

STATUTORY AUDITORS APPOINTMENT POLICY
(PART AND PARCEL OF MAIN AUDIT POLICY FOR F.Y. 2021-22)

Appointment of Statutory Auditors:

Ref: RBI Circular No.:- RBI / 2021-22 / 25: Ref. No. DoS. CO. ARG / SEC.01 / 08.91.001 / 2021-22 dated April 27, 2021

A. Applicable Laws / Acts:-

- A.1. Banking Regulation Act, 1949 – Section 30(1A)
- A.2. Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 – Section 10(1)
- A.3. SBI Act, 1955 - Section 41(1)
- A.4. Multistate Act – Sec.70 (2) of MSCS Act 2002
- A.5. Companies Act, 2013
 - (i) Section 143 (8) of the Companies Act, 2013
 - (ii) Section 144 of Companies Act, 2013.
 - (iii) Section 141 of the Companies Act, 2013.
 - (iv) As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.
 - (v) Section 139 (5) and 139 (7) of the Companies Act, 2013.

B. Abbreviations:

- B.1. SA - Statutory Auditor/s
- B.2. RO - Regional Office
- B.3. SSM - Senior Supervisory Manager
- B.4. UCB – Urban Co-op. Bank
- B.5. ACB – Audit Committee of the Board
- B.6. LLP – Limited Liability Partnership
- B.7. PSB – Public Sector Bank
- B.8. NFRA – National Financial Reporting Authority
- B.9. ICAI – Institute of Chartered Accountants of India
- B.10. CAATs – Computer Assisted Audit Tools and Techniques
- B.11. GAS – Generalized Audit Software
- B.12. AIFI – All India Financial Institution

1. Applicability:

These guidelines are applicable to the Bank from Financial Year 2021-22

2. Prior Approval of RBI:

Bank will be required to take prior approval of RBI for appointment / reappointment of SAs, on an annual basis, before 31st July of the reference year.

3. Number of SAs to appoint and Branch Coverage of Statutory Audit:

- Bank needs to appoint minimum 2 and maximum 4 SA for FY 2021-22.
- SA should visit all "A+" "A" & "B" category branches of the bank and to ensure coverage of minimum 15% of total gross advances of the Bank as on 31/3/2022.

4. Submission of Statutory Audit report in LFAR for Bank as whole:

Large advances in respect of which the outstanding amount is in excess of 10% of outstanding aggregate balance of fund based and non-fund based advances of the branch or Rs.5crores, whichever is less.

5. Eligibility Criteria of Auditors at the time of shortlisting:

Asset Size of Entity 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
Above Rs. 15,000 Crore	5	4	2	15	18

6. Basic Eligibility:

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

Apart from it, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

- 6.ii.** 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 shortlisting, for considering them as Paid CAs with CISA / ISA qualification for the purpose.

- 6.iii.** Audit experience:

Audit experience shall mean experience of the audit firm as Statutory Central / Branch Auditor of UCBs. 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.

- 6.iv.** 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 / stenographers / 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 shortlisting for considering them as professional staff for the purpose.

7. Additional Information:

- 7.i** Copy of Constitution Certificate.
- 7.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.
- 7.iii** Whether the firm has been appointed as 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.
- 7.iv** Whether the firm has been debarred from taking up audit assignments by any regulator / Government agency? If yes, details thereof.
- 7.v** Details of disciplinary proceedings etc. against firm by any Financial Regulator / Government agency during last three years, both closed and pending.
- 7.vi** Declaration from the firm as per Form - B.

8. Additional Consideration:

- 8.i** SA firm should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- 8.ii** SA 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.
- 8.iii** Working of SA firm should be in line with the ICAI's Code of Ethics / any other such standards adopted and does not give rise to any conflict of interest. A conflict would not normally be created in the case of following special assignments (indicative list):
 - a)** Tax audit, tax representation and advice on taxation matters
 - b)** Audit of interim financial statements.
 - c)** Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.

- d) Reporting on financial information or segments thereof. As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014
- 8.iv SA firm 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 Bank where the accounting and business data reside in order to achieve audit objectives.
- 8.v 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 Bank / branch of the Bank is located.
- 8.vi 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.

9. **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 reasonable period 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, firm should inform it to Bank. It will be forwarded to RBI with recommendation.

10. Independence of Auditors:

10.i Bank's Board of Directors will monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board of the Bank to RBI.

10.ii Concurrent auditors of the Bank will not be considered for appointment as SAs. Concurrent auditors of the Entity should not be considered for appointment as 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 and Board / ACB shall see that there is no conflict of interest and the independence of auditor is ensured.

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 Bank or any audit / non-audit works for its group entities should be at least one year, before or after its appointment as SAs. This stipulation shall be applicable prospectively, i.e. from FY 2022-23.

Therefore, if an audit firm is involved in some non-audit work with the Entity and/or any audit/non-audit work in other RBI Regulated Entities in the Group and completes or relinquishes the said assignment prior to the date

of appointment as SA of the Entity for FY 2021-22, the said audit firm would be eligible for appointment as SA of the Entity for FY 2021-22.

It is reiterated that the time gap between any non-audit works by the SAs for the Entities or any audit/non-audit works for its Group Entities should be at least one year after completion of the audit assignment as SA.

10.iii However, during the tenure as SA, an audit firm may provide such services to Bank which may not normally result in a conflict of interest and Bank may take its own decision in this regard, in consultation with the Board / ACB. Group entities shall mean two or more entities related to each other through any of the following relationships, viz. subsidiary – parent (defined in terms of AS21), joint venture (defined in terms of AS 27), associate (defined in terms of AS 23), promoter-promote (as provided in the SEBI-acquisition of shares and takeover- regulations, 1997) for listed companies, a related party (defined in terms of AS 18), common brand name and investment in equity shares of 20% and above

10.iv The restrictions as mentioned above in point no.10.ii and 10.iii above, should also apply to an audit firm under the same network* of audit firms or any other audit firm having common partners.

*same network as per Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014 defined as - Firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

11. Professional Standards of SAs

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

11.ii The Board / ACB of Bank will review the performance of Statutory Auditors

on an annual basis. Any serious lapses / negligence in audit responsibilities or conduct issues on part of the Statutory Auditors or any other matter considered as relevant shall be reported to RBI.

- 11.iii** 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.

12. Tenure and Rotation

- 12.i** In order to protect the independence of the auditors / audit firms, Bank will have to appoint the Statutory Auditors 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.
- 12.ii** 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.

13. Audit Fees and Expenses

Statutory Audit Fee is calculated on the basis of business turnover, as per the guidelines provided in the circular dtd.03.02.2001, issued by Central Registrar of Co-operative Societies. The Board / ACB of Bank will make recommendation to the competent authority as per the relevant statutory / regulatory instructions for fixing audit fees of SAs.

14. Procedure for Appointment of SAs

- 14.i** Audit firm should apply in predefined format by RBI (as per Form B & C) with confirmation certificate for Basic Eligibility (Association of the Partners with the Firm, CISA/ISA Qualification, Audit Experience and Professional Staff), Additional Consideration, Independence, Continued Compliance with basic eligibility criteria etc.

- 14.ii** Upon selection of SAs by the bank in consultation with their ACB and verifying their compliance with the eligibility norms prescribed by RBI, the bank will seek RBI's prior approval for appointment of SAs.
- 14.iii** The Bank will 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, under the seal of the said audit firm.
- 14.iv** Bank will 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.
- 14.v** While approaching the RBI for its prior approval for appointment of 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 SAs in the order of preference and also furnish information as per Form B and Form C as mentioned below, to facilitate expeditious approval of appointment / re-appointment of the concerned audit firm.
- 14.vi** Prior approval of General Body of Bank is needed for appointment as SA.

15. Validity / Enforceability of Policy

This Policy is enforceable till next revision.

(To be obtained by Statutory Audit Firm eligible for appointment)

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

A. Particulars of the firm:

Asset Size of Entity 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

B. Additional Information:

1. Copy of Constitution Certificate.
2. 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.
3. 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.
4. Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
5. 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 / directors¹ 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 Banks regarding eligibility of audit firm proposed to be appointed as SA

1. The Bank is desirous of appointing M / s _____, Chartered Accountants (Firm Registration Number _____) as Statutory Central Auditor 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 has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Central Auditor 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 SA / SBA.
4. The Bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of Bank.

Signature

(Name and Designation)

Date: