

## **JANATA SAHAKARI BANK LTD ,PUNE**

### **POLICY ON APPOINTMENT OF STATUTARY AUDITORS OF BANK**

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## **Preface**

Policy on appointment of statutory auditors is framed based on the guidelines issued by RBI vide ref RBI/2021-22/25 Ref no .Dos. CO.ARG/SEC.01/08.91.001/2021-22 dated 27.04.2021 in respect of appointment of Statutory auditors of commercial banks ,UCB and NBFC. Bank is required to formulate board approved policy and formulate necessary procedure.

## **Applicability**

Policy is applicable for the appointment of statutory auditors by banks for the financial year 2021-22 and onwards. This policy will remain in force till any change is warranted upon the changed directions of the regulator. The policy shall be reviewed annually and shall be placed before audit committee of the board for recommendation. Board approved policy will be hosted on banks official website. In case of any disputes,matters will be decided according to RBI guidelines.

## **Prior Approval Of RBI**

Bank shall sent proposal for the appointment / reappointment of statutory auditors to the department of supervision after completion of statutory audit of reference year or before 31<sup>st</sup> July whichever is earlier.

## **Number of statutory Auditors and branch coverage**

- Bank should appoint a minimum of one audit firm (Partnership firm/LLPs) and maximum 4 audit firms for conducting statutory audit. It shall be ensured that joint auditors of the bank do not have any common partners and they are not under the same network of audit firms.
- Accordingly bank will decide on the number of statutory auditors based on a Board Approved Policy, 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.
- Statutory auditor shall visit and audit at least top 20 branches to be selected in order of the level of outstanding advances in such a manner as to cover minimum 15% of total gross advances of the bank.
- In addition, the bank shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

## **Eligibility criteria of auditors**

The bank is required to appoint audit firms as its statutory auditors fulfilling the eligibility norms as prescribed in **Annexure I**. In terms of extant RBI guidelines our bank comes under criteria of asset size of bank as on 31 st march of previous year above 1000 crore and upto 15000 crore.

### **Independence of Auditors**

1. 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 bank to the concerned SSM/RO of RBI.
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 SA shall approach the Board of the bank, under intimation to the concerned SSM/RO of RBI.
3. Concurrent auditors of bank shall not be considered for appointment as SA of the same bank.
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 SA for the bank or any audit /non audit work for its group entity should be at least one year, before or after its appointment as SA.

### **Professional Standards of SCA /SA**

The board shall review the performance of SA on an annual basis. Any serious irregularities in audit responsibilities shall be reported to RBI within 2 months from completion of annual audit. Such reports should be sent with the approval/recommendation of the Board with the full details of the audit firm.

### **Tenure And Rotation**

1. Bank will appoint the SA for a continuous period of three years each year. In case the performance of audit firms will found unsatisfactory bank can remove the audit firms during the above period only with the prior approval of the concerned office of RBI (Department of Supervision).
2. An audit firm would not be eligible for reappointment in the same bank for six years (two tenures) after completion of full or part of one term of the audit tenure.
3. One audit firm can concurrently take up statutory audit of maximum eight UCB 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. Bank will take appropriate confirmation /undertaking from the appointed firm.

**ANNEXURE I**

**A. Basic Eligibility**

<b>Asset Size of Entity as on 31st March of Previous Year</b>	<b>Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years  Note 1</b>	<b>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</b>	<b>Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification  Note 2</b>	<b>Minimum No. of years of Audit Experience of the firm  Note 3</b>	<b>Minimum No. of Professional staff  Note 4</b>
Above ₹ 1,000 crore and Up to ₹15,000 crore	33	22	11	88	122

**Note 1:**

For appointment as SA of Banks 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 UCB 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:

1. The full-time partner should not be a partner in other firm/s.

2. She/He should not be employed full time / part time elsewhere.
3. 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.
4. The board 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:**

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:**

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 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 shall 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 for bank with asset size above ₹1,000 crore 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 Entities where the accounting and business data reside in order to achieve audit objectives.

v. For audit of bank, 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 bank /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 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.

## **Annexure II**

### **Procedure for the appointment of SA**

1. The bank shall 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.

However, in case of reappointment of SAs by banks 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. Upon selection of SAs by the bank 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 SAs.
  
5. Bank shall 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 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.
  
6. Bank 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 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 SAs, bank shall indicate their
  1. Total asset size as on March 31st of the previous year (audited figures),
  2. Copy of Board/ACB Resolution
  3. Names of audit firms for appointment as SAs in the order of preference
  4. Duly filled in and signed Form B as mentioned in the circular
  5. Duly filled in and signed Form C as mentioned in the circular

Statutory auditors of the bank will have to submit following declarations prior to their appointment -

1. Declaration that your firm complies with the eligibility norms ( sec .72 – Qualification and disqualification of auditors ) prescribed in Multi State co-operative Act ,2020
2. Declaration stating that “ there are no adverse remarks /disciplinary actions taken in respect of professional conduct,etc on the records of Institute of Chartered Accountants Of India( ICAI)

3. Declaration stating that “ no disciplinary action taken by National Financial Reporting Authority (NFRA)
4. Declaration of fidelity ,secrecy,no disqualification as per Annexure A



**FORM B****Eligibility Certificate from (Name and Firm Registration Number of the firm)****A. Particulars of the firm:**

<b>Asset Size of Entity as on 31st March of Previous Year</b>	<b>Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) years</b>	<b>Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years</b>	<b>Number of Full Time Partners/ Paid CAs with CISA/ISA Qualification</b>	<b>Number of Years of Audit Experience#</b>	<b>Number of Professional staff</b>

\*Exclusively associated in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than ₹ 1,000 crore

#Details may be furnished separately for experience as SAs

**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 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 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 have been declared as willful 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 Commercial Banks (excluding RRBs) and UCBs regarding eligibility of audit firm proposed to be appointed as SA**

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.

1. 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.
2. The firm has no past association/association for -----years with the bank as SA
3. The bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of Commercial Banks (excluding RRBs)/UCBs.

Signature

(Name and Designation)

Date: