

# **BANK'S POLICY ON STATUTORY CENTRAL AUDITORS(SCAs)**

## **STATUTORY AUDITORS(SAs)**

RBI has issued Notification Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27<sup>th</sup> April, 2021 on guidelines for Appointment of Statutory Central Auditors(SCAs)/Statutory Auditors(SAs) for UCBs. Basing on the guidelines, Our Bank has evolved the Policy on Statutory Auditors(SAs)

### **Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of UCBs.**

The following guidelines are issued under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs. These guidelines supersede all previous guidelines (list enclosed at [Table 1](#)) issued on the subject.

#### **2. Applicability:**

2.1 These guidelines will be applicable to the **UCBs (hereinafter referred to as the Entities)** for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs of the Entities. However, non-deposit taking NBFCs with asset size below ₹1,000 crore have the option to continue with their extant procedure.

2.2 As RBI guidelines regarding appointment of SCAs/SAs shall be implemented for the first time for UCBs from FY 2021-22, they shall have the flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption. Accordingly, Our Bank has decided to implement the Policy guidelines from H2 of FY 2021-22.

#### **3. Prior Approval of RBI:**

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

3.2 For the purpose, UCBs shall approach the concerned Regional Office of RBI (Department of Supervision), under whose jurisdiction their Head Office is located, in our case the Regional Office, Hyderabad (Department of Supervision).

#### **4. Number of SCAs / SAs and Branch Coverage**

4.1 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. It shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms. Further, the Entity may finalise the work allocation among SCAs/SAs, before the commencement of the statutory audit, in consultation with their SCAs/SAs.

4.2 The Entities should decide on the number of SCAs/SAs based on a Board/Local Management Committee (LMC) Approved Policy, 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.

Considering the above factors and the requirements of the Entity, the actual number of

SCAs/SAs to be appointed shall be decided by the respective Boards/LMC, 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 Entities are adequate, commensurate with the asset size and extent of operations of the Entities, 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.

4.3 In terms of RBI guidelines on ‘Norms on eligibility, empanelment and selection of Statutory Branch Auditors for UCBS. , SCAs/SAs shall visit and audit at least the Top 20 branches/Top 20% of the branches of the Entities (in case of Entities having less than 100 branches), to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the Entities.

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

Each Entity is required to appoint audit firm(s) as its SCA(s)/SA(s) fulfilling the eligibility norms as prescribed in [Annex I](#).

## **6. Independence of Auditors**

6.1 .For UCBs, the 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 UCB/NBFC to the concerned SSM/RO of RBI.

6.2 In case of any concern with the Management of the Entities 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/LMC of the Entity, under intimation to the concerned SSM/RO of RBI.

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

6.4 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 the Entities or any audit/non-audit works for its group entities 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 Entities which may not normally result in a conflict of interest, and Entities may take their own decision in this regard, in consultation with the Board/ACB/LMC.

6.5 The restrictions as detailed in para 6.3 and 6.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

## **7. Professional Standards of SCAs/SAs**

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

7.2 The Board/ACB/LMC of Entities 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<sup>o</sup> to RBI within two months from completion of the annual audit. Such reports should be sent with the approval/recommendation of the Board/ACB/LMC, with the full details of the audit firm.

7.3 In the event of lapses in carrying out audit assignments resulting in misstatement of an Entity'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 Entities, the SCAs/SAs 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, UCBs will have to appoint the SCAs/SAs for a continuous period of three years<sup>n</sup>, subject to the firms satisfying the eligibility norms each year. Further, UCBs 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 Para 3.2 of this circular..

8.2 An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure<sup>n</sup>. However, audit firms can continue to undertake statutory audit of other Entities.

8.3. One audit firm can concurrently take up statutory audit of a maximum of eight UCBs 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 circular, 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 SCA/SA 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.

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

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

9.2 The audit fees for SCAs/SAs of all 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.

9.3 The Board/ACB/LMC of Entities shall make recommendation to the competent authority i.e. Regional Office of RBI, in our Case RBI, Hyderabad, as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

## **10. Statutory Audit Policy and Appointment Procedure**

10.1 Each Entity shall formulate a Board/LMC Approved Policy to be hosted on its 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.

10.2 Guidelines on minimum procedural requirements are given at [Annex II](#).

## 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<br>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<br>Note 2 | Minimum No. of years of Audit Experience of the firm<br>Note 3 | Minimum No. of Professional staff<br>Note 4 |
|---|--|--|---|--|---|
| Above ₹15,000 crore   | 5  | 4  | 2   | 15   | 18  |
| Above ₹ 1,000 crore and Up to ₹15,000 crore                           | 3  | 2  | 1   | 8  | 12  |
| Upto ₹1,000 crore   | 2  | 1  | 1*  | 6  | 8   |
| * Not mandatory for UCBs/NBFCs with asset size of upto ₹ 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 UCBs. for considering them as full time partners. Further, for appointment as SCAs/SAs of all Entities with asset size above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For all UCBs with asset size above ₹ 1,000 crore, 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). For UCBs, the Board/ACB/LMC shall examine and ensure that 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 2:** CISA/ISA Qualification:

For UCBs with asset size upto ₹ 1,000 crore, there is no minimum requirement in this regard. However, such Entities 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 as on the date of empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

**Note 3: Audit Experience:**

For UCBs, 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 as on the date 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 SCAs/SAs for Entities, 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 Entities 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) If any partner of a Chartered Accountant firm is a director in any Public Sector Bank (PSB), the said firm shall not be appointed as SCA/SA of any PSB. Further, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SCA/SA of any of the group entities<sup>19</sup> of that Entity..

(v) For audit of UCBs, 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 the UCB/branch of the UCB 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 Entity 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.

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## **ANNEX II**

### **Procedure for Appointment of SCAs/SAs**

1. The Entities 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, the firm at second preference can be appointed and the process of appointment of SCAs/SAs does not get delayed. However, in case of reappointment of SCAs/SAs by banks/UCBs 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 banking companies shall continue to follow the existing procedure followed by them for selection of SCAs/SAs. They shall place the name of shortlisted audit firms, in order of preference, before their ACB/LMC for selection as SCAs/SAs. Upon selection of SCAs/SAs by the bank in consultation with their ACB/LMC and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SCAs/SAs.
3. The UCBs shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SCA/SA. Upon selection of SCAs/SAs by the UCBs in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the UCBs shall seek RBI's prior approval for appointment of SCAs/SAs.
5. The Entities 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 the Entity 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 the Entities, under the seal of the said audit firm.
6. The UCBs 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.
7. While approaching the RBI for its prior approval for appointment of SCAs/SAs, UCBs shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board/ACB Resolution (resolution not needed for foreign banks operating under branch mode) 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 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 (FTP)s associated* with the firm for a period of three (3) years | Out of total 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<br>#Details may be furnished separately for experience as SCAs/SAs and SBAs |   |  |  |                                      |                              |

B. Additional Information:

Copy of Constitution Certificate.  
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.  
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.  
Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.  
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<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:

FORM C

Certificate to be submitted by the 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<br>(Name and Designation)<br>Date: |  |  |  |  |
|--|--|--|--|--|