

# THE ACCOUNTANT GENERAL'S OFFICE EMPLOYEES' CO-OPERATIVE BANK LIMITED



## POLICY FOR APPOINTMENT OF STATUTORY AUDITORS

📍 Park House Road, Bengaluru – 560 001

☎ (080)-22265658

✉ [reachus@agsbank.com](mailto:reachus@agsbank.com)

🌐 [www.agsbank.com](http://www.agsbank.com)

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**1. Purpose**

1.1. As per RBI circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 and subsequent FAQ released, the Bank is required to formulate a Board Approved Policy and formulate necessary procedure there under to be followed for appointment of Statutory Auditor (SA). Apart from conforming to all relevant statutory/regulatory requirements in addition to the RBI circular, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

**2. Applicability**

2.1. This Policy will be applicable to the Bank for Financial Year 2021-22 and onwards in respect of appointment / reappointment of Statutory Auditors and provides flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

**3. Prior approval of Reserve Bank of India**

3.1. The Bank is required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of Statutory Auditors, on an annual basis. For the purpose, the Bank is required to apply to Regional Office of RBI (Department of Supervision), Bengaluru before 31st July of the reference year.

**4. Number of Statutory auditors**

4.1. Bank 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.

**5. Minimum eligibility criteria of Auditors**

5.1. The audit firm shall have a minimum of two full-time partners (FTPs) associated with the firm for a period of at least three years, of which at least one should be fellow Chartered Accountant (FCA) Partner associated with the firm for a period of at least three years.

- 5.2. There should be at least one-year continuous association of partners with the firm as on the date of short listing for considering them as full-time partners.
- 5.3. The firm should have minimum six years of Audit Experience and eight professional staff. The audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFIs. 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 shortlisting for considering them as professional staff for the purpose.
- 5.4. The priority will be given to firms having at least one Full Time Partners/ Paid CAs with CISA/ISA Qualification.
- 5.5. If any shortlisted audit firm undergoes change in its constitution after the date of short listing, the audit firm will take all necessary steps to become eligible within a reasonable time and in any case, audit firm should be complying with above norms before the following events:
- 5.5.1. Appointment of the audit firm by the Bank as SA. For this, the audit firm while giving consent to the Bank for appointment may ensure that it complies with the norms.
- 5.5.2. Before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit. In case any audit firm (after appointment) does not comply with any one of the norms (on account of resignation, death etc. of any partners, employees etc), it may promptly approach the Bank with full details. The Bank in turn will approach RBI.
- 5.5.3. The firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of Kannada.
- 5.5.4. 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. However, audit firm can continue to undertake statutory audit of other Entities.
- 5.6. Continued Compliance with basic eligibility criteria**
- 5.6.1. 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.

- 5.6.2. 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. Audit Committee of the Board (ACB) shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard may be flagged by the ACB to the Board of Directors of the Bank and concerned Senior Supervisory Manager (SSM)/Regional Office (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 Statutory Auditors shall approach the Board/ACB of the Bank, under intimation to the concerned SSM/RO of RBI.
- 6.3. Concurrent auditors of the Bank should not be considered for appointment as Statutory Auditors. The audit of the Bank and any entity with large exposures to the Bank 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 Statutory 5 Auditors for the Bank should be at least one year, before or after its appointment as Statutory Auditors (Applicable from FY 2022-23 as stated in RBI FAQ released on the subject). However, during the tenure as Statutory Auditor, an audit firm may provide such services to the Bank, which may not normally result in a conflict of interest, and Bank may take their 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 Auditors.**

- 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 of Bank 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 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, Bank will have to appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, 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.
- 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 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 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. Procedure for selection and appointment of Statutory Auditors**

- 9.1. The audit firms have to submit a certificate, along with relevant information as per Form C to the RBI circular referred to above to the effect that they comply 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 SA of the Bank, under the seal of the audit firm.
- 9.2. Based on the above parameters, Bank will prepare a list of shortlisted audit firms. Willingness in writing from the above shortlisted audit firm(s) will be obtained to

accept the assignment of Statutory Audit work of the Bank. At the time of obtaining the willingness letters from such shortlisted audit firms, there will be no commitment on the part of our Bank to allot the Statutory Audit work to the auditors and such shortlisted audit firms are free to give similar willingness to multiple banks/UCBs, if approached by them. The list of shortlisted audit firms will be placed before Board. The Board will approve three-five audit firm(s), in order of preference. The number of audit firms approved should be adequate enough, to take care of the situation, where some firms may not give consent.

- 9.3. On due approval by the Board, our Bank will approach the audit firms to obtain their consent in writing strictly in order of preference. The audit firm should give their consent in writing for consideration of appointment in our Bank for the particular year and the subsequent continuing years subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability. If the approached audit firm does not give consent, the bank will approach the next audit firm in order of preference for obtaining consent till the time the number of audit firms which have given the consent equals to two for the particular year.
- 9.4. The consent letter should clearly state that the selection of the audit firm as Statutory Auditor is subject to approval of RBI and any force majeure events and, in such cases, the audit firms will not have any claim against our Bank and RBI. The appointment of SA is subject to complying with the stipulated norms on eligibility and guidelines issued by RBI from time to time. The audit firm should declare that consent is given for 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. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. The consent given by an audit firm will be treated as irrevocable and request, if any, from audit firms for changing the bank, after giving its consent to our bank will not be entertained.
- 9.5. The list of such selected firms who have given consent for appointment as statutory auditors in our Bank will be placed before the Board for their concurrence before it is forwarded to RBI for final approval.
- 9.6. Bank 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.

**10. Other Guidelines:**

In order to protect the independence of the auditors/audit firms, Bank will make the appointment of SA for a continuous period of three years subject to the firms satisfying the eligibility norms each year. Bank will not remove the audit firm during the above period without the prior approval of the Reserve Bank of India.

**10.1. Undertakings / Declarations to be obtained from firm**

Following declarations / undertakings will be obtained from the firm selected

- 10.1.1. At the time of acceptance of appointment as Statutory Auditor of our Bank, the firm has to relinquish any internal assignment allotted to them in our Bank. Their associate firms or sister concerns are also disqualified for inter audit or for any special assignment of our Bank.
- 10.1.2. A suitable undertaking from the firm to the effect that the Audit will be carried out by their own staff and they will not subcontract the audit work.
- 10.1.3. None of the disqualifications under section 141 of the Companies Act, 2013 applies to them and they are qualified for appointment as Statutory Auditors of the Bank.
- 10.1.4. The audit firm is not under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.
- 10.1.5. 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.
- 10.1.6. 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 wilful defaulters by any Bank or financial institution.
- 10.1.7. Associate firms or sister concerns of Statutory audit firm is disqualified for internal assignment where the main firm/partners are allotted Statutory Audit in a particular year.

**10.2. Number of Assignment:** 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. The limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm.



- 10.3. 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.
- 10.4. Remuneration:** The Remuneration to the SA for Audit, TA/DA and other incidental expenses will be paid as per the guidelines issued by RBI from time to time. Efforts to be made to keep TA/DA and other incidental expenses at minimum possible in line with RBI guidelines.
- 10.5. Removal:** An audit firm appointed as Statutory Auditor may be removed during its tenure with the prior approval of the Reserve Bank of India. The Board of Directors of the Bank will be the competent authority to recommend removal of any SA to RBI.

#### **11. Review of the Policy**

- 11.1.** The policy shall be reviewed annually and shall be placed to Audit Committee of the Board (ACB) for recommendation and Board of Directors for approval. The Board approved Policy will be hosted on Banks official website.

**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>

**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 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 Commercial Banks (excluding RRBs) and UCBs regarding eligibility of audit firm proposed to be appointed as SCA/SA**

1. 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  
(Name and Designation)  
Date: