

## **Policy on Appointment / Re-appointment of Statutory Auditors**

The Banking Regulation (Amendment) Act, 2020 (No. 39 of 2020), notified in the Gazette of India on September 29, 2020 (vide Notification No. 64 of that date), has come into force with effect from April 01, 2021. Accordingly, Reserve Bank of India has framed the guidelines for seeking prior approval of RBI for appointment, re-appointment or removal of Statutory Auditor (SA), and other related matters. The RBI has instructed all the DCC banks to frame policy & procedures on for selection / appointment / re-appointment / removal of SA and host it on its official website / public domain. Accordingly, the bank has framed this policy towards appointment / re-appointment / removal of SA.

### **A. Applicability:**

These guidelines shall be applicable with effect from April 1, 2024.

### **B. No appointment without prior approval of RBI:**

The bank shall obtain prior approval of RBI before appointment, re-appointment or removal of SA . The bank shall seek prior approval for re-appointment of SA annually.

### **C. Eligibility Criteria of SAs:**

1. The bank shall select the audit firm(s) from the list of Chartered Accountants provided by NABARD fulfilling the requirements under the guidelines as enumerated in **Appendix I** on annual basis and obtain the necessary approvals from the Board of Directors (Board) / Audit Committee of the Board (ACB), and submit application for prior approval to Department of Supervision, RBI, before July 31 of the reference financial year.
2. The audit firm to be appointed as SA must have proficiency in Kannada.

**D. Independence of Auditors:**

1. Board / ACB of the bank 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 the Board / ACB shall be reported to NABARD.
2. 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.
3. 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 appointing 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, and (iv) Reporting on financial information or segments thereof, may not be treated as conflict of interest.
4. The restrictions, as detailed 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.
5. The SA should follow norms fixed by RBI as given in **Appendix-II** while selecting branches for audit.

**E. Audit Fees:**

1. The audit fees for SAs of the bank shall be decided in terms of the relevant statutory / regulatory provisions and the Board / ACB of bank shall make recommendation to the competent authority as per the relevant statutory / regulatory instructions for fixing audit fees of SAs.

2. The audit fees for SA of bank 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.

**F. Review of Performance of Statutory Auditors (SAs):**

1. The Board / ACB of the bank shall review the performance of SA annually. 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 the Board / ACB to NABARD within two months from the completion of the audit.
2. Violation of extant statutory / regulatory norms and lapses in carrying out audit assignments such as misstatement of financial statements, etc., by the SAs would be dealt suitably under the relevant statutory / regulatory / supervisory framework.

**G. Tenure and Rotation of Statutory Auditors (SAs)**

1. SAs shall be appointed at a time for a period of one year only and shall be reappointed annually for the succeeding two years subject to them continuing to satisfy eligibility norms stated in these guidelines. During such period, premature removal of the SA shall require prior approval of RBI. However, any such request for removal shall be forwarded to RBI with the approval of the Board / ACB.
2. An auditor / audit firm shall not be eligible for appointment / re-appointment in the same bank for six years (two tenures) immediately after completion of a full or part tenure. In case an auditor / audit firm has conducted audit of the bank for part-tenure (one year or two years) and then is not re-appointed for the remainder tenure, it shall not be eligible for re-appointment in the same bank for six years after completion of part-tenure. However, audit firms can continue to undertake statutory audit of other banks.

**H. Procedure & Process:**

1. The process of appointment of SA starts with the bank sending the application to RBI with the names of the audit firm as approved by its Board / ACB, followed by grant of prior approval by RBI and concludes with the appointment of SA in the AGM of the concerned bank.

2. In case of fresh appointment of SA, for each vacancy of SA, the bank shall shortlist **minimum of two** audit firms from the panel of NABARD.
3. The bank shall place the names of shortlisted audit firms, in order of preference, before their Board / ACB for 'in principle' approval. After approval of the Board / ACB, the bank shall approach RBI for prior approval.
4. The banks shall submit their application to DoS of the respective Regional Office of RBI in the state where the Registered Office of the bank is located.
5. The bank shall obtain a certificate, as per **Form B**, from the shortlisted audit firms to the effect that the audit firm complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate on the letter-head of the audit firm should be signed by the managing partner of the audit firm, under the seal of the said audit firm.
6. While recommending the name(s) of audit firm(s), the bank shall also furnish a certificate, in the format as per **Form C**, stating that the audit firm proposed to be appointed as SA by it comply with all the eligibility norms prescribed by RBI.
7. While approaching RBI for prior approval, the bank shall indicate its total asset size as on March 31<sup>st</sup> of the previous financial year (audited figures), attach a copy of Board/ ACB Resolution recommending name(s) of audit firm(s) in the order of preference, **Form B** and **Form C** along with all the documents mentioned therein, to facilitate expeditious processing.
8. Before commencement of the audit, the bank shall sensitize its SAs, on aspects such as relevant RBI Regulations, systems and procedures at the bank, expectations and requirements from the SAs, etc.

Chief Executive Officer (I/C)

## Appendix I

### Eligibility Criteria for Appointment as SA - Basic Eligibility for StCBs / CCBs

Asset Size of StCB / CCB as on 31 <sup>st</sup> March of Previous Financial Year	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) Partner(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 in StCBs/CCBs [Please refer to Note 3]	Minimum No. of Professional Staff [Please refer to Note 4]
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Above ₹15,000 crore	5	4	2	8	2	8
Above ₹1,000 crore and Up to ₹15,000 crore	3	2	1	4	1	4
Upto ₹1,000 crore	2	1	1*	1#	1#	2

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

Preferably 1 year experience

#### A. Notes

**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 banks) for considering them as FTPs.

For all banks with asset size above ₹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:

- (a) The FTP should not be a partner(s) in other firm/s.
- (b) She / He shall not be employed full time/part time elsewhere.
- (c) 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.
- (d) 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).

**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.

**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.

**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 / stenographers / 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.

**B. 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 any bank, the said firm shall not be appointed as SA of that particular bank.
- (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.

**C. Continued Compliance with basic eligibility criteria:**

In case an audit firm (after appointment) does not comply with any of the eligibility norms (on account of resignation, death, etc., of any of the partner(s) / employee(s), action by Government Agencies / NFRA / ICAI / RBI / other Financial Regulators, etc.) as stated in B (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 31<sup>st</sup> March and till the completion of annual audit.

In case of any extraordinary circumstance after the commencement of audit, such as death of one or more partner(s) / employee(s), etc., which may render the firm ineligible with respect to one or more of the eligibility norms, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

**D. Number of StCBs / CCBs an Audit firm can Audit:**

1. An audit firm can concurrently take up statutory audit of a maximum of **five** banks (**including not more than one StCB**) in a year.
2. 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 April 27, 2021.
3. Further, in a year, an audit firm **cannot** simultaneously take up statutory audit of both StCB and CCBs operating in the same State.
4. 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.
5. 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.

6. 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.
7. 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.

## **Appendix II**

### **Guidelines for selection of branches for audit by SAs**

#### **Norms to be followed while making selection of branches for audit are as under:**

1. The branches selected for audit should cover at least 70% of the total advances outstanding.
2. Top 20 branches / Top 20% of the branches of the banks (in case of banks having less than 100 branches) 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. The actual selection of branches to be taken up for audit should be decided by the Board / ACB keeping in view the above guidelines.
6. While deciding the branches and business coverage, the bank shall interalia consider bank-specific characteristics such as degree of centralisation 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 Statutory Audit for the respective year and the previous year.



**FORM B****Eligibility Certificate from (Name and Firm Registration Number of the firm)****A. Particulars of the firm**

Asset Size of StCBs / CCBs as on 31 <sup>st</sup> March of Previous Financial Year (audited figures)	Number of Full-Time partners (FTPs) associated* with the firm for a period of three years	Out of total FTPs, Number of FCA Partner(s) associated with the firm for a period of three years	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 StCB/CCBs with asset size of 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) / AIFIs / StCBs / CCBs / RRBs])

**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 been 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 certified that neither I nor any of our

partner(s) / member(s) of my / their families (family will include spouse, 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<sup>1</sup> have been declared as a willful 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****A. Certificate to be submitted by the StCB / CCB regarding eligibility of audit firm proposed to be appointed / reappointed as SA**

The StCB / CCB is desirous of appointing / reappointing M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as Statutory Auditor (SA) for the financial year \_\_\_\_\_ for their 1<sup>st</sup> / 2<sup>nd</sup> / 3<sup>rd</sup> year and therefore has sought the prior approval of RBI as per the Section 30(1A) of the Banking Regulation Act, 1949.

2. The StCB / CCB has obtained the eligibility certificate on all criteria of eligibility as prescribed in **Appendix I** of the circular on 'Guidelines on Appointment / reappointment of Statutory Auditors (SAs) of State Co-operative Banks (StCBs) and Central Co-operative Banks (CCBs)' issued vide circular Ref. No. DOS. ARG/SEC. 8/08.91.001/2023-24 dated January 15, 2024, from (name and Firm Registration Number of the audit firm) proposed to be appointed / reappointed as Statutory Auditor of the StCB / CCB for FY \_\_\_\_\_, along with relevant information, in **Form B** of the circular prescribed by RBI (copy enclosed).

3. The firm has no past association / association for \_\_\_ years (between FY and FY\_\_\_\_) with the StCB / CCB as SA and for \_\_\_\_\_ years (between FY\_\_\_\_\_ and FY\_\_\_\_\_ ) with the StCB / CCB for non-audit work.

4. The StCB / CCB has verified the said firm's compliance with all the eligibility norms prescribed by RBI for appointment of SA of StCB / CCB.

**B. Additional Information**

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

Sl No	Name of the Audit Firm	FRN	Financial Year of Audit

ii) Copy of the Constitution Certificate of the Audit Firm of the previous Financial Year

Signature

(Name and Designation)

Date: