

SRIMATHA MAHILA SAHAKARI

BANK NIYAMITHA

#403/803, 8TH MAIN, 10TH CROSS, BSK II STGE,

SHASTRINAGAR, BANGALORE 560028.

AUDIT POLICY

(APPROVED BY BOARD ON 17/12/2022)

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Introduction:

It is an undisputed fact that for any organization to grow and function smoothly and effectively its top management should be kept informed of its way of internal functioning and also the areas of weaknesses, loopholes, lapses and serious irregularities such as frauds along with ways and means to correct such deficiencies. With this in view, the **Srimatha Mahila Sahakari Bank Niyamitha** evolved and laid down an audit policy comprising of the salient features of Concurrent audit, Statutory Audit, IS Audit and Internal Inspection. The audit policy is framed scrupulously following the order/guidelines issued from time to time by the RBI with a profound hope that this policy would ensure protection of interest of the investors and all those connected, so that the Bank can function on prudential lines.

Concurrent Audit:

The concurrent audit system being an integral part of bank's early warning system, sufficiently senior person with sufficient experience of not less than 5 years with proven integrity, generally a qualified and reputed Chartered Accountant shall be earmarked for undertaking the concurrent audit.

The Scope of Concurrent Audit is briefed as follows:

1. The Concurrent Auditor shall inter alia detect the cases of frauds, malpractices, violation of rules and procedures and instances of suppression of facts and figures required to be submitted to the Head Office of the Bank.
2. The Concurrent Auditor shall examine in a systematic way, all the financial transactions on a regular basis to ensure accuracy, authority, compliance with procedures and guidelines framed in the organization so that certain serious irregularities such as improper credit appraisals, disbursement without observing proper terms of sanction, failures to exercise proper post disbursement supervision, even suppression of information relating to unauthorized excess drawls including frauds can be brought to light and informed to the top management.
3. The Concurrent Audit Report shall critically analyses and makes in depth study of the corruption / fraud prone areas such as appraisal of credit proposals, balancing of books, reconciliation of inter branch accounts,

settlement of clearing transactions, suspense accounts and stationery accounts leaving no scope for any malpractices / irregularities.

4. The concurrent auditor should ensure that the off-balance sheet transactions are properly followed up by the branch and records there for are periodically balanced, lapses / irregularities in this regard are to be commented upon critically.
5. Proper inventory of the dead stock articles, stationery should be maintained at the branch level as also at Head Office, so that concurrent audit shall have proper inspection of these.
6. The concurrent audit shall set proper functioning of the bank so that the periodical audit and inspections conducted by the statutory auditor, IS Auditor and Reserve Bank of India respectively do not find any instances of lapses / irregularities.
7. The concurrent audit shall also comply with statutory auditor's report, IS Audit Report and Reserve Bank of India inspections' reports.
8. The concurrent auditor shall bring out cases of non-compliance of the prudential norms relating to income recognition, assets classification and provisioning for taking suitable action in the matter.
9. The concurrent auditor shall verify all the cheques purchased / discounted.
10. The concurrent auditor shall certify that the investment held by the bank as on the last reporting Friday of each quarter as reported to the Reserve Bank of India are actually owned/ held by it as evidenced by physical securities or the custodians statement. The certificate should be submitted to the Regional office, RBI within thirty days from the end of the relative quarter.
11. The concurrent auditor shall specifically verify compliance to the instructions contained in RBI Cir No. 2022-23/05 DOR.MRG.REC.10/21.04.141/2022-23 April 01, 2022 regarding transactions in Govt. Securities.
12. The concurrent audit shall strive for strengthening the credibility of the system in detecting cases of frauds / malpractices and suggest steps need to be taken to gear up the internal audit machinery.
13. The reports of concurrent audit shall be submitted to Manager/CEO who in turn forwards them to the Audit committee of the Board of Directors for further scrutiny and necessary action.

Internal Audit / Inspection:

Beside, concurrent audit system, Manager/CEO of the Bank shall undertake periodical inspection of the branch as follows:

- a) Manager/CEO and also the staff of the Head Office of the Bank shall inspect the branch invariably once in Six Months and submit their findings to the Audit Committee of Board of Directors of the Bank.
- b) Also the Manager/CEO of the Bank shall make surprise check of the branch at random to ensure that branch officials do not indulge in malpractices.

Information System Audit (IS Audit):

Bank has adopted technology of Core Banking System and has been offering electronic banking, tele banking, electronic clearing/funds transfer, electronic money, etc to its customers.

In view of the above and having regard to risks emanating from adoption of technology, there is need to introduce IS audit. The bank has to adopt appropriate systems and practices for conducting IS audit on annual basis covering all the critically important branches (in terms of nature and volume of business). Such audits shall be undertaken preferably prior to the statutory audit so that IS audit reports are available to the statutory auditors well in time for examination and for incorporating comments, if any, in the audit reports. IS audit reports shall be placed to the Manager/CEO and compliance should be ensured within the time frame as outlined in the audit policy. The IS Audit is to be conducted on Yearly basis.

Entire domain of IT activities shall be brought under scrutiny of Inspection and Audit Department. The Financial outlay as well as activities to be performed by IT department should be reviewed by Manager/CEO at periodical intervals. The IS audit should be conducted on yearly basis. The bank shall make a formal declaration of system development methodology, programming and documentation standards to be followed; compliance should be verified by IS Auditors.

Contingency plan procedures in case of failure of system should be introduced/ tested at periodic intervals. IS auditor shall put such contingency plan under test during the audit for evaluating the effectiveness of such plans.

While engaging outside computer agencies, bank should ensure to incorporate the "clause of Visitorial Rights" in the contract, so as to have the right to inspect the process of application and also ensure the security of the data/inputs given to such outside agencies. The IS Audit Report shall be submitted to the Manager/CEO who in turn placed to Audit Committee for review and ensure compliance of the findings.

Audit Committee of the Board for Audit & Vigilance:

In order to ensure and enhance the effectiveness of internal audit/inspection as a management tool, it is considered necessary to constitute Audit Committee of the Board for audit and vigilance (Board Level) for overseeing and providing direction to the internal audit/inspection machinery and other executives of the bank. The Audit Committee of the Board for Audit & Vigilance shall review the implementation of the guidelines issued by RBI and appraise the Board at quarterly intervals.

The other duties/ responsibilities of the Audit Committee of the Board for Audit & vigilance are as follows:

The Audit Committee of the Board shall provide direction and oversee the operations of the total audit function in the bank. The total audit function will imply the organization, operationalisation and quality control of internal audit and inspection within the bank and follow-up on the statutory audit of the bank and inspection of the Reserve Bank.

As regards internal inspection, Audit Committee of the Board shall review the internal inspection function in the bank - the system, its quality and effectiveness in terms of follow up. It shall review the follow up action on the internal inspection reports.

The Audit Committee of the Board should follow upon:

- Inter-branch adjustment accounts.
- Unreconciled long outstanding entries in inter-branch accounts and inter- bank accounts. Arrears in balancing of books at various branch.
- Frauds.
- All other major areas of housekeeping.

- Compliance with the Statutory Audit Report Concurrent Audit Report RBI inspection reports.
- Omission on the part of internal inspecting officials to detect serious irregularities should be viewed seriously.
- Periodical review of the accounting policies / systems in the bank with a view to ensuring greater transparency in the bank's accounts and adequacy of accounting controls.
- The Audit Committee shall review on quarterly basis.

Statutory Auditors (SAs) Policy

1. Purpose of the Policy

The purpose of the policy on appointment of Statutory Auditors (SAs) from 2021-22 and onwards is to provide guidance on eligibility and procedures to be applied for the appointment of Statutory Auditors to the Bank in lines with guidelines issued by Reserve Bank of India.

2. Scope of Application

The policy is applicable for appointment of Statutory Auditors for the Bank.

3. Objectives of the Policy

The objective of the Policy document is to provide guidance on appointment of Statutory Auditors for the Bank.

4. Regulatory Reference

RBI Circular – RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 – Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).

The guidelines are issued under Section 30(1A) of the Banking Regulation Act, 1949.

5. Applicability

As RBI guidelines regarding appointment of SCAs/SAs shall be implemented for the first time for UCBs from FY 2021-22, Bank has the flexibility to adopt these

guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

6. Prior Approval of RBI

Bank is required to take prior approval from Regional Office of RBI (Department of Supervision), Bangalore for appointment/reappointment of SCAs/SAs, on an annual basis in terms of the statutory provisions.

7. Number of SCAs / SAs and Branch Coverage

Bank should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network (as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms.

8. Eligibility Criteria of Auditors

Bank is required to appoint audit firm(s) as SCA(s)/SA(s) fulfilling the eligibility norms as follows:

9. Basic Eligibility:

Basic Eligibility Criteria for Appointment of SCA/SA are prescribed as follows:

Asset Size of the 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 (3) years Note 1- below	Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3)	Minimum No. of Full Time Partners/Paid CAs with CISA/ISA Qualification Note 2 – below	Minimum No. of years of Audit Experience of the firm Note – 3 (below)	Minimum No. of Professional staff Note – 4 below
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		years			
Up to Rs. 1,000 crore	2	1	1*	6	8

CISA/ISA qualification is not mandatory for our Bank.

Note – 1

There should be at least one-year continuous association of partners with the firm as on the date of empanelment for considering them as full time partners.

