

 SPSRNDCCB	SPSR Nellore District Cooperative Central Bank Ltd.,	
Name of the Policy	Statutory Audit Policy	
Year	2024-25	

1. Introduction:

Audit is an examination of financial records, information and statements and expressing an opinion that whether financial records are prepared in accordance with statute under which audit is carried out. When the audit is governed by a statute or law, it is categorized under statutory Audit. The Audit will be conducted by an external entity.

A statutory audit is a legally required check of the accuracy of the financial statements and records of the bank. A statutory audit is intended to determine if an organization delivers an honest and accurate representation of its financial position by evaluating information, such as bank balances, financial transactions and accounting records.

During the audit, reports of bank with respect to revenue or benefits, returns on investment, expenditures, and other things can be included in the audit process. The Audit is conducted to assess whether funds have been properly handled and that all records and filings required are accurate. It is a formality intended to help discourage crimes, such as misappropriating funds by ensuring a professional third party routinely scrutinizes various documents.

The policy is prepared based on the RBI Circular Ref. No. DOS.ARG/SEC.8/08.91.001/2023-24, dated 15.01.2024.

2. Objective:

- To obtain reasonable assurance about whether the financial statements as a whole are free from any material misstatement, and;
- To report on the financial statements and communicate as required by the Statutory Auditor in accordance with the audit findings.

3. Scope:

- To identify and examine the overall aspects that need to be audited in the bank pertaining to the financial statements.
- To ascertain the correctness, sufficiency and reliability of the information and source data.
- Disclosure of overall relevant information in the financial statements has been made in accordance with statute and accounting standards.
- A detailed study and analysis on the internal checks and accounting system.
- Verification of accounting transaction and balances through necessary test on check basis, enquires and verification.

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- f. Comparing financial statements with summary of transactions and events recorded in the underlying accounts.
- g. Assessing the consistency of accounting policies that are applied while the financial statements are prepared by the management and disclosure to the effect should be adequate.

4. Audit coverage:

- a. An overall examination of internal controls and system of accounting establishes the satisfaction that recording of transactions is appropriate.
- b. Review of policies, procedures and systems applied to find out material inadequacy or weakness in the internal controls which may lead to fraud and error.
- c. Verification of arithmetical accuracy in the books of accounts with regard to postings, balances, demand and collections etc.,
- d. To ascertain if the proper difference is maintained in revenue and capital nature of transactions.
- e. All Income and Expenditure accounted for pertains to corresponding accounting period.
- f. Checking of supporting documents to establish validity and authenticity of transactions.
- g. Financial statements namely balance sheet, profit and loss account or income and expenditure account are compared with the underlying accounts.
- h. The existence, value, and title of the asset disclosed in the balance sheet are verified.
- i. All the statutory compliances are compiled by the management within the proper time schedule and as per the norms set by the statutory governing body.
- j. Verification of audit reports and inspection reports pertaining to the year.
- k. Reconciliation of balances in various accounts.
- l. Assessment of surplus funds, valuation methods followed in various loans and comment on the methods followed.
- m. Credit appraisal methods followed by the bank, pre-sanction & post-sanction procedures and monitoring of accounts after disbursements. In simple terms, verify whether policies and procedures are being followed as mentioned in the approved policies and procedures.

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- n. Identification and review and frauds in the Bank.
- o. Verify whether demand and collection of balances are properly accounted.
- p. Verify whether policies and procedures are followed as per the approved guidelines.
- q. Compliance to previous audit observations.

5. Appointment of Statutory Auditor:

5.1 Eligibility Criteria for appointment of Statutory Auditor:

Asset size of the Bank	Minimum no. of Full-time partners (FTPs) associated with the firm for a period of at least three years (please refer to Note 1)	Out of total FTPs, minimum no. of Fellow Chartered Accountant (FCA) partners (s) associated with the firm for a period of at least three years	Minimum no. of FTPs/ Paid CAs with CISA/ISA/ DISA qualification (please refer to Note 2)	Minimum No. of years of Audit Experience of the firm (please refer to Note 3)	Out of (5), minimum no. of years of statutory audit experience (please refer to Note 3)	Minimum no. of professional staff (please refer to Note 4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Above Rs. 15,000 crore	5	4	2	8	2	8
Above Rs 1,000 crore and upto	3	2	1	4	1	4

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Rs. 15,000 crore						
Upto Rs. 1,000 crore	2	1	1*	1#	1#	2

*Preferably 1 FTP/ Paid CA with DISA/CISA/ISA Qualification

#Preferably 1 year experience

a. Note 1: There should be at least one-year of continuous association of partner (s) with the firm as on the date of shortlisting (by bank) for considering them as FTPs.

For banks with asset size above Rs. 1,000 crore, the FTP's association with the firm would mean exclusive association. The definition of exclusive association will be based on the following criteria:

- i. The FTP should not be a partner (s) in other firm/s.
- ii. She/ he shall not be employed full time/ part time elsewhere.
- iii. She/ he shall not practice 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.
- iv. The Board/ ACB shall examine and ensure that the income of the partner (s) from the firm / LLP is adequate for considering him/ her as full time exclusively associated partner(s).

b. Note 2: CISA/ISA/DISA Qualification: There shall be at least one-year continuous association of paid CAs (with CISA/ISA/DISA qualification) with the firm, as on the date of shortlisting, to consider them as paid CAs with CISA/ISA/DISA qualification for the purpose.

c. Note 3: Audit Experience: Audit experience shall mean experience of the audit firm as Statutory Central/ Branch Auditor of Commercial banks/ UCBs/NBFCs (including HFCs)/ AIFIs/ Statutory Auditor of StCBs/CCBs/ RRBs. In case of merger and demerger of audit firms, merger effect will be given two years after merger, while demerger will be given effect immediately.

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d. 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 shall be at least one year of continuous association of professional staff with the firm, as on the date of shortlisting, for considering them as professional staff.

e. Additional Consideration:

- i. The audit firm, proposed to be appointed as SA, should be duly qualified for appointment as auditor of a company in terms of section 141 of the companies Act, 2013.
- ii. The audit firm should not be under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the institute of chartered accountants of India (ICAI), RBI or other Financial Regulators.
- iii. The bank shall ensure that appointment of SA is in accordance with the ICAI's code of ethics/ any other such standards adopted and does not give rise to any conflict of interest.
- iv. If any partner(s) of a chartered accountant firm is a director in the bank, the said firm shall not be appointed as SA.
- v. The auditors should have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree/ complexity of computerisation of the banks.

In case an audit firm (after appointment) does not comply with any of the eligibility norms (on account of registration, death etc., of any of the partner(s) / employee(s), action by Government Agencies/ NFRA/ICAI/RBI/ other Financial Regulators etc.), as stated in e (ii) above, it shall promptly approach the bank with full details. Further, such audit firm shall take all necessary steps to become eligible within a reasonable time and, in any case, the audit firm should be in compliance with the above norms before commencement of Annual Statutory Audit for Financial Year ending 31st march and till the completion of annual audit.

In any of extraordinary circumstances after the commencement of audit, such as death of one or more partner(s)/ employee(s), etc., which may

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render the firm ineligible with respect to one or more of the eligibility norms, the same shall be informed to RBI. RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

5.2 Procedure for Appointment of SA:

- a. The bank shall select the Statutory Auditors from the list provided by the NABARD. The eligibility criteria are provided at 5.1.
- b. The Bank shall select minimum of two audit firms for each vacancy of Statutory Auditor (SA) from the panel list provided by NABARD.
- c. The selected audit firms' names shall be placed before Audit Committee of the Board/ Board of Management for in principal approval. Later, the same shall be forwarded to Department of Supervision, RBI before July 31st of the reference financial year for prior approval.
- d. The Bank shall obtain a certificate from shortlisted audit firms as per Form B to the effect that the audit firm complies with the eligibility criteria prescribed by RBI. The certificate should be obtained on the letter head of the audit firm with the signature of the Managing partner of the audit firm, under the seal of the said audit firm.
- e. The bank, while recommending the name(s) of the audit firm(s) shall furnish a certificate in the format as per Form C, stating that the audit firm has complied with all the eligibility norms prescribed by RBI.
- f. While approaching RBI for prior approval, the banks shall indicate the total asset size as on March 31st of the previous year (audited figures), attach a copy of Board / ACB resolution recommending names of audit firms in the order of preference, Form B and Form C along with all the documents mentioned therein, to facilitate expeditious processing.
- g. Prior approval from RBI is necessary for fresh appointment, re-appointment or removal of SA.
- h. Prior approval from RBI is necessary for re-appointment of SA annually.
- i. For smooth conduct of the audit, it is preferable that the audit firm to be appointed as SA has proficiency in the local language where the bank is located.
- j. Before commencement of Audit, bank shall sensitize statutory auditors on aspects such as RBI/NABARD regulations, systems and procedures of the bank, expectations and requirements from SAs etc.

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5.3 Independence of Auditors:

- a. The bank shall give independence to the auditor throughout the audit period.
- b. The auditor shall be given access to the bank financial statements, transactions, files, information related to the auditing departments/ branches etc., to have in detailed checking of the accuracy of the transactions, data etc.
- c. All the department and Branch staff shall always be available to the auditors and provide data/information required by the auditor.
- d. The Board/Audit committee of the Board shall monitor and assess the independence of auditors and conflict of interest, if any, in terms of the relevant statutory/ regulatory provisions, standards and best practices. Concerns, if any, raised by Board/ACB can be reported to NABARD.
- e. Concurrent auditors of the bank shall not be considered for appointment as SA of the bank. There shall be a minimum gap of one year between completion of one assignment and commencement of the other assignment.
- f. The time gap between any non-audit work (services mentioned in section 144 of the companies Act, 2013, internal assignments, special assignments, etc.) undertaken by the SA for the appointing bank shall be at least one year, both before appointment and after completion of tenure as SA. However, during the tenure as SA, based on the decision of the Board/ACB, an audit firm may provide such services to the bank which may not normally result in conflict of interest. Special assignments, including those such as (i) Tax audit, tax representation and advice on taxation matters, (ii) audit of interim financial statements (iii) issuance of certificates that are required to be made by the SA in compliance with statutory or regulatory requirements (iv) reporting on financial information or segments thereof, may not be treated as conflict of interest.
- g. The restrictions, as detailed in (e) & (f) above, shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partner(s), as defined in Rule 6(3) of the companies (Audit & Auditors) Rules, 2014.

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h. The bank should be meticulous throughout the audit period and submit all relevant information as required by the Statutory Auditor and always be available as he/she have the authority to report concerns, if any, regarding the conduct of management such as non-availability of information/ non-cooperation by the management etc., to the Board/ ACB and also to NABARD.

5.4 Review of performance of Statutory Auditors:

- a. The Board & ACB shall review the performance of the auditor annually.
- b. The performance of the auditor shall be reviewed by considering the following:
 - i. Adequacy of coverage of audit, quality, clarity of reporting.
 - ii. Timely detection of irregularities and reporting of same in time.
 - iii. Deficiencies in credit appraisal, disbursement, misappropriation of funds, monitoring, reporting of frauds.
 - iv. Misstatement of financial statements.
 - v. Concealment of facts.
 - vi. Reporting of non-compliance to statutory norms.
 - vii. Any other areas where SA is incompetent
- c. The matter shall be reported to NABARD within 2 months from the completion of the audit by taking prior approval from Board & ACB.

5.5 Termination of Statutory Auditor:

In case of any serious lapses/ irregularities by the SA, the bank, with approval of Board of Management & Audit Committee of the Board, may request RBI for Premature removal of SA. Prior approval from RBI is necessary for premature removal of SAs. The lapses may include the following:

- a. Failure to detect the fraud or serious irregularities, which comes to the knowledge of bank at a later date or during subsequent audits/ investigations, shall be treated as a deficient service & omission of serious nature. In such case, the Bank
- b. The auditor should be responsible for concealment of facts/non reporting of serious irregularities or losses/ non reporting of early warning signal etc.
- c. The name of the Audit firm should be informed to IBA/ICAI/ NABARD/RBI.

