



**Rajkot Nagarik Sahakari Bank Ltd.**

**Policy No. A-5(1)**

**EMPANELMENT, APPOINTMENT, RE-APPOINTMENT AND REMOVAL OF  
STATUTORY AUDITOR**

**Policy Applicable Date: 01.07.2021**

**Policy Review: Annually**

**1. Preface:**

RBI has issued guideline regarding appointment of Statutory Auditors which shall be implemented for the first time for UCBs. In the context, it is necessary to update Policy for Empanelment, Appointment, Re-appointment/Removal of Statutory Auditor.

**2. Reference:**

RBI Guidelines (Notification No. RBI/2021-22/25 dated 27.04.2021) and ICAI Guidelines.

**3. Authority:**

Board of Directors.

**4. Eligibility norms for Statutory Auditors:**

Bank is required to appoint a minimum of one (1) audit firm as statutory Auditor. Maximum number of SAs shall be four (4) as per RBI Guidelines.

Following eligibility norms to be fulfilled by CA Firm/Firms for the empanelment with our bank:

**(A) Basic Eligibility:**

Type of audit firm must be **Partnership Firm or Limited Liability Partnership (LLP)** with below mentioned prerequisite. (Applicable to UCBs having Asset Size above Rs. 1,000 cr and up to Rs. 15,000 cr.)

<b>Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years</b>	<b>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</b>	<b>Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification</b>	<b>Minimum No. of years of Audit Experience of the firm</b>	<b>Minimum No. of Professional staff</b>
<b>3</b>	<b>2</b>	<b>1</b>	<b>8</b>	<b>12</b>

**(B) Other eligibility norms:**

Other eligibility norms for statutory auditor as per RBI Guidelines are enumerated in **Annexure- A**.

**(C) Non-adherence of eligibility norms after appointment:**

If the statutory auditor(s) does/do not comply with eligibility norms after appointment, then procedure to be followed as enumerated in **Annexure- A**.

## **5. Procedure for Appointment, Re-Appointment, Removal and Casual Vacancy of**

### **Statutory Auditor:**

#### **Appointment:**

Board shall propose appointment of Statutory Auditor, subject to approval by RBI and in annual general meeting, as per procedure laid down in **Annexure- B**.

#### **Re-Appointment:**

Board shall re-appoint Statutory Auditor, subject to approval by RBI and in annual general meeting as per procedure laid down in **Annexure- B**.

#### **Removal:**

Board shall remove Statutory Auditor subject to prior approval of RBI and approval in annual general meeting as laid down in **Annexure- B**.

#### **Casual Vacancy:**

Board shall fill any casual vacancy in the office of the statutory auditors as per procedure laid down in **Annexure- B**

#### **Review of panel list:**

Audit Committee shall review the performance of statutory auditor on an annual basis.

Audit Committee shall review "empanelment list" of CA firms at least once in every financial year.

## **6. Remuneration of Statutory Auditor:**

The audit fees for Statutory Auditor(s) 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.

Audit Committee shall make recommendation to board as per the relevant statutory/regulatory instructions for fixing audit fees.

Remuneration shall be fixed by the board, subject to approval in annual general meeting.

## **7. Undertakings/Declarations from Appointed Statutory Auditor:**

Undertakings /Declarations are required to be obtained from appointed statutory auditor.

List of required Undertaking /Declaration are mentioned in **Annexure- C**.

## **8. Tenure of Statutory Auditor:**

The tenure of statutory auditor will be continuous period of 3 years subject to the firms satisfying the eligibility norms each year, prior approval of RBI and annual re-appointment of auditor at annual general meeting.

An audit firm would not be eligible for reappointment after completion of full or part of one term of audit term (one term means continuous period of 3 years)

## **9. Publish on website:**

Broad eligibility norms for empanelment of statutory auditors should be hosted on the bank's website.

CA firm may apply for statutory audit of the bank either online or physical.

## **10. Operating Procedure:**

- ✧ Bank will host broad eligibility norms for empanelment of statutory auditors on website.
- ✧ Bank will consider applications from CA firms for empanelment either online or physical.
- ✧ Bank will analyze applications received on the basis of eligibility norms as per bank's policy and eligible firms will be incorporated in empanelment list
- ✧ Audit committee will shortlist CA firms from empanelment list for evaluation.
- ✧ After Evaluation, Audit Committee will recommend shortlisted CA firms, in order of preference, to Board.
- ✧ After verifying eligibility norms of these audit firms, Board shall propose at least two names for appointment of Statutory Auditor ,in the order of preference, and seek prior approval of RBI.
- ✧ After seeking prior approval of RBI, the audit firm will be appointed as Statutory Auditor in annual general meeting.

## **11. Applicability of Provisions:**

All provisions of RBI Guidelines, ICAI Guidelines etc. related to Appointment, Re-appointment/Removal of Statutory Auditor are applicable.

## **ANNEXURE "A"**

### **❖ Other Eligibility Criteria for Statutory Auditor as per RBI Guidelines:**

- ❖ 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**.
- ❖ At least two partners of the firm shall have continuous association with the firm for at least 10 years.
- ❖ The full-time partner's association with the firm would mean exclusive association  
Definition of exclusive association will be based on the following criteria
  - a) The full-time partner should not be a partner in another firm/s
  - b) She/He should not be employed full time / part time elsewhere
  - c) 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.
- ❖ 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.
- ❖ Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFIs (All India financial institutions).
- ❖ Professional Staff does not include 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 shortlisting for considering them as professional staff for the purpose.
- ❖ The audit firm, proposed to be appointed as Statutory Auditor, should be duly qualified for an appointment as an auditor under section 141 of Companies Act, 2013. (Detail section 141 mention at end of annexure)
- ❖ The Firm or any of the partners should not be debarred by RBI or NFRA, ICAI or other Financial Regulators and no such application is pending before such authority in these regards.
- ❖ Appointment of SAs must 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.
- ❖ The auditors 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 our bank where the accounting and business data reside in order to achieve audit objectives.
- ❖ Audit 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.
- ❖ Concurrent auditor of the bank or other CA firms having common partners with concurrent auditor, should not be considered for appointment as Statutory Auditor of our bank.
- ❖ The time gap between any non-audit works of bank (Internal assignments, special assignments, etc.) which result in conflict of interest, by the statutory auditor of the bank or other CA firms having common partners with statutory auditor, should be at least one year before or after its appointment as Statutory Auditor.
- ❖ One audit firm can concurrently take up statutory audit of maximum eight Urban Co-operative Banks during a particular year (For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm).
- ❖ Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible.
- ❖ None of the partners and their relatives are directors of the bank.

❖ None of the partners or their spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them or the Firm/ Company in which they are partners/ Directors are not indebted to our Bank. Further, they have not been declared as willful defaulters by any Bank or financial institution.

❖ **Non-adherence of eligibility criteria after appointment:**

❖ 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.

❖ **Section 141 of Companies Act, 2013: Eligibility, qualifications and disqualifications of auditors (For Reference only)**

❖ A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant: Provided that a firm whereof majority of partners practicing in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.

❖ Where a firm including a limited liability, partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorized to act and sign on behalf of the firm.

❖ The following persons shall not be eligible for appointment as an auditor of a company, namely: —

(a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008.

(b) an officer or employee of the company;

(c) a person who is a partner, or who is in the employment, of an officer or employee of the company;

(d) a person who, or his relative or partner—

(i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company:

Provided that the relative may hold security or interest in the company of face value not exceeding one thousand rupees or such sum as may be prescribed;

(ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed; or

(iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for such amount as may be prescribed;

(e) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or

subsidiary of such holding company or associate company of such nature as may be prescribed;

(f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;

(g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;

(h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction; (i) any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialized services as provided in section 144.

✧ Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

## **ANNEXURE "B"**

### **Procedure For Appointment, Re-Appointment And Removal Of Statutory Auditor**

#### **A . Appointment:-**

- ✧ Audit committee will place the name of at least 2 audit firms for every vacancy of Statutory Auditors before Board for selection of Statutory Auditors of the bank after verifying their compliance with the eligibility norms.
- ✧ Bank shall obtain a certificate, along with relevant information **as per Form B**, from the audit firm(s) proposed to be appointed as Statutory Auditors by bank. Certificate should be signed by the main partner/s of the audit firm proposed for appointment as Statutory Auditors under the seal of the said audit firm.
- ✧ 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 Statutory Auditors by them comply with all eligibility norms prescribed by RBI for the purpose.
- ✧ The bank shall seek RBI's prior approval, before 31<sup>st</sup> July of the reference year, for appointment of Statutory Auditor/Auditors. While approaching the RBI for its prior approval for appointment Statutory Auditor/Auditors, bank shall indicate their total asset size as on March 31<sup>st</sup> of the previous year (audited figures), forward a copy of Board Resolution recommending names of audit firms for appointment of Statutory Auditor in the order of preference and also furnish information **as per Form B and Form C** to facilitate expeditious approval of appointment/ re-appointment of the concerned audit firm.
- ✧ In case of reappointment of Statutory Auditor 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 for appointment.
- ✧ The actual number of Statutory Auditors to be appointed shall be decided by Boards subject to minimum 1 and maximum 4 partnership firm/LLP.

#### **B . Re-appointment:-**

- ✧ Bank will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of Statutory Auditors, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, they should apply to Department of Supervision, RBI before 31<sup>st</sup> July of the reference year.
- ✧ An audit firm would not be eligible for reappointment for six years after completion of full or part of one term of the audit tenure.
- ✧ 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.
- ✧ Any serious lapses/negligence in audit responsibilities or conduct issues on part of statutory auditor 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 Audit Committee with the full details of the audit firm.

#### **C. Removal of Auditor:-**

- ✧ 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.

#### **D. Causal Vacancy :-**

- ✧ Board may fill any causal vacancy of Statutory Auditor; but while any such vacancy continues, the remaining auditor or auditors, if any, may act:

Provided that where such vacancy is caused by the resignation of an auditor, the vacancy shall only be filled by bank in general meeting. Any auditor appointed in a casual vacancy shall hold office until the conclusion of the next annual general meeting.



## **ANNEXURE "C"**

### **❖ List of required Undertakings/Declarations from Appointed Statutory Auditor:**

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- ❖ The audit Firm is not subject to any of the disqualification under section 141 of the Companies Act, 2013 for being appointed as Statutory Auditor.
- ❖ Audit firm has not been blacklisted by any of the banks for any reason.
- ❖ The Firm or any of the partners should not be debarred by RBI or NFRA, ICAI or other Financial Regulators and no such application is pending before such authority in these regards.
- ❖ Appointment of SAs must 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.
- ❖ Audit firm shall not take statutory audit of more than eight Urban Co-operative Banks during a particular year.
- ❖ Audit firm will not share/sub-contract audit to any other firm/associate audit firm under the same network of audit firms.
- ❖ None of the partners and their relatives are directors of the bank.
- ❖ None of the partners or their spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them or the Firm/ Company in which they are partners/ Directors are not indebted to our Bank. Further, they have not been declared as wilful defaulters by any Bank or financial institution.

## 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 / directors 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 Commercial Banks (excluding RRBs) and UCBs regarding eligibility of audit firm proposed to be appointed as SCA/SA

1.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:**