



Review of Statutory Audit Policy

Reserve Bank of India has issued notification RBI/2021-22/25 Ref.No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 regarding Guidelines for appointment of Statutory Auditor in the banks.

In the adherence to the above circular, the bank has designed first time the Statutory Audit Policy in Audit Committee dated 23-08-2021 and approved formulated final draft vide Board of Directors Meeting Res.No. 2/3 dated 26-08-2021 on the advise of BOM Res.No. 2/3 dated 25-08-2021.

This policy will remain in force till next amendment/review.

Number of SAs

The bank will appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit.

If the asset size of Rs.15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. It shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network³ of audit firms. Further, the bank may finalise the work allocation among SCAs/SAs, before the commencement of the statutory audit, in consultation with their SCAs/SAs.

Eligibility Criteria of Auditors

The bank will appoint audit firm(s) as its SA(s) fulfilling the eligibility norms.

Independence of Auditors

The Board of Directors shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board 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 SAs shall approach the Board⁵/ACB of the bank, under intimation to the concerned SSM/RO of RBI.

Concurrent auditors of the Entity should not be considered for appointment as SCAs/SAs of the same Entity. 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.

The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, 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 SA, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest, and the bank may take their own decision in this regard, in consultation with the Board/ACB. 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 on financial information or segments thereof As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.



SBPP CO-OPERATIVE BANK LTD. (Scheduled Bank)

એસબીપીપી કો-ઓપરેટીવ બેન્ક લીમીટેડ (શિડ્યુલ્ડ બેંક)

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

Professional Standards of SAs

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

The Board/ACB of the bank shall review the performance of SAs on an annual basis. Board shall review the performance of SCAs/SAs in case ACB is non-existent in the bank. 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/ACB with the full details of the audit firm.

In the event of lapses in carrying out audit assignments resulting in misstatement of the bank'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.

Tenure and Rotation

In order to protect the independence of the auditors/audit firms, the bank will appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.

Further, the 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.

An audit firm would not be eligible for reappointment in the same Entity 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.

In case an audit firm has conducted audit of any Entity 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 Entity for six years from completion of part-tenure.

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 NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Entity and within overall ceiling prescribed by any other statutes or rules.

For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. For the purpose of this circular, 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 SCA/SA 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.



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Audit Fees and Expenses

The audit fees for SAs of all the bank shall be decided in terms of the relevant statutory/regulatory provisions. The audit fees for SCAs/SAs of all the Entities 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/ACB of the bank shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

Appointment Procedure

Guidelines on minimum procedural requirements. Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

Certification/Reporting requirements to be incorporated in the appointment letter of the Statutory Auditors (SAs) of Urban Co-operative Banks. This list is exhaustive and the bank may include more requirements as and when necessary. If found necessary the SA may also adhere to more additional reporting requirement as required as per his perspective in the benefit of the bank.

Instructions to be included in the letter of appointment to be issued by the Co-operative Banks to their Statutory Auditors (SAs). This list is exhaustive and the bank may include more requirements as and when necessary. If found necessary the SA may also adhere to more additional reporting requirement as required as per his perspective in the benefit of the bank.

The required declaration to be forwarded to RBI with application.

The application to be sent to RBI for approval of Appointment of Statutory Auditors and Approval Letter to be given to Statutory Auditors will be signed by the Authorised Official authorised by Board of Directors in respective Board Meetings. In the absence of such specific authorization, the Managing Director/CEO/General Manager is authorised to sign the above letters.

Policy Hosted on website

This policy having formulated necessary procedure thereunder to be followed for appointment of SAs will be hosted on its official website/public domain.

ON BEHALF OF BOM


Chairman

18-04-2024

ON BEHALF OF BOD


Chairman

19-04-2024

Annex I

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 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	DBOD.No.DEAF Cell.BC.114/30.01.002/ 2013- 14 dated May 27, 2014, to be read with DBOD.No.DEAF 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-III** 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.REC.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.

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 / reports¹ 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,

¹ 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.

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.
- 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.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,

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).

- xii. 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.
- xiii. 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.
- xiv. 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.
- xv. (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.
- xvi. The SA shall certify that the UCB has made appropriate provisions for the divergence identified by SSM.
- xvii. 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.
- xviii. The SA shall verify and certify whether the UCB is in compliance with cyber security guidelines as contained in circular DoS.CO/CSITE/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.

- xix. 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.
- xx. 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).
- xxi. 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).
- xxii. 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).
- xxiii. 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).

- xxiv. 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.