

**The Karnataka State
Cooperative Apex Bank Ltd.,
Bengaluru**

**Policy on Appointment/Reappointment
of Statutory Auditors.**

W.E.F 01.04.2024.

Version – 1.0

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A) Background: Reserve Bank of India (RBI), vide letter No.RBI/2023-24/113 Ref No.DOS.ARG/SEC.8/08.91.001./2023-24 dated 15.01.2024 has issued guidelines on appointment/Re-appointment of Statutory Auditors of State Cooperative Banks and Central Cooperative Banks. These guidelines shall come into effect from 01.04.2024. The guidelines are issued based on the Banking regulation (Amendment) Act, 2020 which has come into force with effect from April 01, 2021 for Rural Cooperative Banks i.e., State Co-operative Banks (StCBs) and Central Co-operative Banks (CCBs)

B) Prior approval of RBI :

Bank shall obtain prior approval of Reserve Bank of India (RBI) for appointment, re-appointment or removal of Statutory Auditor (SA).

C) Procedure for Appointment / Re-appointment of Statutory Auditors:

1. NABARD will prepare an All-India State-wise list of eligible audit firms by applying the eligibility criteria prescribed in the RBI guidelines and then share this list with the banks for selection and appointment / re-appointment of SAs.
2. The bank shall select the audit firm(s) from the list shared by NABARD for the appointment of fresh SA and shall shortlist **minimum of two** audit firms from the panel of NABARD.
3. The bank shall place the names of shortlisted audit firms, in order of preference, before the Board for 'in principle' approval.
4. For reappointment of SA, Bank shall check the name in the list of NABARD and place the name of the firm for reappointment of SA before the Board.
5. After obtaining approval of the Board, for the appointment/reappointment, bank shall approach RBI for prior approval.
6. Bank shall obtain a certificate, as per **Form B (format provided by RBI)**, from the shortlisted audit firms to the effect that the audit firm complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate on the letter-head of the audit firm should be signed by the managing partner of the audit firm, under the seal of the said audit firm.

7. Bank shall submit the application to Department of Supervision (Dos), RBI Bengaluru (Regional office of RBI in the state) for prior approval for the appointment/reappointment of SAs. Along with the application Bank shall submit:
 - a) **Form C certificate (format provided by RBI)**, stating that the audit firm proposed to be appointed/reappointed as SA, comply with all the eligibility norms mentioned in point D of this policy.
 - b) Form B certificate
 - c) The statement indicating the total asset size of the Bank as on march 31st of the previous financial year (audited figures).
 - d) Copy of Board resolution recommending name(s) of audit firm(s) in the order of preference, and
 - e) Other documents mentioned in the Form B and Form C.
8. The application shall be submitted to RBI before July 31st of the reference financial year.
9. For smooth conduct of statutory audit, Bank shall select such Audit Firm where the Auditors in that firm has proficiency in the local language of the state.

D) Eligibility Criteria for Appointment as Statutory Auditors in the Bank:

Bank should select the audit firm(s) fulfilling the following eligibility criteria.

Basic Eligibility Criteria for Appointment as SA as per RBI guidelines.

Asset Size of StCB / CCB as on 31st March of Previous Financial Year	Minimum No. of Full-Time partners (FTPs) associated with the firm for a	Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partner(s)	Minimum No. of FTPs / Paid CAs with CISA / ISA / DISA Qualification	Minimum No. of years of Audit Experience of the firm	Out of (5), Minimum No. of years of Statutory Audit experience in StCBs/CCBs	Minimum No. of Professional Staff [Please refer to Note 4]
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	period of at least three years [Please refer to Note 1]	associated with the firm for a period of at least three years	[Please refer to Note 2]	[Please refer to Note 3]	[Please refer to Note 3]	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Above ₹15,000 crore	5	4	2	8	2	8
Above ₹1,000 crore and Up to ₹15,000 crore	3	2	1	4	1	4
Upto ₹1,000 crore	2	1	1*	1#	1#	2

* Preferably 1 FTP / Paid CA with DISA / CISA / ISA Qualification

Preferably 1 year experience

a. Notes

Note 1: There should be at least one-year of continuous association of partner(s) with the firm as on the date of shortlisting for considering them as FTPs (Full Time Partners).

