**POLICY ON APPOINTMENT OF STATUTORY AUDITORS OF THE BANK FROM FINANCIAL YEAR 2021-222 AND ONWARDS.**

1. **PREAMBLE:**

As per section 50(1) of the Telangana Co-operative Societies Act, 1964, in respect of society not in receipt of State Aid as specified in Section 43, the Committee of such Society shall cause the audit of accounts of the Society every year as per the audit manual prescribed by the Registrar, either through the Chief auditor or a Chartered Accountant.

As per section 50(4) of the said Act, the minimum qualification of the auditor/Auditing Firm entrusted with the responsibility of auditing of co-operative societies under this act shall be --

“A chartered Accountant Firm or an individual having a valid certificate of practice issued by the ICAI and having their registered office in the State of Telangana and having reasonable fluency in local regional language.

Reserve Bank of India has now given guidelines under section 30(1A) of Banking Regulation Act, 1949 vide circular no. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27.04.2021 for appointment of Statutory Auditors in UCBs and advised that each entity shall formulate Board approved Policy to be hosted on its official website/public domain and formulate necessary procedure there under to be followed for appointment of Statutory Auditors. As such, the policy is framed for appointment of Statutory Auditors of the Bank from Financial Year 2021-22 and onwards in tune with RBI guidelines.

**(2) Prior Approval of RBI:**

As per RBI guidelines, UCBs are required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of Statutory Auditors, on an annual basis. As such, the bank shall seek RBI’s approval for appointment of Statutory Auditor every year from the Financial year 2021-22 and onwards.

**(3) Number of Statutory Auditors:**

As per RBI guidelines, for Entities with asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. All other Entities should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. As the asset size of our bank is less than Rs.15,000 crores, our bank shall have one firm only as Statutory Auditor.

**(4) Eligibility Criteria of Auditors :**

**(A) Basic eligibility:**

In tune with RBI guidelines, the eligibility criteria for appointment of audit firm as Statutory Auditor for assets size of below Rs.15,000 crores is as follows.

1. Minimum No. of Full Time Partners(FTPs) associated with the firm

for a period at least three (3) years (note-i) : 5

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 (note-ii) : 4

1. Minimum No. of Full Time Partners/Paid CAs with CISA/ISA

Qualification (note-iii) : 2

1. Minimum no. of years of Audit experience of the firm(note-ii) : 15
2. Minimum no. of Professional staff (note-iv) : 18

Note-i: There should be at least one-year continuous association of partners with the firm as on the date of short listing for considering them as full time partners. Further, for appointment as SAs, 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. The definition of ‘exclusive association’ will be based on the following criteria:

(a) The full-time partner should not be a partner in other 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.

(d) The income of the partner from the firm/LLP is adequate for considering them as full-time exclusively associated partners, which will ensure the capability of the firm for the purpose.

Note-ii: 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-iii: CISA/ISA Qualification:

Priority shall be given 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 as on the date of shortlisting for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note-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/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 other Entities) for considering them as professional staff for the purpose.

**(B) Additional Consideration:**

(i) The audit firm, proposed to be appointed as Statutory Auditor 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) It shall be ensured that appointment of Statutory Auditors 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) If any partner of a Chartered Accountant firm is a director in the bank, the said firm shall not be appointed as Statutory Auditor.

(v) 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 the Bank where the accounting and business data reside in order to achieve audit objectives.

(vi) For audit of the bank, the Statutory Auditor 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 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 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.

**(5) Independence of Auditors:**

(i) The Board of Directors shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard may be flagged by the Board to the concerned SSM/RO of RBI.

(ii) In case of any concern with the Management of the Bank such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the Statutory Auditor shall approach the ACB of the Bank, under intimation to the concerned SSM/RO of RBI.

(iii) Concurrent auditors of the Bank should not be considered for appointment as Statutory Auditor of the Bank. The audit of the Bank and any entity with large exposure to the Entity as defined in RBI instructions on ‘Large Exposures Framework for the same reference year should also be explicitly factored in while assessing independence of the auditor.

(iv) The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory Auditor for the Bank should be at least one year, before or after its appointment as Statutory Auditor. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the Bank which may not normally result in a conflict of interest, and Bank may take their own decision in this regard, in consultation with the Board/ACB.

(v) The restrictions as detailed in points (iii) and (iv) above, should also apply to an audit firm under the same network (as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014 ) of audit firms or any other audit firm having common partners.

**(6)** **Professional Standards of Statutory Auditor:**

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

(ii) The Board/ACB of the bank shall review the performance of Statutory Auditor on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the 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 the Board/ACB, with the full details of the audit firm.

(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 Statutory Auditor in relation to the bank, the Statutory Auditor would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

**(7) Tenure and Rotation:**

(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, the bank can remove the audit firm 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 Para 2 of this policy.

(ii) 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 ( In case an audit firm has conducted audit of the 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 the Bank for six years from completion of part-tenure). However, audit firms can continue to undertake statutory audit of other Entities.

(iii) 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. For the purpose of this policy, 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 Statutory Audit 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.

**(8)Audit Fees and Expenses**

(i) The audit fees for Statutory Auditor shall be decided in terms of the relevant statutory/regulatory provisions.

(ii) The audit fees for Statutory Auditor 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.

(iii) The Board/ACB of the Bank shall make recommendation to the General Body as per the relevant statutory/regulatory instructions for fixing audit fees of Statutory Auditor.

**(9) Procedure for Appointment of Statutory Auditor:**

(i) The Bank shall shortlist minimum of 2 audit firms for vacancy of Statutory Auditor 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 Statutory Auditor does not get delayed. However, in case of reappointment of Statutory Auditor 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.

(ii) The Bank shall place the name of shortlisted audit firms, in order of preference, before the Board for selection as Statutory Auditor. Upon selection of Statutory Auditor by the UCBs in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI’s prior approval for appointment of Statutory Auditor.

(iii) The Bank shall obtain a certificate, along with relevant information as per **Form B** annexed to the policy, from the audit firm proposed to be appointed as Statutory Auditor to the effect that the audit firm 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 Statutory Auditor of the Bank, under the seal of the said audit firm.

(iv) The Bank shall verify the compliance of audit firm 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** annexed to the policy, stating that the audit firm proposed to be appointed as Statutory Auditor by the Bank comply with all eligibility norms prescribed by RBI for the purpose.

(v) While approaching the RBI for its prior approval for appointment of Statutory Auditor, the 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 Statutory Auditor 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.

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**FORM B**

**Eligibility Certificate from (Name and Firm Registration Number of the firm)**

**A. Particulars of the firm:**

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| --- | --- | --- | --- | --- | --- |
| **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 Rs.1000 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 have been 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 :

&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.

**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**

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: