



POLICY FOR APPOINTMENT OF STATUTORY AUDITORS

Introduction

The Bank shall cause to be audited its accounts atleast once in each financial year. The Statutory Audit of the Bank will be conducted as per the provisions of the Banking Regulation Act, 1949 (AACS), Multi state co-operative Societies Act, 2002 and such other statutes as may apply to the organization from time to time and under the general & specific provisions and guidelines issued by the Reserve Bank of India & The Institute of Chartered Accountants of India.

Statutory Auditors are required to report matters of material or prime concern to Reserve Bank of India as and when they arise, as an Exception Report to Department of Supervision, of respective regional office of RBI, as also in the LFAR.

The Bank will adopt the following guidelines from Second half of FY 2021-22, w.e.f 01.10.2021.

1. **Prior Approval of RBI** – Prior approval of RBI (Department of Supervision) for appointment/reappointment of Statutory Auditor, on an annual basis in terms of Section 30(1A) of the BR Act, 1949. Application to be submitted to Central Office of RBI (Department of Supervision) before 31st July of the reference year.
2. Asset Size of the Bank is less than Rs.15,000 crore as at the end of previous year (Financial Year), the Bank will appoint a **minimum of one audit firm** (Partnership firm/LLPs) for conducting statutory audit, else a minimum of two audit firms., subject to review every year.
3. SAs shall visit and **audit at least the Top 20 branches/Top 20% of the branches** of the Bank 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.
4. SAs shall ensure **adherence to the provisions of Section 143 (8) of the Companies Act, 2013** regarding audit of accounts of all branches.
5. **Eligibility Criteria of Auditors** – The Bank will appoint audit firm(s) as its SA(s) fulfilling the eligibility norms as prescribed by RBI in (Annex I).



6. 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 Senior Supervisory Manager (SSM)/RO (Regional Office) of RBI.
7. **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 Board/ACB of the Bank, under intimation to the concerned SSM/RO of RBI.**
8. Concurrent auditors of the Bank should not be considered for appointment as SAs of the same Entity. The audit of the Bank and any entity with large exposure (As defined in RBI instructions on 'Large Exposures Framework') to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.
9. 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 Bank 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 SA, an audit firm may provide such services to the Bank which may not normally result in a conflict of interest and Bank's may take their own decision in this regard, in consultation with the Board/ACB.

10. 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 ACB of Bank shall review the performance of SAs on an annual basis. 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 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 Bank, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

11. Tenure and Rotation

In order to protect the independence of the auditors/audit firms, Bank will have to appoint the SAs 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 Supervision), as applicable for prior approval for appointment.



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.

However, audit firms can continue to undertake statutory audit of other Entities.

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.

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 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.

12. Audit Fees and Expenses

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

13. The Board approved procedure and criteria for appointment of Statutory audit will be hosted **on Bank's official website.**

14. Submission of Returns

In terms of Section 31 of the Banking Regulation Act, 1949("the Act"), read with Section 56 of the Act, accounts and balance sheet referred to in Section 29 of the Act together with the auditor's report shall be published in the prescribed manner and three copies thereof shall be furnished as returns to the Reserve Bank within three months from the end of the period to which they refer.

15. Submission of Compliance

Compliance to the Statutory Audit Report, duly approved by the Board shall be submitted to the Reserve Bank of India, Ministry of Agriculture & Farmers Welfare, Commissioner for Co-operative & Registrar for Co-operative Societies and the Statutory Auditors within three months from the date of receipt of the report.



16. Procedure for Appointment of SAs

- a) Minimum of 2 audit firms will be short listed for every vacancy of 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 SAs does not get delayed. However, in case of reappointment of SAs by bank till completion of tenure of continuous term of 3 years, there would not be any requirement of short listing and sending names of multiple audit firms to RBI while seeking approval to appointment.
- b) The name of short listed audit firms, in order of reference will be placed before the ACB/Board for selection as SAs. Upon selection of SAs by the bank in consultation with their ACB/Board and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SAs. On receipt of approval from RBI, the same will be put up at the Annual General Meeting for approval.
- c) 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 by the Bank to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment of SAs of the Bank, under the seal of the said audit firm.
- d) 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 SA by them comply with all eligibility norms prescribed by RBI for the purpose.
- e) While approaching the RBI for its prior approval for appointment of SAs, the Bank shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board Resolution recommending names of audit firms for appointment as 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.



ANNEX I

Eligibility Criteria for Appointment as SA

A. Basic Eligibility

Asset Size of Entity 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	Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3) 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 Rs.15,000 crore	5	4	2	15	18
Above Rs. 1,000 crore and Up to Rs.15,000 crore	3	2	1	8	12
Upto Rs.1,000 crore	2	1	1*	6	8

*Not mandatory for UCBs/NBFCs with asset size of upto Rs. 1,000 crore.

Note 1: For all UCBs with asset size above Rs. 1,000 crore, 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:

- The full-time partner should not be a partner in other firm/s.
- She/He should not be employed full time / part time elsewhere.
- 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/ACB 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

For UCBs with asset size upto Rs. 1,000 crore, there is no minimum requirement in this regard. However, such Entities may give priority to firms with full time partners or full time CAs having CISA/ISA qualification. There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3: Audit Experience:

For UCBs, 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.

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.

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 (for PSBs)/ short listing (for other Entities) for considering them as professional staff for the purpose.

The Entities shall ensure that appointment of SAs 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.

B. Additional Consideration

- i) The audit firm, proposed to be appointed as SAs, 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 SAs 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.
- iv) 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 SA of any PSB. Further, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SA of any of the group entities¹³ of that Entity.



- v) The auditors for Banks with asset size above Rs.1,000 crore should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) 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.
- vi) For audit of UCBs, the SA 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.

C. 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 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.



FORM B

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

A. Particulars of the firm:

Asset Size of Entity as on 31st March of Previous Year	Size of Entity as on 31st 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 Rs. 1,000 crore

#Details may be furnished separately for experience as SCAs/SAs and Statutory Branch Auditors (SBA)

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 SCAs/SAs of Commercial Banks (excluding RRBs)/UCBs/NBFCs (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 / directors¹⁵ have been declared as 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:



FORM C

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

The Bank/UCB 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/ 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/UCB has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Central Auditor (SCA)/Statutory Auditor of the bank/UCB 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/UCB as SCA/SA/SBA.

4. The Bank/UCB has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of Commercial Banks (excluding RRBs)/UCBs.

Signature

(Name and Designation)

Date