FTP's association with the firm would mean exclusive association. The definition of 'exclusive association' will be based on the following criteria:

(a) The FTP should not be a partner(s) in other firm/s.

(b) She / He shall not be employed full time/part time elsewhere.

(c) She / He shall not practice 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 Board shall examine and ensure that the income of the partner(s) from the firm / LLP is adequate for considering him / her as full-time exclusively associated partner(s).

Note 2: CISA / ISA / DISA Qualification:

There shall be at least one-year continuous association of Paid CAs (with CISA / ISA / DISA qualification) with the firm, as on the date of shortlisting, to consider them as Paid CAs with CISA / ISA / DISA 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 / UCBs / NBFCs (including HFCs) / AIFIs / Statutory Auditor of StCBs / CCBs / RRBs. In case of merger and demerger of audit firms, merger effect will be given two years after merger, while demerger will be given effect immediately.

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 shall be at least one year of continuous association of professional staff with the firm, as on the date of shortlisting, for considering them as professional staff.

b. Additional Consideration

(i) The audit firm, proposed to be appointed as SA, 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 SA is in accordance 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(s) of a Chartered Accountant firm is a director in any bank, the said firm shall not be appointed as SA of that particular bank.

(v) The auditors should have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree / complexity of computerisation of the banks.

c. Continued Compliance with basic eligibility criteria

In case an audit firm (after appointment) does not comply with any of the eligibility norms (on account of resignation, death, etc., of any of the partner(s) / employee(s), action by Government Agencies / NFRA / ICAI / RBI / other Financial Regulators, etc.) as stated in B (ii) above, it shall promptly approach the bank with full details. Further, such audit firm shall take all necessary steps to become eligible within a reasonable time and, in any case, the audit firm should be in compliance 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, such as death of one or more partner(s) / employee(s), etc., which may render the firm ineligible with respect to one or more 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:

(1) Copy of the latest Constitution Certificate of the recommended audit firms.

(2) Whether the firm is a member of any network of audit firms or any partner(s) of the firm is a current partner in any other audit firm? If yes, details thereof.

(3) Whether the firm has been appointed as SA by any other StCB / CCBs in the current financial year? If yes, details thereof.

(4) Whether the firm has been debarred from taking up audit assignments by any regulator / Government agency? If yes, details thereof.

(5) Details of disciplinary proceedings, etc., against firm / any partner of the firm by any Financial Regulator / Government agency during last three years, both closed and pending.

(6) Declaration from the firm stating that firm complies with all eligibility norms prescribed by RBI regarding appointment / re-appointment of SA of StCBs / CCBs. None of the partners and members of their families have been declared as a wilful defaulter by any bank / financial institution.

E) Independence of Auditors:

1. Board of the bank shall monitor and assess the independence of auditors and conflict of interest, if any, in terms of the relevant statutory / regulatory provisions, Standards and best practices. Concerns, if any, raised by the Board / shall be reported to NABARD. The SA shall report concern(s), if any, regarding the conduct of Management such as non-availability of information / non-cooperation by the Management (which may hamper the audit process), etc., to the Board and also to NABARD.
2. Concurrent auditors of the bank shall not be considered for appointment as SA of the same bank. There shall be a minimum gap of one year between completion of one assignment and commencement of the other assignment.
3. The time gap between any non-audit work (services mentioned in Section 144 of the Companies Act, 2013, internal assignments, special assignments, etc.) undertaken by the SA for the bank shall be at least one year, both before appointment and after completion of tenure as SA. However, during the tenure as SA, based on the decision of the Board, an audit firm may provide such services to the appointing bank which may not normally result in conflict of interest*.

*A conflict would not normally be created in the case of the following special assignments (indicative list): i) Tax audit, tax representation and advice on taxation matters, (ii) Audit of interim financial statements, (iii) Issuance of certificates that are required to be made by the SA in compliance with statutory or regulatory requirements, and (iv) Reporting on financial information or segments thereof, may not be treated as conflict of interest.

The above restrictions shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partner(s), as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.

