

## **Policy for Appointment of Statutory Auditors (SAs) of Urban Co-operative Banks:**

Reserve Bank of India, vide its letter No.DoS.CO.ARG/SEC.01/08.01.001/2021-22 dated April 26, 2021 has issued guidelines for appointment of Statutory Auditor of Urban Co-op banks. The bank has, accordingly prepared Policy for appointment of Statutory Auditor in the bank.

### **2. Applicability:**

**2.1** This Policy will be applicable for Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditors (SAs).

**2.2** As per RBI guidelines, the appointment of SA shall be implemented for the first time for UCBs from FY 2021-22, it is decided to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

### **3. Approval of RBI.**

**3.1** Our Bank will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, Bank should apply to Department of Supervision, RBI before 31st July of the reference year.

**3.2** Our Bank shall approach Department of Supervision, RBI, Ahmedabad Office.

### **4. Number of SAs and Branch Coverage:**

**4.1** As our Bank is having asset size below ₹ 115000 crore, we should require to appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting Statutory Audit.

**4.2** Considering the above factors and the requirements of our Bank, the actual number of SAs to be appointed shall be decided by the Board of Directors, subject to the following limits:

Sl. No.	Asset Size of the Entity	Maximum number of SCAs/SAs
1.	Upto ₹5,00,000 crore	4
2.	Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore	6
3.	Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore	8
4.	Above ₹ 20,00,000 crore	12

The above limits have been prescribed to ensure that the number of SCAs/SAs appointed by the Bank are adequate, commensurate with the asset size and extent of operations of the 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.

## **5. Eligibility Criteria of Auditors:**

Our Bank is required to appoint audit firm(s) as our SA fulfilling the eligibility norms as prescribed in 'Annex- I'.

## **6. Independence of Auditors:**

Our Board of Directors shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board of the Bank to the concerned RO of RBI.

**6.3** Concurrent auditors of our Bank shall not be considered for appointment as SA of our Bank.

## **7. Professional standard of SA.**

**7.1.** The Board/ACB of our Bank shall review the performance of SA on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SA 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.

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

## **8. Tenure and Rotation:**

**8.1** In order to protect the independence of the auditors/audit firms, Bank will have to appoint the SA 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).

**8.2** 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 Bank.

## **9. Audit Fees and Expenses:**

**9.1** The audit fees for SA of all the Entities shall be decided in terms of the relevant statutory/regulatory provisions.

**9.2** The audit fees for SA of the 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.

9.3 The Board/ACB of the Bank shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SA.

#### 10. Procedure for appointment of SA.

The minimum procedural requirements shall be as per details given at **Annex-II'**

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#### 'ANNEX- I'

#### Eligibility Criteria for Appointment as SCA/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
Upto ₹1,000 crore	2	1	1*	6	8

\* Not mandatory for UCBs with asset size of up to ₹ 1,000 crore

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

## 'ANNEX-II'

### **Procedure for Appointment of Statutory Auditors :**

1. The Bank shall shortlist minimum of 2 audit firms 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 shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.
2. The bank shall continue to follow the existing procedure followed by them for selection of SAs. They shall place the name of shortlisted audit firms, in order of preference, before their ACB for selection as SAs. 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 shall seek RBI's prior approval for appointment of SAs
3. The Bank shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SA. Upon selection of SAs by the Bank in consultation with its Board and verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of SAs.
4. 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.
5. 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.
6. While approaching the RBI for its prior approval for appointment of SAs, our 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 above, to facilitate expeditious approval of appointment/re-appointment of the concerned 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 Urban Co-operative Banks, with asset size of more than ₹ 1,000 crore

#Details may be furnished separately for experience as 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 SAs of Urban Co-operative Banks. 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 14 mainly dependent on the Chartered Accountants) or the firm / company in which I am / they are partners / directors<sup>15</sup> 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:**