



**SARASWAT CO-OPERATIVE BANK LIMITED  
(SCHEDULED BANK)**

**Policy on Appointment of Statutory Auditors**

**Version 1.0**

## DOCUMENT DETAILS

<b>Version No</b>	<b>Approved by</b>	<b>Approval date</b>	<b>Document owner</b>	<b>Custody of controlled copy</b>
01/2021	Board of Directors	May 14, 2021	Internal Audit Department	Head of Internal Audit Dept.

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## 1. Background

Reserve Bank of India (RBI) vide their letter No. RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27/04/2021 issued guidelines for appointment of Statutory Auditors of the Bank. The following guidelines are issued under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs. These guidelines supersede all previous guidelines issued on the subject.

## 2. Prior Approval of RBI

Bank will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of Statutory Auditors of the Bank, on an annual basis in terms of the above-mentioned statutory provisions.

For the purpose, Bank shall approach the Central Office of RBI (Department of Supervision), RBI before 31st July of the reference year.

## 3. Number of Statutory Auditors and Branch Coverage

- 3.1. The statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)] after considering the extent of operations and asset size of the Bank. This will be subject to review in future based on the experience, change in asset size and Bank operations.
- 3.2. It shall be ensured that joint auditors of the Bank do not have any common partners and they are not under the same network, as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014, of audit firms. Further, the Bank may finalise the work allocation among Statutory Auditors of the Bank, before the commencement of the statutory audit, in consultation with auditors.
- 3.3. Statutory Auditors of the Bank 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 a minimum of 15% of total gross advances of the Bank.

## 4. Norms on Eligibility, Empanelment and Selection of Statutory Auditors

The Eligibility norms (as advised by Reserve Bank of India ) are as under:

### A. Basic Eligibility

Eligibility parameters	
Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years - <b>Note 1</b>	5
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	4
Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification – <b>Note 2</b>	2
Minimum No. of years of Audit Experience of the firm- <b>Note 3</b>	15
Minimum No. of Professional staff- <b>Note 4</b>	18

**Note 1:** 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. Further, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

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:

- i. The full-time partner should not be a partner in other firm/s.
- ii. She/He should not be employed full time / part time elsewhere.
- iii. 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.
- iv. The Board/ACB 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 short listing 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 shortlisting for considering them as professional staff for the purpose.

## **B. Additional Consideration**

(i) The audit firm, proposed to be appointed as Statutory Auditors for the 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 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 the Bank, the said firm shall not be appointed as Statutory Auditors of the Bank.

(v) The auditors 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 Bank where the accounting and business data reside in order to achieve audit objectives.

(vi) Auditors 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 UCB/branch of the UCB 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 31<sup>st</sup> 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.

### **d. Additional Information from the Statutory Auditors**

Bank to obtain following information from the Statutory Auditors:

- Copy of Constitution Certificate.
- 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.
- 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.
- Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.

## **E. Declaration from the Statutory Auditors**

- Declaration form the Statutory Auditors stating that the firm complies with all eligibility norms prescribed by RBI regarding appointment of Statutory Auditors shall be obtained.
- A suitable undertaking from the firm(s) to the effect that the Audit will be carried out by their own staff and they will not subcontract the audit work.
- None of the disqualifications under section 141 of the Companies Act, 2013 applies to them and they are qualified for appointment as Statutory Auditor of the Bank.
- 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 willful defaulters by any Bank or financial institution.
- In the event of acceptance of the appointment as a statutory auditor of the Bank, the audit firm will have to relinquish all the internal assignments in our Bank.
- 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.
- Associate firms or sister concerns of statutory audit firm are disqualified for any internal assignment where the main firm/partners are allotted Statutory Audit in a particular year.

## **5. Independence of the Statutory Auditor**

- 5.1. 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.
- 5.2. In case of any concern with the Management 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, under intimation to the concerned SSM/RO of RBI. Board shall be directly approached only when the auditors notice a matter of concern involving any member of the ACB.
- 5.3. Concurrent auditors should not be considered for appointment as Statutory Auditors. The audit for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 5.4. 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 or any audit/non-audit works should be at least one year, before or after its appointment as Statutory Auditors. However, during the tenure as Statutory Auditors, an audit firm may provide such services which may not normally result in a conflict of interest\*, and Bank may take own decision in this regard, in consultation with the Board/ACB.

\*A conflict would not normally be created in the case of the following special assignments (indicative list):

- Tax audit, tax representation and advice on taxation matters.
- Audit of interim financial statements.
- Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
- Reporting on financial information or segments thereof

## **6. Professional Standards of Statutory Auditors**

- 6.1. The Statutory Auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 6.2. The ACB 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.
- 6.3. In the event of lapses in carrying out audit assignments resulting in misstatement of the Bank's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the Statutory Auditors in relation to the Bank, the Statutory Auditors would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

## **7. Tenure and Rotation**

- 7.1. In order to protect the independence of the auditors/audit firms, Bank shall appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.
- 7.2. An audit firm would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure. In case an audit firm has conducted audit for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment for six years from completion of part-tenure.
- 7.3. 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 and within overall ceiling prescribed by any other statutes or rules.

For clarity,

1. the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm.
2. 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 Statutory Auditors accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible.

3. 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.

## **8. Audit Fees and Expenses**

- 8.1. The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions.
- 8.2. The audit fees for Statutory Auditors 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.
- 8.3. The Board/ACB of Bank shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of Statutory Auditors.

## **9. Statutory Audit Policy and Appointment Procedure**

- 9.1. Bank shall host appointment of Statutory audit Policy, duly approved by Board/ACB, on Bank's official website/public domain and follow necessary formulated procedure there under for appointment of Statutory Auditors of the Bank. Bank shall afford necessary transparency and objectivity for most key aspects of this important assurance function.
- 9.2. The Bank 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.
- 9.3. Based on the eligibility norms mentioned in 4.A on this policy, Bank shall prepare a list of shortlisted audit firms. Bank shall obtained willingness in writing to accept the assignment of Statutory Audit work of the Bank from the above shortlisted audit firm(s). 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.
- 9.4. The name of shortlisted audit firms, in order of preference, shall be placed before ACB and Board for their concurrence before it is forwarded to RBI for final approval.
- 9.5. After ACB & Board approval, Bank shall obtain a certificate, along with relevant information as per Form B from the audit firm(s) proposed to be appointed as Statutory Auditors of 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 Statutory Auditors of the Bank under the seal of the said audit firm.
- 9.6. 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 Statutory Auditors by them comply with all eligibility norms prescribed by RBI for the purpose.



- 9.7. On selection of Statutory Auditors by the Bank in consultation with ACB & Board and after verifying compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of Statutory Auditors of the Bank.
- 9.8. While approaching the RBI for its prior approval for appointment of Statutory Auditors, Bank shall indicate their total asset size as on March 31st of the previous year (audited figures), 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 Form B and Form C as mentioned above, to facilitate expeditious approval of appointment/re-appointment of the concerned audit firm.
- 9.9. Resolution for appointment of Statutory Auditor shall be passed in Annual General Meeting after RBI approval for selected Audit firms.

#### **10. 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.

#### **11. Removal and Discontinuation**

An audit firm appointed as Statutory Auditor can be removed during its tenure with the prior approval of Reserve bank of India. The Board of Directors of the Bank will be the competent authority to recommend removal of any Statutory Auditors to Reserve Bank of India (Department of Supervision), as applicable for prior approval for appointment.

#### **12. Redressal of Grievances**

Head of Internal Audit with consultation with Managing Director under guidance of ACB will dispose off grievances/ complaints (if any) with regard to the selection of Statutory Auditors.

#### **13. RBI Guidelines & Validity of policy**

This policy is valid for 3 years. However, the policy shall review periodically as and when guidelines are revised by RBI in this regard. This policy shall remain in force till the next review.

The modification/changes, if any, made by RBI in norms/criteria/procedure from time to time shall construe to be part of our policy.

Guidelines for Appointment of Statutory of the Bank are attached herewith as Annexure A.

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## Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)

RBI/2021-22/25

Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22

April 27, 2021

The Chairman/Managing Director/Chief Executive Officer, All

Commercial Banks (Excluding RRBs)

All Primary (Urban) Co-operative Banks (UCBs)

All Non-Banking Finance Companies (NBFCs) (Including Housing Finance Companies)

Madam/Dear Sir,

### 1. Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)

The following guidelines are issued under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs. These guidelines supersede all previous guidelines (list enclosed at Table 1) issued on the subject.

### 2. Applicability:

2.1 These guidelines will be applicable to the **Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs (hereinafter referred to as the Entities)** for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs<sup>1</sup> of the Entities. However, non-deposit taking NBFCs with asset size<sup>2</sup> below Rs.1,000 crore have the option to continue with their extant procedure.

2.2 As RBI guidelines regarding appointment of SCAs/SAs shall be implemented for the first time for UCBs and NBFCs from FY 2021-22, they shall have the flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

<sup>1</sup> SCAs in case of the Entities which appoint separate Statutory Branch Auditors (SBAs) and SAs in case of all other Entities

<sup>2</sup> For the purpose, asset size means total assets.

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हिंदक आसान है, इसका प्रयोग बढाइए



### 3. Prior Approval of RBI:

3.1 Commercial Banks (excluding RRBs) and UCBs will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SCAs/SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, they should apply to Department of Supervision, RBI before 31<sup>st</sup> July of the reference year and the Public Sector Banks (PSBs) shall approach RBI within one month of receipt of list of eligible audit firms from RBI.

3.2 For the purpose, all Commercial Banks (excluding RRBs) in India and UCBs under Mumbai Region shall approach the Central Office of RBI (Department of Supervision). Other UCBs shall approach the concerned Regional Office of RBI (Department of Supervision), under whose jurisdiction their Head Office is located.

3.3 While NBFCs do not have to take prior approval of RBI for appointment of SCAs/SAs, all NBFCs need to inform RBI (to the same office as applicable to UCBs, as stated in Para 3.2 above) about the appointment of SCAs/SAs for each year by way of a certificate in **Form A** within one month of such appointment.

### 4. Number of SCAs / SAs and Branch Coverage

4.1 For Entities with asset size of Rs.15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. All other Entities 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<sup>3</sup> 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.

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<sup>3</sup> As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014



Considering the above factors and the requirements of the Entity, the actual number of SCAs/SAs to be appointed shall be decided by the respective Boards/LMC, subject to the following limits:

Sl. No.	Asset Size of the Entity	Maximum number of SCAs/SAs
1.	Upto Rs.5,00,000 crore	4
2.	Above Rs. 5,00,000 crore and Upto Rs. 10,00,000 crore	6
3.	Above Rs. 10,00,000 crore and Upto Rs. 20,00,000 crore	8
4.	Above Rs. 20,00,000 crore	12

The above limits have been prescribed to ensure that the number of SCAs/SAs appointed by the Entities are adequate, commensurate with the asset size and extent of operations of the Entities, with a view to ensure that audits are conducted in a timely and effective manner. This will be subject to review in future based on the experience.

4.3 In terms of RBI guidelines on 'Norms on eligibility, empanelment and selection of Statutory Branch Auditors in Public Sector Banks (PSBs)', PSBs shall allot the Top 20 branches (to be selected strictly in order of the level of outstanding advances) to SCAs in such a manner as to cover a minimum of 15% of total gross advances of the bank by SCAs. For other Entities (excluding Payment Banks and Core Investment Companies), SCAs/SAs shall visit and audit at least the Top 20 branches/Top 20% of the branches of the Entities (in case of Entities having less than 100 branches), to be selected in order of the level of outstanding advances, in such a manner as to cover a minimum of 15% of total gross advances of the Entities. In addition, the banking companies and NBFCs shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

## 5. Eligibility Criteria of Auditors

Each Entity is required to appoint audit firm(s) as its SCA(s)/SA(s) fulfilling the eligibility norms as prescribed in [Annex I](#).

## 6. Independence of Auditors

6.1 For Commercial Banks (excluding RRBs) and NBFCs<sup>4</sup>, the Audit Committee of the Board (ACB)/ LMC 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

<sup>4</sup> For the NBFCs which are required to constitute an Audit Committee of the Board (ACB) in terms of Para 70 (1) of Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 to be read with Section 177 of the Companies Act, 2013.



in this regard may be flagged by the ACB/LMC to the Board of Directors of the Commercial Bank (excluding RRBs)/NBFC and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

For UCBs/remaining NBFCs, the 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 UCB/NBFC to the concerned SSM/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 SCAs/SAs shall approach the Board<sup>5</sup>/ACB/LMC of the Entity, under intimation to the concerned SSM/RO of RBI.

6.3 Concurrent auditors of the Entity should not be considered for appointment as SCAs/SAs of the same Entity. The audit of the Entity and any entity with large exposure<sup>6</sup> to the Entity 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 SCAs/SAs for the Entities or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as SCA/SA, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest<sup>7</sup>, and Entities may take their own decision in this regard, in consultation with the Board/ACB/LMC.

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<sup>8</sup> of audit firms or any other audit firm having common partners.

## **7. Professional Standards of SCAs/SAs**

7.1 The SCAs/SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

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<sup>5</sup> Board shall be directly approached only when ACB is non-existent in the Entity or the auditors notice a matter of concern involving any member of the ACB.

<sup>6</sup> As defined in RBI instructions on 'Large Exposures Framework'

<sup>7</sup> 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) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements. (iv) reporting on financial information or segments thereof

<sup>8</sup> As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014



7.2 The Board<sup>9</sup>/ACB/LMC of Entities shall review the performance of SCAs/SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SCAs/SAs or any other matter considered as relevant shall be reported<sup>10</sup> to RBI within two months from completion of the annual audit. Such reports should be sent with the approval/recommendation of the Board/ACB/LMC, 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, Entities will have to appoint the SCAs/SAs for a continuous period of three years<sup>11</sup>, subject to the firms satisfying the eligibility norms each year. Further, Commercial Banks (excluding RRBs) and UCBs 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, as mentioned at Para 3.2 of this circular. NBFCs removing the SCAs/SAs before completion of three years tenure shall inform concerned SSM/RO at RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.

8.2 An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure<sup>12</sup>. However, audit firms can continue to undertake statutory audit of other Entities.

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

<sup>9</sup> Board shall review the performance of SCAs/SAs in case ACB is non-existent in the Entity.

<sup>10</sup> [Circular dated March 26, 2004](#) on 'Assessment of Performance of Statutory Auditors' addressed to the PSBs has been superseded by this circular.

<sup>11</sup> Office of C&AG will continue to appoint Statutory Auditors of the Government Companies and Government Controlled Other Companies under Section 139 (5) and 139 (7) of the Companies Act, 2013. Such Companies are also subject to supplementary/test audit by the Office of C&AG under Section 143 (6) and (7) of the said Act. Such Entities will be guided by the C&AG Guidelines regarding tenure and rotation policy. However, such appointments for Jammu & Kashmir Bank Ltd. and India Post Payments Bank Ltd. will be done by the Office of C&AG with RBI's concurrence. Further, the audit firms which have already completed tenure of 1 year or 2 years with any Entity may be permitted to complete the balance tenure only, i.e. 2 years and 1 year respectively, if they fulfill the eligibility norms on an annual basis.

<sup>12</sup> In case an audit firm has conducted audit of any Entity for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the same Entity for six years from completion of part-tenure.



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. Audit Fees and Expenses**

9.1 The audit fees for SCAs/SAs of all the Entities shall be decided in terms of the relevant statutory/regulatory provisions. Public Sector Banks will continue to be guided by relevant RBI instructions in the matter.

9.2 The audit fees for SCAs/SAs of all the Entities 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.

9.3 The Board/ACB/LMC of Entities shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

## **10. Statutory Audit Policy and Appointment Procedure**

10.1 Each Entity shall formulate a Board/LMC Approved Policy to be hosted on its official website/public domain and formulate necessary procedure there under to be followed for appointment of SCAs/SAs. 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.

10.2 Guidelines on minimum procedural requirements are given at [Annex II](#).

Yours faithfully,

(Ajay Kumar Choudhary)  
Chief General Manager-In-Charge



## ANNEX I

### Eligibility Criteria for Appointment as SCA/SA

#### A. Basic Eligibility

Asset Size of Entity as on 31st March of Previous Year	Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years  Note 1	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	Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification  Note 2	Minimum No. of years of Audit Experience of the firm  Note 3	Minimum No. of Professional staff  Note 4
Above Rs.15,000 crore	5	4	2	15	18
Above Rs. 1,000 crore and Up to Rs.15,000 crore	3	2	1	8	12
Upto Rs.1,000 crore	2	1	1*	6	8

\* Not mandatory for UCBs/NBFCs with asset size of upto Rs. 1,000 crore.

**Note 1:** There should be at least one-year continuous association of partners with the firm as on the date of empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as full time partners. Further, for appointment as SCAs/SAs of all Commercial Banks (excluding RRBs), and other Entities with asset size above Rs. 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size above Rs. 1,000crore, 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) In case of PSBs, the income of the partner from the firm/LLP should not be below the threshold limits prescribed by the Office of C&AG for the purpose of consideration as full-time partners for appointment as auditors of Public Sector Undertakings. For other Entities, 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.

**Note 2: CISA/ISA Qualification:**

For UCBs and NBFCs with asset size upto Rs. 1,000 crore, there is no minimum requirement in this regard. However, such Entities may give priority 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

**Note 3: Audit Experience:**

For Commercial Banks (excluding RRBs), audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs. For UCBs and NBFCs, 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 PSBs)/ shortlisting (for other Entities) for considering them as professional staff for the purpose.

## **B. Additional Consideration**

- (i) The audit firm, proposed to be appointed as SCAs/SAs for Entities, 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 Entities shall ensure that appointment of SCAs/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) If any partner of a Chartered Accountant firm is a director in any Public Sector Bank (PSB), the said firm shall not be appointed as SCA/SA of any PSB. Further, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SCA/SA of any of the group entities<sup>13</sup> of that Entity.

(v) The auditors for Entities with asset size above Rs.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.

(vi) For audit of UCBs, 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 UCB/branch of the UCB 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 Entity 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 31<sup>st</sup> 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.

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<sup>13</sup> For the purpose of this circular, Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.



## ANNEX II

### Procedure for Appointment of SCAs/SAs

1. The Entities shall shortlist minimum of 2 audit firms for every vacancy of SCAs/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 SCAs/SAs does not get delayed. However, in case of reappointment of SCAs/SAs by banks/UCBs 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. The banking companies shall continue to follow the existing procedure followed by them for selection of SCAs/SAs. They shall place the name of shortlisted audit firms, in order of preference, before their ACB/LMC for selection as SCAs/SAs. Upon selection of SCAs/SAs by the bank in consultation with their ACB/LMC and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SCAs/SAs.
3. For PSBs, empanelment of audit firms eligible for appointment as SCAs will continue to be done by the Office of C&AG, based on the norms prescribed by RBI, as on January 1 of the relevant year.

The list of firms as furnished by C&AG to RBI will be subjected to scrutiny by RBI for identifying the eligible firms and excluding audit firms who have been denied audit by C&AG/RBI. RBI will forward a single list<sup>14</sup> of all audit firms eligible for appointment as SCAs to all PSBs on an annual basis. PSBs shall shortlist audit firms from the said list of eligible audit firms as received from RBI, based on certain objective criteria (like number of full time partners, number of professional staff, number of CISA/ISA qualified partners/paid CAs, number of FCAs, etc.) as laid down in the bank's policy for appointment of statutory auditors. Further, the PSBs shall place the list of shortlisted firms, in order of preference, before the ACB for selection of SCAs in a transparent manner. Upon selection of SCAs by the PSBs in consultation with their ACB and verifying their compliance with the eligibility norms prescribed by RBI, the PSBs shall seek RBI's prior approval for appointment of SCAs.

