

**Policy guidelines regarding Appointment of Statutory Central Auditors (SCAs)/
Statutory Auditors (SAs)**

The policy guidelines for appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) as per RBI guidelines vide

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

1. Applicability:

- a) These guidelines are applicable to our Bank for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/ with suitable amendments as per extant guidelines of RBI.
- b) RBI guidelines regarding appointment of SCAs/SAs shall be implemented for the first time for our Bank from FY 2021-22, to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

2. Prior Approval of RBI:

- a) Our Bank is required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SCAs/SAs, on an annual basis in terms of statutory provisions. For the purpose, our Bank should apply to Department of Supervision, RBI before 31st July of the reference year.
- b) For the purpose, our Bank shall approach the concerned Regional Office of RBI (Department of Supervision), under whose jurisdiction our Bank's Head Office is located.

3. Number of SCAs / SAs and Branch Coverage

- a) Our Bank should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It shall be ensured that joint auditors of our Bank do not have any common partners and they are not under the same network of audit firms. Further, our Bank may finalise the work allocation among SCAs/SAs, before the commencement of the statutory audit, in consultation with the SCAs/SAs.
- b) Our Bank should decide on the number of SCAs/SAs, *inter alia*, taking into account the relevant factors such as the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc.

The above limits have been prescribed to ensure that the number of SCAs/SAs appointed by our Bank are adequate, commensurate with the asset size and extent of operations of our Bank, with a view to ensure that audits are conducted in a timely and effective manner. This will be subject to review in future based on the experience.

4. Eligibility Criteria of Auditors

Our Bank is required to appoint audit firm(s) as its SCA(s)/SA(s) fulfilling the eligibility norms as prescribed below:

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	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 years of Audit Experience of the firm	Minimum No. of Professional staff
Upto ₹1,000 crore	2 (Note 1)	1	6 (Note 3)	8 (Note 4)

Note 1: There should be at least one-year continuous association of partners with the firm for shortlisting for considering them as full time partners.

Note 2: CISA/ISA Qualification

Our Bank's asset size is below ₹ 1,000 crore, there is no minimum requirement in this regard. However, our Bank 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 for shortlisting 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 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.

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 for shortlisting for considering them as professional staff for the purpose.

B. Additional Consideration

- The audit firm, proposed to be appointed as SCAs/SAs for our Bank, 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) Our Bank shall ensure that appointment of SCAs/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) Further, if any partner of a Chartered Accountant firm is a director in our bank, the said firm shall not be appointed as SCA/SA of any of the group entities* of our bank.

** For the purpose of this policy as per RBI circular, 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 AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [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.*

- (v) For our bank, 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 our Bank/branch of the bank 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 our 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.

5. Independence of Auditors

- a) 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.

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b) In case of any concern with the Management of our 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 our bank, under intimation to the concerned SSM/RO of RBI.

** Board shall be directly approached only when ACB is non-existent in the Entity or the auditors notice a matter of concern involving any member of the ACB.*

c) Concurrent auditors of our bank should not be considered for appointment as SCAs/SAs of our bank. The audit of our bank and any entity with large exposure* to our bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.

** As defined in RBI instructions on 'Large Exposures Framework'*

d) 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 our bank or any audit/non-audit works for its group 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 which may not normally result in a conflict of interest*, and our bank may take 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.

e) The restrictions as detailed in para 5 (c) and 5 (d) above, should also apply to an audit firm under the same network* of audit firms or any other audit firm having common partners.

** As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014*

6. Professional Standards of SCAs/SAs

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

b) The Board*/ACB of our 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/ACB, with the full details of the audit firm.

** Board shall review the performance of SCAs/SAs in case ACB is non-existent in the Entity.*

- c) In the event of lapses in carrying out audit assignments resulting in misstatement of our bank's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SCAs/SAs in relation to our bank, the SCAs/SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

7. Tenure and Rotation

- a) In order to protect the independence of the auditors/audit firms, our 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. Our 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, as mentioned at 2 (b) above or Para 3.2 of the above referred circular.

** the audit firms which have already completed tenure of 1 year or 2 years with our bank may be permitted to complete the balance tenure only, i.e. 2 years and 1 year respectively, if they fulfill the eligibility norms on an annual basis.*

- b) An audit firm would not be eligible for reappointment in our bank for six years (two tenures) after completion of full or part of one term of the audit tenure*.

** In case an audit firm has conducted audit of our bank for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in our bank for six years from completion of part-tenure.*

- c) 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.

8. Audit Fees and Expenses

- a) The audit fees for SCAs/SAs of 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.
- b) The Board/ACB of our bank shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

9. Statutory Audit Policy and Appointment Procedure

- a) This constitutes the Approved Policy to be hosted on our bank's official website/public domain and formulate necessary procedure thereunder to be followed for appointment of SCAs/SAs. 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.

b) Guidelines on minimum procedural requirements are as follows:

9.1 Procedure for Appointment of SCAs/SAs

- a) Our 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 by RBI, the firm at second preference can be appointed by RBI and the process of appointment of SCAs/SAs does not get delayed. However, in case of reappointment of SCAs/SAs by our 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 to appointment.
- b) The bank shall place the name of shortlisted audit firms, in order of preference, before the Board for selection as SCA/SA. Upon selection of SCAs/SAs by the bank in consultation with the Board and verifying their compliance with the eligibility norms prescribed by RBI, our bank shall seek RBI's prior approval for appointment of SCAs/SAs.
- c) Our bank shall obtain a certificate, along with relevant information as per **Form B**, from the audit firm(s) proposed to be appointed as SCAs/SAs by our 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 SCAs/SAs of our bank, under the seal of the said audit firm.

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	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 ₹ 1,000 crore

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

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:

¹⁵ For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.

- d) Our 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.



- e) While approaching the RBI for its prior approval for appointment of SCAs/SAs, our bank shall indicate the total asset size as on March 31st of the previous year (audited figures), along with 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 C

Certificate to be submitted by the Bank 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 UCBs.

Signature

(Name and Designation)

Date: