

# THE NATIONAL CO-OPERATIVE BANK LTD.,

ADMINISTRATIVE OFFICE  
NO.73/1, GANDHI BAZAAR MAIN ROAD  
BENGALURU – 560 004



## POLICY FOR APPOINTMENT OF STATUTORY AUDITORS OF THE BANK

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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, the Bank is required to formulate a Board Approved Policy and formulate necessary procedure thereunder to be followed for appointment of Statutory Auditor (SA). Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, 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 2022-23 and onwards in respect of appointment/reappointment of Statutory Auditors.

## **3. PRIOR APPROVAL OF RBI**

- 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 The Department of Supervision, Central Office, RBI, Mumbai before 31<sup>st</sup> July of the reference year.

## **4. NUMBER OF STATUTORY AUDITORS**

- 4.1. The Bank shall decide on the number of SAs after 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.
- 4.2. The statutory audit shall be conducted by a Partnership firm/ Limited Liability Partnership (LLPs).

## 5. COVERAGE OF AUDIT

5.1. The Statutory Auditors shall visit and audit all Branches. In addition, the Bank shall ensure adherence to the provisions of Sec 143(8) of the Companies Act, 2013 regarding of audit of accounts of all branches.

## 6. MINIMUM ELIGIBILITY CRITERIA OF AUDITORS

6.1. The Bank shall adhere to the minimum eligibility criteria as mentioned in the RBI circular for appointment of the Statutory Auditors considering the asset size of the Bank, as given below:

<b>Asset size of the Bank as on 31st March of the previous year</b>	<b>Min No. of Full Time partners (FTPs) associated with the firm for a period of at least three (3) years</b> <b>Note 1</b>	<b>Out of 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</b> <b>Note 2</b>	<b>Minimum No. of years of Audit Experience of the firm</b> <b>Note 3</b>	<b>Minimum No. of Professional staff</b> <b>Note 4</b>
Above ₹ 1000 crore and upto ₹ 15,000 crore	3	2	1	8	12

## 7. INDEPENDENCE OF AUDITORS

7.1. 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.

- 7.2. 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.
- 7.3. 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.
- 7.4. 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 Auditors 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 Statutory Auditors. 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.
- 7.5. The restrictions as detailed in para 7.3 and 7.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

## **8. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS.**

- 8.1. 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.

## **9. TENURE AND ROTATION**

- 9.1. In order to protect the independence of the auditors/audit firms, Bank will have to appoint the Statutory Auditors for a continuous period of two / 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.

- 9.2. An audit firm would not be eligible for reappointment in the Bank for four / six years (two tenures) after completion of full or part of one term of the audit tenure.

## **10. AUDIT FEES AND EXPENSES**

- 10.1. The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions.
- 10.2. The audit fees for Statutory Auditors for the Bank 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.
- 10.3. The ACB shall make recommendation to the RBI for fixing audit fees of Statutory Auditors.

## **11. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS**

- 11.1. The Bank shall have in place detailed procedural guidelines, in conformity with the instructions under this policy and all relevant statutory/regulatory requirements for appointment of Statutory Auditors.

## **12. General process to be followed:**

- The Bank shall obtain a certificate, along with relevant information as per [Form B](#) (Annexure I), from the audit firm(s) proposed to be appointed/ reappointed as SAs, 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/ reappointment of SAs of the Bank, under the seal of the said audit firm.
- The 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](#) (Annexure II), stating that the audit firm(s) proposed to be appointed as Statutory Auditor, by them comply with all eligibility norms prescribed by RBI for the purpose.
- The Statutory Auditors are required to declare the list of their major corporate clients to avoid conflict of interest. In case any of the Statutory Auditors is auditors

of a corporate client who is assisted by the Bank, then files of such corporate client shall be audited by the other Statutory Auditor.

**13. REVIEW OF THE POLICY**

The Policy shall be updated at least once in two /three years by the Internal Audit Department. Going forward, the same shall be placed to Audit Committee of Executives for review and post review by Audit Committee of Executives, the policy shall be placed to Audit Committee of the Board for recommendation and Board for approval.

**14. The Board approved policy will be hosted on Bank's official website.**