Note – 2

CISA/ISA Qualification:

For UCBs with asset size up to Rs.1, 000 crore, there is no minimum requirement in this regard. However, Bank may give priority to firms with full time partners of full time CAs having CISA/ISA qualification with the firm as on the date of empanelment 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. In case of merger and demerger of audit firms, merger effect will be given after 2 years of merger while demerger will be affected 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 empanelment/short listing for considering them as professional staff for the purpose.

A. Additional Consideration

The audit firm, proposed to be appointed as SCAs/SAs for the Bank should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013. A declaration to the effect may be obtained from the auditor.

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. A declaration to the effect may be obtained from the auditor.

Bank shall ensure that appointment of SCAs/SAs in line with the ICAI's Code of Ethics / any other such standards adopted and do not give rise to any conflict of interest.

If any partner of a Chartered Accountant firm is a director in any Public Sector Bank (PSB), the said firm shall not be appointed as SCA/SA of any PSB. Further, if any partner of a Chartered Accountant firm is a director in any Bank, the said firm shall not be appointed as SCA/SA of any of the group entities of that entity.

For Audit of the Bank the SA 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.

B. Continued Compliance with basic eligibility criteria

In case of 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, NFA, 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 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.

10. 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 of the Bank to 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 SCAs/SAs shall approach the Board/ACB of the Bank under intimation to the RBI.

Concurrent auditors of the Bank should not be considered for appointment as SCAs/SAs of the same Bank. The audit of the bank and any entity with large exposure 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 SCAs/SAs for the Banks or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as SCA/SA, an audit firm may provide such services to the concerned Banks which may not normally result in a conflict of interest i.e. Tax audit, tax representation and advice on taxation matters, Audit of interim financial statements, Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements, Reporting on financial information or segments thereof.

The restrictions as detailed in (iii) and (iv) above, should also apply to an audit firm under the same network – as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014, of audit firms or any other audit firm having common partners.

11. Professional Standards of SCAs/SAs

The SCA/SAs are strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

The Board of Directors of the bank shall review the performance of SCAs/SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or

conduct issues on part of the SCAs/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 with 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-a-vis the RBI's directions/guidelines regarding the role and responsibilities of the SCAs/SAs in relation to Bank, the SCAs/SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

12.Tenure and Rotation

In order to protect the independence of the auditors/audit firms, Bank will have to appoint the SCAs/SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, Bank can remove the audit firm during the above period only with the prior approval of the concerned office of RBI, as applicable for prior approval for appointment.

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

One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks ((including PSB or AIFI like 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 Bank and within overall ceiling prescribed by any other statutes or rules.

13.Audit Fees and Expenses

The audit fees for SCAs/SAs shall be decided in terms of the relevant statutory/regulatory provisions.

The audit fees for SCAs/SAs 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 the Bank shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

14. Statutory Audit Policy and Appointment Procedure

Bank shall formulate a Board approved policy to be hosted on its official website/public domain and formulate necessary procedure there under to be followed for appointment of SCAs/SAs. Bank shall maintain transparency and objectivity of all the key aspects of this function.

Guidelines on minimum procedural requirements are given in Annexure – 1.

ANNEXURE – 1

Procedure for Appointment of SCAs/SAs

The Bank shall shortlist minimum of 2 audit firms for every vacancy of SCAs/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 SCAs/SAs does not get delayed. However, in case of reappointment of SCAs/SAs by the bank till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval of appointment.

The Bank shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SCA/SA. Upon selection of SCAs/SAs by the UCBs in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of SCAs/SAs.

The Bank shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI for the purpose and after being satisfied of their eligibility, recommend the names along with a certificate, in the format as per Form C, stating that the audit firm(s) proposed to be appointed as SCA/SA by them comply with all eligibility norms prescribed by RBI for the purpose.

While approaching the RBI for its prior approval for appointment of SCAs/SAs, Bank shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board/ACB Resolution recommending names of audit firms for appointment as SCAs/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 the Bank as on 31 st 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

Details may be furnished separately for experience as SCAs/SAs and SBAs

A. Additional Information:

- (i) Copy of Constitution Certificate.
- (ii) Whether the firm is a member of any network or 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.

B. Declaration from the firm

- (vi) The firm complies with all eligibility norms prescribed by RBI regarding appointment of SCAs/SAs of the Bank. 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 wilful defaulter by any bank / financial institution.
- (vii) It is confirmed that information provided above is true and correct.
- (viii) Signature of the Partner
- (ix) (Name of the Partner)

Date:

Form C

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

Srimatha Mahila Sahakari Bank Niyamitha, is desirous of appointing M/s. _____, Chartered Accountants (Firm Registration Number _____) as Statutory Central Auditor (SCA) / Statutory Auditor (SA) for the financial year _____ for their 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. The Bank has obtained eligibility certificate (copy enclosed) from _____ firm and their Registration Number _____ proposed to be appointed as Statutory Central Auditor (SCA)/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 SCA/SA/SBA.

4. The Bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of the Bank.

Signature

(Name and Designation)

Date:

