

POLICY ON APPOINTMENT OF STATUTORY AUDITORS

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Preamble

The Statutory Audit function has paramount significance. The Statutory Audit is mandatory by RBI, relevant provisions of the Multistate Co-operative Societies Act. 2002. This Policy shall consolidate all aspects of Statutory Auditors appointment.

1. Purpose of the Policy

The purpose of this policy is to provide guidance on eligibility and procedures for the appointment/reappointment of Statutory Auditors of the bank in line with regulatory guidelines issued by RBI.

2. Scope of Application

This Policy is applicable for appointment of Statutory Auditors only.

3. Objectives of the Policy

The purpose of the policy document is to provide guidance on the appointment of Statutory Auditors.

4. Regulatory Guidelines by RBI

This Policy has been made incorporating the latest guidelines for appointment of Statutory Auditors (SA's) of UCB's (RBI/2021-22/25, Ref.No.DoS.CO. ARG/SEC. 01/08.91.011/2021-22) dated 27th April, 2021 which has superseded all previous guidelines issued on the subject.

5. Applicability of these RBI Guidelines

These guidelines are made applicable for uniformly for all UCB's from the financial year 2021-22 and onwards in respect of appointment/ reappointment of Statutory Auditors.

6. Prior Approval of RBI

Bank has to take prior approval of RBI (Department of Supervision) for appointment/reappointment of Statutory Auditors, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, we will apply to Department of Supervision, RBI before 31st July of the reference year. II. Since we are covered under Mumbai Region we shall approach the Central Office of RBI (Department of Supervision).

7. Number of Statutory Auditors and Branch Coverage

As per the RBI Circular at point No. 4, there is no condition of "Joint Audit" by Audit firms for us since these provisions are applicable to entities with asset size exceeding Rs. 15,000crores. Therefore, we shall appoint one audit firm only as the "Statutory Auditors". Also, there is no separate concept of "Statutory Branch Auditors" for UCB's. The Statutory Auditors so appointed will ensure that 100% coverage of all branches depending on geographical spread, size, operations, risks involved, etc. Core Banking Solutions has already been implemented on all branches and they are connected to the Head Office. There are no units outside the purview of CBS and therefore coverage of branches will be necessary. The audit reports for all branches along with LFAR and Annexures wherever applicable shall be submitted by the Statutory Auditors along with the Consolidated Audit Report of the bank within mutually decided timelines.

8. Eligibility Criteria for Appointment as Statutory Auditor

- A. Basic eligibility as per RBI guidelines spelt out in Annex I, we are covered under the second category above Rs. 1,000 crores and up to Rs. 15,000 crores and therefore those criteria shall apply.

Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years. Note 1	3
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	2
Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification. Note 2	1
Minimum No. of years of Audit Experience of the firm. Note 3	8
Minimum No. of Professional staff. Note 4	12

Notes:

- i. 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 and at least two Partners of the firm shall have continuous association with the firm for at least 10 years.

- ii. For all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size above 1,000crores, 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:
 - (a) The full-time partner should not be a partner in other firm/s.
 - (b) She /He should not be employed full time / part time elsewhere.
 - (c) 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.
 - (d) The Board/ACB/LMC 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.
- iii. **CISA/ISA Qualification:** Priority will be given 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.
- iv. **Audit Experience:** For UCBs audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ AIFs. 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.
- v. **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 shortlisting for considering them as professional staff for the purpose.

B. Additional Consideration

- i. The audit firm, proposed to be appointed as Statutory Auditors, 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. We will 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 any Entity, the said firm shall not be appointed as Statutory Auditors of any of the group entities of our bank.
- v. The auditors for banks like us with asset size above ₹1,000 crores 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. The audit 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 (i.e Marathi).

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 us 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.

9. Tenure and Rotation

- I. The Statutory Auditor once appointed shall be for a continuous period of three years, subject to the firms satisfying the eligibility norms each year and approval from RBI. Further, we 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.
- II. An audit firm would not be eligible for reappointment with us for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other Entities.
- III. Ceiling limits: One audit firm can concurrently take up statutory audit of a maximum of 4(four) Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], 8 (eight) UCBs and 8 (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.

Note:

- (a) For clarity, the limits prescribed for UCBs exclude audit of other Co-operative Societies by the same audit firm.
- (b) 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.
- (c) Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not allowed.
- (d) 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.

10. Audit Fees & Expenses

- I. The Statutory Auditors will be paid fees for audit as per resolution passed in AGM. If the members in AGM, authorises the Board, then the Board will be authorised to finalise on Audit Fees and reimbursement of expenses. No advance fees shall be paid before commencement or during the course of Statutory Audit.

- II. Applicable GST shall be paid as per original Invoice and TDS at prescribed rates will be deducted before making the final payment.
- III. Regarding travelling & halting allowance, actual expenditure or 12% of audit fee whichever is less shall be payable to auditor.
- IV. The Audit Fees shall be released only after submission of Audit reports at all the prescribed authorities within scheduled timelines.

11. Independence of Auditors

- I. 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.
- II. 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 Statutory Auditors shall approach the Board/Audit Committee of the bank, under intimation to the concerned SSM/RO of RBI.
- III. Concurrent auditors of the bank will not be considered for appointment as Statutory Auditors. The audit of the bank and any borrower with large exposure to the bank for the same reference year will also be explicitly factored in while assessing independence of the auditor.

12. Professional Standards of Statutory Auditors

- I. The Statutory Auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- II. The Board/Audit Committee 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 will be reported to RBI within two months from completion of the annual audit. Such reports will be sent with the approval/recommendation of the Board/Audit Committee with the full details of the audit firm.
- III. In the event of lapses in carrying out audit assignments resulting in misstatement of our financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of

the Statutory Auditors; they would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

13. Process Flow for shortlisting/ appointment of Statutory Auditors

- I. We 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 would not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.
- II. We shall place the name of shortlisted audit firms, in order of preference, before our Board/ ACB for selection as Statutory Auditors. Upon selection of Statutory Auditors by the bank in consultation with our Board and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of Statutory Auditors.
- III. We shall obtain a certificate, along with relevant information as per requirement, from the audit firm(s) proposed to be appointed as Statutory Auditors by the Entity to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. Additionally, the audit firms will also have to submit relevant details of Partners as well as the Professional staff that will be involved during the course of such Statutory Audit. Such certificate will have to be signed by the main partner/s of the audit firm proposed for appointment of Statutory Auditors of our bank, under the seal of the said audit firm.
- IV. While approaching the RBI for its prior approval for appointment of Statutory Auditors, we will indicate our total asset size as on March 31st of the previous year (audited figures), and forward a copy of Board/ACB Resolution recommending names of audit firms for appointment as Statutory Auditors in the order of preference and also furnish information

as per requisite forms to facilitate expeditious approval of appointment/re-appointment of the concerned audit firm.

- V. We shall communicate only the Audit firms approved by RBI on their appointment as Statutory Auditors of our Bank.
- VI. Appointment letters will be issued to SAs, after receipt of approval from RBI and AGM.

14. Review of the Policy

The Audit Committee of the Board and Board of the Bank may review the policy as and when required. In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy, till the time Policy is suitably amended. The Bank reserves the right to amend the policy from time to time.

- 15. Contact Details Audit firms desirous of making applications for Statutory Auditors shall ensure, they check in detail provisions of this Policy hosted on our webpage as well as ensure compliance of detailed guidelines as per RBI Circular dated 27th April, 2021.

<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12079&Mode=0>

The applications complete in all aspects shall be addressed to:

The Chairman,
BharatiSahakariBank Ltd., Pune
(Multi-State Scheduled Bank)
1st floor, BharatiVidyapeethBhavan,
Shastri Road,
Pune. – 411 030
Maharashtra.

(As extracted from RBI Circular)

Form B

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

Particulars of the firm:

Asset Size of Entity as on 31st 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

* 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 SCAs/SAs and SBAs

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 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 Partner)

Date: -

(As extracted from RBI Circular)

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**

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:-