



Preamble :

Reserve Bank of India issued “Guidelines for Appointment of Statutory Auditor/s of UCBs vide their master directions dated April 27, 2021 and number RBI/2021-22/25 Ref No. DoS. CO. ARG / SEC. 01/ 08.91.001 / 2021-22. The guidelines specifies certain pre conditions for appointment / reappointment / removal of Statutory Auditors for Urban Co-operative Banks. 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.

The guidelines specifies about formulating Board / LMC approved policy for appointment / reappointment / removal of Statutory Auditors. The guidelines also required to host this Board approved policy on official website of the Bank. Hence the policy is formulated as follows.

1. Applicability :

These guidelines were made applicable to all Urban Co-operative Banks from F.Y.2021-22. Considering the guidelines, the Bank had taken pre approval for appointment of Statutory Auditor for F.Y.2024-25.

2. Prior Approval of Reserve Bank of India :

Urban Co-operative Banks are 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. Number of Statutory Auditors to be Appointed :

For Co-operative Banks 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 Co-operative Banks should appoint a minimum of one audit firm (Partnership firm / LLPs) for conducting statutory audit. As per financial position of the Bank as on March 31, 2024. Considering this guideline, the bank will appoint minimum 1 firm as SA.



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The above limits have been prescribed to ensure that the number of statutory auditors appointed by the Banks are adequate, commensurate with the asset size and extent of operations of the Banks, 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. Branch Coverage :

The Statutory Auditor/s shall visit and audit at least the Top 20 branches / Top 20% of the branches of the Banks (in case of Banks 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 Bank.

5. Eligibility Criteria of Auditors :

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
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12



Note 1:

a) 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.

b) At least two partners of the firm shall have continuous association with the firm for at least 10 years.

c) 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:

- The full-time partner should not be a partner in other firm/s.
- She / He should not be employed full time / part time elsewhere.
- 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.
- The Board / ACB 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 :

The Bank 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 shortlisting for considering them as Paid CAs with CISA / ISA qualification for the purpose.

Note 3 : Audit Experience :

The audit experience shall mean experience of the audit firm as Statutory / Branch Auditor of Urban Co-operative Banks. 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 / stenographers / 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.

B. Additional Consideration

- I. The audit firm, proposed to be appointed as SAs for 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 will ensure that appointment of 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. 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.
- V. The firm should have a fair knowledge of the functioning of the cooperative sector and preferably have working knowledge of the language of the state in which the branch of 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 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.

6. Independence of Auditors :

- 6.1 The Board of Directors will 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 of the Bank such as non-availability of information / non-cooperation by the Management, which may hamper the audit process, the SAs will approach the Board / ACB of the Bank under intimation to the concerned SSM / RO of RBI.
- 6.3 Concurrent auditors of the Bank will not be considered for appointment as SAs of the Bank.
- 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 SAs for the Bank or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SAs. However, during the tenure as SA, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest, and Bank will take own decision in this regard, in consultation with the Board / ACB.
- 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 Statutory Auditor/s :

- 7.1 The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 7.2 The Board/ACB of the Bank will review the performance of SAs on an annual basis. Any serious lapses / negligence in audit responsibilities or conduct issues on part of the SAs 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 an Entity's financial statements, and any violations / lapses vis-à-vis the RBI's directions / guidelines regarding the role and responsibilities of the 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 auditor's / audit firms, Bank will appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. The 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, as mentioned at Para 3.2 of the circular.
- 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.
- 8.3 One audit firm can concurrently take up statutory audit of a maximum of eight Urban Co-operative Banks 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 Urban Co-operative Banks 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 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 SAs will be decided in terms of the relevant statutory / regulatory provisions or through negotiations with the audit firm.
- 9.2 The audit fees for SAs should 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.

10. Procedure for Appointment of Statutory Auditor/s :

1. The Bank will 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.
2. The Bank will place the name of shortlisted audit firms, in order of preference, before ACB / BOD for selection as SAs. Upon selection of SAs by the ACB / BOD will verify their compliance with the eligibility norms prescribed by RBI, and there after the bank will seek RBI's prior approval for appointment of SAs.
3. The Bank will 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



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purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment of SAs of the Entities, under the seal of the said audit firm.

4. The Bank will 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.
5. While approaching the RBI for its prior approval for appointment of SAs, Bank will 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 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.

Format of form "B"

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

A. Particulars of the firm:

Asset Size of Entity as on 31 st 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



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 UrbanCo-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 mainly dependent on the Chartered Accountants) or the firm / company in which I am / they are partners / directors¹ 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:



Format of Form “C”

FORM C Certificate to be submitted by the Urban Co-operative Banks regarding eligibility of audit firm proposed to be appointed as SA

1. The bank is desirous of appointing M/s _____, Chartered Accountants (Firm Registration Number _____) as 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 has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Auditor of the bank 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 as SA.
4. The bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs Urban Co-operative Banks.

Signature

(Name and Designation)

Date: