



**SARASWAT CO-OPERATIVE BANK LIMITED
(SCHEDULED BANK)**

Policy on Appointment of Statutory Auditors

Version 2.0

DOCUMENT DETAILS

Version No	Approved by	Approval date	Document owner	Custody of controlled copy
01/2021	Board of Directors	May 14, 2021	Internal Audit Department	Head of Internal Audit Department
02/2024	Board of Directors	March 15, 2024	Internal Audit Department	Head of Internal Audit Department

TABLE OF CONTENTS

1. Background.....	3
2. Validity of the Policy:.....	3
3. Prior Approval of RBI.....	3
4. Number of Statutory Auditors and Branch Coverage.....	3
5. Norms on Eligibility, Empanelment and Selection of Statutory Auditors	4
6. Independence of the Statutory Auditor.....	6
7. Professional Standards of Statutory Auditors	7
8. Tenure and Rotation	7
9. Audit Fees and Expenses.....	8
10. Statutory Audit Policy and Appointment Procedure.....	8
11. Relinquishment of the internal assignments, if any	9
12. Redressal of Grievances	9

1. Background

Reserve Bank of India (RBI) vide their letter No. RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27/04/2021 issued guidelines for appointment of Statutory Central Auditors(SCAs) / Statutory Auditors (Sas) of Commercial Banks (excluding RRBs), UCBs and NBFCs.

These 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 issued on the subject.

2. Validity of the Policy:

The policy shall be under the ownership of Internal Audit department and shall be valid for a period of three years. The policy shall be reviewed as and when there is any change in guidelines in this regard by RBI or any regulatory authority. This policy shall remain in force till the next review. The modification/changes, if any, made by RBI in norms/criteria/procedure from time to time shall construe to be part of our policy.

The Bank shall host policy on Appointment of Statutory Auditors, duly approved by Board, on Bank's official website/public domain and follow necessary formulated procedure there-under for appointment of Statutory Auditors.

3. Prior Approval of RBI

Bank will be required to take prior approval of RBI (Department of Supervision) for appointment/ reappointment of Statutory Auditors of the Bank, on an annual basis in terms of the above-mentioned statutory provisions.

For the purpose, Bank shall approach the Central Office of RBI (Department of Supervision), RBI before 31st July of the reference year.

4. Number of Statutory Auditors and Branch Coverage

- 4.1. Based on asset size of the Bank as at the end of previous year , statutory audit shall be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. The maximum number of statutory auditors that can be appointed based on Bank's asset size is four. This will be subject to review in future based on the change in asset size and Bank operations to ensure that audits are conducted in a timely and effective manner.
- 4.2. It shall be ensured that joint auditors of the Bank do not have any common partners and they are not under the same network, as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014, of audit firms.
- 4.3. The Bank may finalise the work allocation among Statutory Auditors of the Bank, before the commencement of the statutory audit, in consultation with the auditors.
- 4.4. Statutory Auditors of the Bank shall visit and audit at least top 20 branches which shall 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 Bank.

5. Norms on Eligibility, Empanelment and Selection of Statutory Auditors

The Eligibility norms (as advised by Reserve Bank of India) are as under:

A. Basic Eligibility criteria for entity with asset size above Rs.15,000 crores as on 31st March of previous year

Parameters	No.
Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years - Note 1	5
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	4
Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification – Note 2	2
Minimum No. of years of Audit Experience of the firm- Note 3	15
Minimum No. of Professional staff- Note 4	18

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

- Further, 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:
 - i. The full-time partner should not be a partner in other firm/s.
 - ii. She/He should not be employed full time / part time elsewhere.
 - iii. 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.
 - iv. The Board/ACB shall examine and ensure that the income of the partner from the firm/LLP is adequate for considering them as fulltime exclusively associated partners, which will ensure the capability of the firm for the purpose.

Note 2: 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/ short listing for considering them as Paid CAs with CISA/ISA 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 (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 of empanelment/shortlisting for considering them as professional staff for the purpose.

B. Additional Consideration

- i The audit firm, proposed to be appointed as Statutory Auditors for the Bank, 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 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 Auditors of the Bank.
- v The auditors should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATs) 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 Auditors of the firm should have a fair knowledge of the functioning of the co-operative 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 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.

D. Additional Information from the Statutory Auditors

The Bank shall obtain following information from the Statutory Auditors:

- 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.

E. Declaration to be obtained from the Statutory Auditors

- i Declaration form the Statutory Auditors stating that the audit firm complies with all eligibility norms prescribed by RBI regarding appointment of Statutory Auditors of Bank
- ii A suitable undertaking from the firm(s) to the effect that the Audit will be carried out by their own staff and they will not subcontract the audit work.
- iii None of the disqualifications under section 141 of the Companies Act, 2013 applies to them and they are qualified for appointment as Statutory Auditor of the Bank.
- iv Declaration that 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.
- v In the event of acceptance of the appointment as a statutory auditor of the Bank, the audit firm will have to relinquish all the internal assignments in our Bank.
- vi There are no adverse remarks/disciplinary proceedings pending/initiated against the firm/any of its partners/proprietor on the records of ICAI, which would make them ineligible for appointment as auditors.
- vii Associate firms or sister concerns of statutory audit firm are disqualified for any internal assignment where the main firm/partners are allotted Statutory Audit in a particular year.