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- d. If any of the information/documents furnished by the auditor is found to be untrue/incorrect, the Bank's offer shall automatically stand cancelled without entertaining any further correspondence.
- e. Deliberate omission of facts, information about disqualification which comes to the knowledge of the bank at a later date.
- f. Any serious acts of commissions, omissions, misconduct, deviations in professional ethics or any other reason bank shall report the same to RBI.

Whenever the assignment is terminated or relinquishment is permitted, the External Auditors concerned are eligible for audit remuneration only up to the end of previous month/on proportionate basis for which a fully completed report is received. In such cases the bank reserves the right (a) to adjust the same (audit remuneration) towards commission/omission if any or (b) withhold the same for a period of 6 months or till suitable administrative decision is taken whichever is earlier.

Any serious lapse/ negligence in discharging audit responsibilities, conduct issues on the part of the SA or any other matter considered as relevant, shall be reported with the approval of Board & ACB to NABARD within 2 months from the completion of the Audit.

5.6 Tenure and Rotation of Statutory Auditor:

- a. SA shall be initially appointed for a period of one year and shall be reappointed annually for the succeeding 2 years subject to satisfaction of the Board& ACB and eligibility criteria as mentioned at 5.1.
- b. Auditor/ Audit firm shall not be eligible for appointment / re-appointment in the same bank for 6 years (2 tenures) immediately after completion of a full or part tenure.

5.7 Restrictions on number of Banks, an Audit firm can audit in a year:

- a. An audit firm can concurrently take up statutory audit of a maximum of five banks (including not more than one StCB) in a year.
- b. The limit of five banks will be in addition to the limit of 20 Regulated Entities (REs) as prescribed in the 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/ Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)' dated 27.04.2021.

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- c. Further, in a year, an audit firm cannot simultaneously take up statutory audit of both StCB and CCBs operating in the same state.
- d. In other words, an 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, NaBFID, NHB, EXIM Bank) or RBI), eight Urban Co-operative Banks (UCBs), eight Non- Banking Financial Companies (NBFCs), and five StCBs/ CCBs (including not more than one StCB) in a year.
- e. This limit is subject to the audit firm's compliance with the eligibility criteria and other conditions as prescribed in these guidelines and within the overall ceiling prescribed by any other statute or rules.
- f. For the purpose of these guidelines, a group of audit firms having common partner(s) and/or under the same network shall be considered as one unit and considered for appointment as SA accordingly. The incoming audit firm shall not be eligible if such an audit firm is associated with the outgoing audit firm or is under the same network of audit firms.
- g. Shared/ sub- contracted audit by any other audit firm or by an associate audit firm under the same network of audit firms, is not permitted.

6. Submission of Audit report to Regulators:

Auditor should submit report within 15 working days from the date of completion of the audit. The report shall be placed before Board of Management for prior approval. Later, the report should be submitted to RBI/NABARD/RCS before 30th June.

7. Reporting system:

- a. On-spot rectifications, if any, shall be rectified by the concerned branches/ departments in the presence of the SA.
- b. On submission of the audit report, AUDIT department shall forward the observations within 7 days from the receipt of audit reports to all the concerned departments and branches for submission of compliances against observations of SAs.
- c. The compliance shall be submitted by the branches/ department within 7 working days from the receipt of communication from the AUDIT department.

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- d. Department heads in case of HO departments and Branch Managers in case of branches shall act as compliance officers for the respective department/ branch.
- e. Compliance department shall verify the compliances and check with the facts against compliances submitted by the branches/ departments.
- f. The observations and compliances shall be placed before Audit Committee of the Board (ACB) and later, the same shall be placed before Board of Management along with the recommendations/ proceedings of the ACB.
- g. Later, the observations along with compliances shall be submitted to APCOB and SA.

8. Audit Fees and Expenses of Statutory Auditors:

a. The Audit fees for SAs of all the banks shall be decided in terms of the relevant statutory/regulatory provisions and the board/ACB of banks shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

b. The audit fees for SAs of banks 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.

9. Periodicity of the Audit:

Audit shall be conducted once in a financial year.

10. Disclosure norms:

a. The Board approved Statutory Audit Policy shall be disclosed in the Bank's official website.

b. The bank shall also disclose on its website/ public domain the extent of branch/ business coverage under SA for the respective year and the previous year.

11. Review and Modifications to the Policy:

Taking into consideration of RBI/NABARD guidelines, The Chief Executive Officer is authorized to make suitable changes to the policy from time to time. Policy will be reviewed annually.

Chief Executive Officer

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Annexure I

Guidelines for selection of branches for audit by SAs

1. Branches selected for audit should cover at least 70% of the total advances outstanding.
2. Top 20% of the branches of the bank to be selected in order of level of outstanding advances should be compulsorily included for audit.
3. Branches where fraud, embezzlements or transactions of a suspicious nature are suspected or have taken place may be taken up for audit, if not covered with reference to (2) above.
4. Branches where the loan, business growth is 50% and more over the preceding year should also be compulsorily taken for audit, if not covered with reference to criteria (2) and (3) above.
5. Actual selection of branches to be taken up for audit should be decided by the Board/ACB considering the above guidelines.
6. While deciding the branches and business coverage, the bank shall interalia consider bank specific characteristics such as degree of centralization of processes, need to address fraud risk and credit risk, adverse report from internal / concurrent auditors, whistle blower complaints, and unusual patterns/ activity shown by internal MIS reports.
7. The bank shall also disclose on its website/ public domain the extent of branch/ business coverage under SA for the respective year and the previous year.

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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 Financial Year (audited figures)	Number of Full-time partners (FTP)	Out of total FTPs, no. of FCA partner(s) (FTP)	Number of FTPs/ Paid Cas with CISA/ISA/DISA Qualification	Number of years of Audit Experience #	Out of (5), minimum no. of years of statutory audit experience in StCBs/CCBs	Number of professional staff
(1)	(2)	(3)	(4)	(5)	(6)	(7)

*Exclusively associated in case of asset size id more than 1,000 crore.

#Details shall be furnished in the following format:

Name of the Bank	Type of bank (whether commercial bank/UCB/NBFC(including HFCs)/ AIFI/StCB/CCB/RRB)	Year wise audit undertaken (Ascending order)	Specify type of audit (whether statutory central audit (SCA)/ Statutory Branch Audit (SBA) of Commercial Bank / Statutory Audit of (UCBs/NBFCs (Including HFCs)/ AIFI/StCB/CCB/RRB)

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B. Additional Information:

- i. Copy of the latest constitution certificate of the recommended audit firms.
- ii. Whether the firm is a member of any network of audit firms or any partner (s) of the firm is a current partner in any other audit firm? If yes, details thereof.
- iii. Whether the firm has appointed as SA by any other StCB/CCBs in the current 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/ any partner of the 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/ re-appointment of SA of StCBs/CCBs. It is clarified that neither I nor any of partner (s)/ member (s) of my / their families (family will include spouse, children, parent, 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 a wilful 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:

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Form C

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

1. The Bank is desirous of appointing/ reappointing M/s _____ Chartered Accountants (Firm Registration Number _____) as Statutory Auditor (SA) for the financial year _____ for their 1st/2nd/3rd year 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 the eligibility certificate on all criteria of eligibility as prescribed in 5.1 of the policy on **Eligibility Criteria for appointment of Statutory Auditor, from (Name and Firm Registration Number of the firm)** proposed to be appointed/ reappointed as Statutory Auditor of the Bank for FY _____, along with relevant information, in **Form B** of the policy.
3. The firm has no past association/ association for _____ years (between FY _____ and FY _____) with the bank as SA and for _____ years (between FY _____ and FY _____) with the bank for non-audit work.
4. The Bank has verified the said firm's compliance with all the eligibility norms prescribed by RBI for appointment of SA of the bank.

B. Additional Information:

1. Name of the Statutory Audit Firm with Firm Registration Number (FRN) for last six years:

S.No	Name of the Audit Firm	FRN	Financial year of Audit

2. Copy of the Constitution Certificate of the Audit Firm of the previous Financial Year

Signature

(Name and Designation)

Date: