identify the existence of gross and serious irregularities in relation to the compliance of guidelines/circulars issued by the regulatory authorities from time to time. Since resources/internal machinery of the bank is not adequately equipped to carry out inspection effectively and as required to comply with the RBI guidelines, our bank is engaging external auditors to perform audits on various aspect of the operations of the bank.

In view of the above, our bank is required to engage internal/statutory auditors for our Bank to conduct checking of transactions recorded in all books of accounts and connected records/files following the provisions of Act & Rules and Circulars/guidelines issued to this effect and all the defects and irregularities etc noticed during the course of audit are to be reflected in the audit. Audit is required to effectively address the accounting and housekeeping weakness, detect fraud, misappropriation etc and suggest remedial action to correct those irregularities. Therefore, the bank is putting in place a comprehensive Inspection & Audit Policy.

The bank is also required to undertake Information System/ Electronic Data Processing audit, and Vulnerable Assessment and Penetration Testing in order to protect its IT infrastructure and systems from malpractices and cyber threat.



## 2. Statutory Audit:

### 2.1 Appointment of Statutory Auditor ("SA"):

As per the Guidelines for Appointment of Statutory Auditors (SAs) of UCBs issued by RBI in their circular no Ref.No.DoS CO.ARG/SEC 01/08 91.001/2021-22, dated April 27, 2021, the Bank shall formulate a Board approved Policy and formulate necessary procedure there under to be followed for appointment of Statutory Auditors

As per Section 30(1A) of Banking Regulation Act, 1949, the bank is required to obtain prior approval of Reserve Bank of India for appointment of a firm of Chartered Accountants as Statutory Auditors of the Bank.

### 2.2 Selection process:

- 2.2.1 The Bank shall shortlist minimum of 2 audit firms of Chartered Accountants, so that even if firm at the first preference is found to be ineligible/refuses appointment, the firm at the second preference can be appointed. However, in case of reappointment of Statutory Auditors, till completion of tenure of continuous term of 3 years, there is no requirement of short listing and sending name of multiple audit firms to RBI.
- 2.2.2 The Bank shall place the name of the shortlisted firms, in order of preference to the Board for selection as SA. Upon selection of SAs by the bank in consultation with the Board and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's (Department of Supervision, Central Office, Mumbai) prior approval for appointment of SA.
- 2.2.3 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, to the effect that the Audit Firm(s) complies with all the eligibility norms prescribed by RBI. Such certificate shall be signed by the main partner/s of the Audit Firm, under seal of the said Audit Firm.
- 2.2.4 The Bank shall verify the compliance of the Audit Firm(s) to the eligibility norms prescribed by RBI and after being satisfied of their eligibility, recommend the names along with a certificate, in the form as per Form-C stating that the audit firm(s) complies with all eligibility norms prescribed by RBI.
- 2.2.5 While approaching the RBI seeking approval for appointment of SA, the Bank shall indicate the total Asset size as on 31<sup>st</sup> March of the previous year (Audited), forward a copy of the Board Resolution recommending names of Audit Firms for appointment as SA in the order of preference and also furnish information as per Form B and C.



### **2.3 Eligibility Criteria:**

Only those firms will be eligible to be appointed as Statutory Auditors which fulfill the following Eligibility Criteria as per the above RBI Circular as Asset size of our Bank is less than Rs 1000/- crore

- a) Minimum two (2) Full-Time partners (FTPs) associated with the firm for period of at least three (3) years
- b) Out of total FTPs, the firm should have minimum one (1) Fellow Chartered Accountant (FCA) partner associated with the firm for a period of at least three (3) years.
- c) Preferably minimum one (1) FTP/Paid CA with CISA/ISA qualification. But not mandatory.
- d) The firm should have minimum six (6) years of Audit Experience.
- e) The firm should have minimum of eight (8) profession staff.

### **Additional Consideration:**

- a) The audit firm, proposed to be appointment as SA for the bank, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- b) The audit firm should not be under debarment by any Government Agency, national Financial Reporting Authority, the Institute of Chartered Accountant of India, RBI or other Financial Regulators.
- c) The bank shall ensure that appointment of SA is in line with the ICAI's Code of Ethics/ any other such standards adopted and does not give rise any conflict of interest.
- d) If any partner of a firm is a director in any bank, the said firm shall not be appointed as SA of any of the group entities of that bank.
- e) The SA 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 bank/branch is located.

### **2.4 Restrictions:**

- 2.4.1 Concurrent Auditor of the bank shall not be considered for appointment as SA of the Bank.
- 2.4.2 The time gap between any non-audit works by the SA 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 SA.

### **2.5 Fees to Statutory Auditors:**

The audit fees of SA of the bank shall be decided in terms of the relevant statutory/regulatory provisions



## 2.6 Tenure and Rotation:

2.6.1 The Bank can appoint the SA for a continuous period of three (3) years subject to the firm satisfying the eligibility criteria each year. Appointment of Auditors shall be initially for first year with prior approval of RBI. For appointment of the same audit firm for subsequent years i.e. second and third year, the bank shall seek prior approval of RBI on annual basis. The Bank can remove the audit firm with the prior approval of the concerned office of RBI.

2.6.2 The audit firm shall not be eligible for reappointment in the Bank for six (6) year (two tenures) after completion of full or part of one term of the audit tenure.

## 3. Sunset Clause:

Audit Policy of the bank shall be reviewed once in a year.

The Policy was put up before the Board and Board of Directors have approved the Policy in its meeting held on 29.03.2022.

**For Shri Arihant Co-op. Bank Ltd**

*Aravind*  
**Chief Executive Officer**