F) Review of performance of Statutory Auditors:

1. The Board of the bank shall review the performance of SA annually. Any serious lapse / negligence in discharging audit responsibilities, conduct issues on the part of the SA, or any other matter considered as relevant, shall be reported with the approval of the Board to NABARD within two months from the completion of the audit.
2. In the event of any violation of extant statutory / regulatory norms and lapses in carrying out audit assignments such as misstatement of financial statements, etc., by the SAs, they would be liable to be dealt with suitably under the relevant statutory / regulatory / supervisory framework.

G) Tenure and Rotation of Statutory Auditors (SAs):

1. SAs shall be appointed at a time for a period of one year only and shall be reappointed annually for the succeeding two years subject to them continuing to satisfy eligibility norms stated in these guidelines.
2. The premature removal of the SA shall require prior approval of RBI, the request should be submitted to the RBI with the approval of the Board.
3. An auditor / audit firm shall not be eligible for appointment / re-appointment in the same bank for six years (two tenures) immediately after completion of a full or part tenure. In case an auditor / audit firm has conducted audit of the bank for part-tenure (one year or two years) and then is not re-appointed for the remainder tenure, it shall not be eligible for re-appointment in the same bank for six years after completion of part-tenure.

H) Number of StCBs / CCBs an Audit firm can Audit:

1. An 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, NaBFID, NHB, EXIM Bank) or RBI], eight Urban Co-operative Banks (UCBs), eight Non-Banking Financial Companies (NBFCs), and five StCBs / CCBs (including not more than one StCB) in a year.

2. An audit firm cannot simultaneously take up statutory audit of both StCB and CCBs operating in the same State.
3. This limit is subject to the audit firm's compliance with the eligibility criteria and other conditions as prescribed in the point D of this policy and within the overall ceiling prescribed by any other statute or rules.
4. A group of audit firms having common partner(s) and / or under the same network shall be considered as one unit and considered for appointment as SA accordingly. The incoming audit firm shall not be eligible if such an audit firm is associated with the outgoing audit firm or is under the same network of audit firms.
5. Shared / Sub-contracted audit by any other audit firm or by an associate audit firm under the same network of audit firms, is not permitted.

I) Audit Fees and Expenses of Statutory Auditors (SAs)

1. As per RBI guidelines, the audit fees for SAs of all the banks shall be decided in terms of the relevant statutory / regulatory provisions and the Board of banks shall make recommendation to the competent authority as per the relevant statutory / regulatory instructions for fixing audit fees of SAs.

As per Rule No.30 of the Karnataka Cooperative Societies Rules 1960, the Statutory Audit Fee to the Audit Firm for conducting the Statutory Audit of the Cooperative Society is to be fixed in the Annual General Meeting of the society based on the working capital and business turnover of the society. The Director of Cooperative Audit in their circular vide No.ADF/ADC/52/201223 dated 21.09.2013 has issued guidelines by fixing the rate of audit fee based on the turnover of the society.

As RBI has not fixed the Audit Fee in their guidelines and it is instructed in the circular to decide the audit fee in terms of relevant statutory/ regulatory

provisions, Bank may continue to follow the above circular or any other circular issued by Director of Cooperative Audit from time to time.

2. The audit fees for SAs of banks 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.

J) Norms to be followed while making selection of branches for audit:

The selection of branches to be taken up for audit should be decided keeping in view the following guidelines.

1. The branches selected for audit should cover at least 70% of the total advances outstanding.
2. Top 20 branches to be selected in order of level of outstanding advances should be compulsorily included for audit.
3. Branches where fraud, embezzlements or transactions of a suspicious nature are suspected or have taken place may be taken up for audit, if not covered with reference to (2) above.
4. Branches where the loan, business growth is 50% and more over the preceding year should also be compulsorily taken for audit, if not covered with reference to criteria (2) and (3) above.
5. While deciding the branches and business coverage, the bank shall interalia consider bank-specific characteristics such as degree of centralisation of processes, need to address fraud risk and credit risk, adverse report from internal / concurrent auditors, whistle blower complaints, and unusual patterns / activity shown by internal MIS reports.

The bank shall also disclose on its website / public domain the extent of branch / business coverage under Statutory Audit for the respective year and the previous year.

K) Review of the Policy:

The policy shall be reviewed periodically as and when guidelines are revised by RBI in this regard. 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 Board approved policy shall be hosted in the official website/ public domain.

The Guidelines issued by RBI for Appointment of Statutory of the Bank are attached herewith as Annexure A.

***** END *****

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