6. Independence of the Statutory Auditor

- 6.1. The Board of Directors shall monitor and assess the independence of the auditors. Any concerns in this regard may be flagged by the Board to the concerned SSM/RO of RBI.
- 6.2. In case of any concern with the Management such as nonavailability of information / non-cooperation by the Management, which may hamper the audit process, the Statutory Auditors shall approach the Board/ACB, under intimation to the concerned SSM/RO of RBI. Board shall be directly approached only when the auditors notice a matter of concern involving any member of the ACB.
- 6.3. Concurrent auditors shall not be considered for appointment as Statutory Auditors. The audit of the Bank and any entity with large exposure to the Bank for the same reference year shall 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 Statutory Auditors of the Bank or any audit/non-audit works should be at least one year, before or after its appointment as Statutory Auditors. However, during the tenure as Statutory Auditors, an audit firm may provide such services which normally result in a conflict of interest*, and Bank shall take decision in this regard, in consultation with the Board/ACB.

*A conflict would not normally be created in the case of the following special assignments (indicative list):

- Tax audit, tax representation and advice on taxation matters.
- Audit of interim financial statements.

- Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
- Reporting on financial information or segments thereof

7. Professional Standards of Statutory Auditors

- 7.1. The Statutory Auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 7.2. The ACB/Board shall review the performance of Statutory Auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditors 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 Statutory Auditors in relation to the Bank, the Statutory Auditors shall be liable to be dealt with suitably under the relevant statutory/regulatory framework.

8. Tenure and Rotation

- 8.1. To protect the independence of the auditors/ audit firms, Bank shall appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.
- 8.2. The Bank can remove the audit firm during the period of three years only with the approval of concerned office of RBI(Department of Supervision) ,as applicable for prior approval for appointment. The Board of Directors of the Bank will be the competent authority to recommend removal of any Statutory Auditors to Reserve Bank of India (Department of Supervision),
- 8.3. An audit firm would not be eligible for reappointment 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 for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment for six years from completion of part-tenure.
- 8.4. 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 and within overall ceiling prescribed by any other statutes or rules. For clarity,
 1. limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm.
 2. a group of audit firms having common partners and/or under the same network, shall be considered as one entity and they shall be considered for allotment of Statutory Auditors accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible.
 3. the incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or is an audit firm under the same network of audit firms.

9. Audit Fees and Expenses

- 9.1. The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions.
- 9.2. The audit fees for Statutory Auditors 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 Bank shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of Statutory Auditors.

10. Statutory Audit Policy and Appointment Procedure

- 10.1. The Bank shall shortlist minimum of 2 audit firms for every vacancy of Statutory Auditors 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 Auditors does not get delayed.

However, in case of reappointment of Statutory Auditors till completion of tenure of continuous term of 3 years, there shall not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.
- 10.2. Upon verification of compliance with the eligibility norms mentioned in this policy and after being satisfied of their eligibility Bank shall prepare a list of shortlisted audit firms.

The name of shortlisted audit firms, in order of preference, shall be placed before ACB and Board for their concurrence before it is forwarded to RBI for final approval.
- 10.3. After ACB and Board of Directors approval, 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 of 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 Statutory Auditors of the Bank under the seal of the said audit firm. (Form B should include information as prescribed in Form B format in the RBI circular).
- 10.4. Bank shall, recommend the names along with a certificate, in the format as per Form C, stating that the audit firm(s) proposed to be appointed/reappointed as Statutory Auditors by them comply with all eligibility norms prescribed by RBI for the purpose.
- 10.5. On receiving necessary documents, the Bank shall seek RBI's prior approval for appointment of Statutory Auditors of the Bank.
- 10.6. While approaching the RBI for its prior approval for appointment of Statutory Auditors, Bank shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board Resolution recommending names of audit firms for appointment as Statutory Auditors 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.
- 10.7. Resolution for appointment/reappointment of Statutory Auditors shall be passed in Annual General Meeting after RBI approval for selected Audit firms.

11. Relinquishment of the internal assignments, if any

In the event of acceptance of the appointment as Statutory Auditor of the Bank, all the internal assignments of the Auditor in our Bank, if any, will stand withdrawn.

12. Redressal of Grievances

Head of Internal Audit in consultation with Managing Director under guidance of ACB shall dispose-off grievances/ complaints (if any) regarding the selection of Statutory Auditors.

RBI Guidelines for Appointment of Statutory of the Bank are attached herewith as **Annexure A**.