4. The UCBs shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SCA/SA. Upon selection of SCAs/SAs by the UCBs in consultation with

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<sup>14</sup> RBI will provide a single list of eligible audit firms to PSBs as the requirement of mandatory cooling of three years and allotment of vacancies in the ratio of 60:40 between 'Experienced' and 'New' audit firms has been done away with from FY 2021-22. The firms in said list would not be ranked in any order and all firms would be eligible for selection by all PSBs.



their Board and verifying their compliance with the eligibility norms prescribed by RBI, theUCBs shall seek RBI's prior approval for appointment of SCAs/SAs.

5. The Entities shall obtain a certificate, along with relevant information as per **Form B**, from the audit firm(s) proposed to be appointed as SCAs/SAs by the Entity 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 SCAs/SAs of the Entities, under the seal of the said audit firm.

6. The Commercial Banks (excluding RRBs)/UCBs 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 SCA/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 SCAs/SAs, Commercial Banks (excluding RRBs)/UCBs shall indicate their total asset size as on March 31<sup>st</sup> 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.



## FORM A

### Information to be submitted by the NBFCs regarding appointment of SCA/SA

The company has appointed M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as Statutory Central Auditor (SCA)/Statutory Auditor (SA) for the financial year \_\_\_\_\_ for their 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> term.

2. The company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as SCA/SA of the company for FY\_ along with relevant information in the format as prescribed by RBI.

3. The firm has no past association/association for \_\_\_\_\_ years with the company as SCA/SA/SBA.

4. The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of NBFCs.

Signature

(Name and Designation)

Date:



## FORM B

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

#### A. Particulars of the firm:

Asset Size of Entity as on 31 <sup>st</sup> 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 Rs. 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<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:

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<sup>15</sup> For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.



## 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 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> 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:





**Table 1 – List of Circulars/Instructions superseded by this Circular**

<b>Sl. No.</b>	<b>Circular/Instruction No.</b>	<b>Date</b>	<b>Subject</b>
1	DBOD.No.App.BC.57/C.452(K)-83	July 07, 1983	Appointment of Statutory Auditors as Internal Auditors of Banks
2	DBOD.No.APP.BC.101/C.452(K)-83	December 15, 1983	Statutory Audit by External Auditors
3	DBOD.No.App.BC.107/C.452(K)-84	November 13, 1984	Appointment of Statutory Auditors as Internal Auditors of Banks
4	DBOD.No.App.BC.28/C.452(K)-85	March 12, 1985	Appointment of Statutory Auditors as Internal Auditors of Banks
5	DOS.No.BC.9/08.91.001/94	August 17, 1994	Section 30(1A) of The Banking Regulation Act, 1949 - Appointment of Statutory Auditors
6	DOS.No.BC.10/08.91.002/94	August 17, 1994	Section 30(1A) of The Banking Regulation Act, 1949 - Appointment of Statutory Auditors
7	DBS.No.ARS.BC.8/08.91.001/2000-2001	January 30, 2001	Appointment of Statutory Central Auditors for Indian Private Sector Banks
8	DBS.No.ARS.BC.12/08.91.001/2000-2001	May 8, 2001	Appointment of Statutory Central Auditors for Indian Private Sector Banks
9	DBS.ARS.No.BC.08/08:91:001/2003-04	March 26, 2004	Assessment of Performance of Statutory Auditors
10	DBS.ARS.No.B.C.15/08.91.001/2004-05	January 6, 2005	Appointment of Statutory Auditors - Obtention of Declaration of Indebtedness
11	DBS.ARS.No.BC.7/08.91.001/2006-07	April 24, 2007	Special Assignments other than Statutory Audit to Audit Firms by Banks



12	DBS.ARS.No.BC.02/08.91.001/2008-09	December 31, 2008	Internal Assignments in Banks by Statutory Auditors
13	DBS.ARS.BC No.02/08:91:001/2014-15	September 11, 2014	Appointment of Auditors
14	DBS.ARS.BC No.03/08.91.001/2014-15	September 11, 2014	Appointment of Auditors
15	DBS.ARS.BC.04/08.91.001/2017-18	July 27, 2017	Appointment of Statutory Central Auditors (SCAs) - Modification of Rest Period
16	Not Applicable	Not Applicable	Norms on eligibility, empanelment and selection of Statutory Central Auditors in Public Sector Banks from the year 2018-19 and onwards