

Bhagini Nivedita Sahakari Bank Ltd. , Pune

Statutory Auditors Appointment Policy

Approved in Board of Directors Meeting Dated 29/06/2021, Resolution No.15

1. Introduction

Reserve Bank of India (RBI) vide its circular No. RBI/2021-22/25 DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 has issued guidelines for appointment of Statutory Auditors (SAs), Further, RBI on June 11, 2021 published certain clarifications to its circular dated April 27, 2021 in the form of Frequently Asked Questions (FAQs). In accordance with both these documents, the Bank has prepared following policy for appointment of Statutory Auditors for the F.Y.2021-22

This policy is part of the Broder Audit Policy of the bank regarding appointment of Auditors.

2. Definitions:

- (A) "Audit Committee" means the Audit Committee of the Board.
 (B) "Board" means Board of Directors of the Bank.
 (C) "Statutory Auditors (SAs)" mean auditors appointed as per the policy to conduct statutory audit of the Bank.
 (D) "RBI circular" means RBI circular RBI/2021-22/25 Ref No. DOS.CO.ARG/ SEC.01/ 08.91.001/ 2021-22. dated April 27, 2021

3. Prior Approval of RESERVE BANK OF INDIA:

The Bank shall take prior approval of RESERVE BANK OF INDIA for appointment/reappointment of SAs on Annual basis. The Bank shall apply to Central Office of Reserve Bank India (Department of Supervision)

4. Eligibility Criteria of Auditors :

- (A) The minimum standards and eligibility norms for audit firms to be appointed as SAs shall be, as under :

Asset Size 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	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	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional staff
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
	There should be at least one-year continuous association of partners with the firm as on the date of short listing and at least two partners of the firm shall have continuous association with the firm for at least 10	---	Bank will give priority to firms with full time partners or full time CAs having CISA/ISA qualification. There should be at least one-year continuous	Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/UCBs/NBFCs/	Professional staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in

	<p>years. The full-time partner's association with the firm would be exclusive association. will be based on the following criteria:</p> <p>(a) The full-time partner should not be a partner in other firm/s.</p> <p>(b) She/He should not be employed full time / part time elsewhere.</p> <p>(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.</p>		<p>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.</p>	<p>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.</p>	<p>on-site audits but excludes typists/stenos/ computer operators/ secretaries/su bordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm as on the date of short listing for considering them as professional staff for the purpose.</p>
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(B) Additional Conditions :

- B.1 The Audit Firm should be duly eligible for appointment as auditor of the bank in terms of Sec 81 of Maharashtra State Cooperative Societies Act, 1960.
- B.2 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), Reserve Bank of India or Other Financial Regulators.
- B.3 The Bank will ensure that appointment of statutory does not give rise to any conflict of interest.
- B.4 Continued Compliance with basic eligibility criteria:
- B.4.1 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 shall promptly approach the Bank with full details.
- B.4.2 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.
- B.4.3 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, the Bank may approach Reserve Bank of India to allow the concerned audit firm to complete the audit, as a special case.

5. Independence of Auditors

5.1 The 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 and the Board of Directors to the concerned SSM/RO of Reserve Bank of India

5.2 Concurrent Auditors of the Bank will not be considered for appointment as statutory auditor. The audit of the Bank and any entity with large exposure (As defined in Reserve Bank of India instructions on 'Large Exposures Framework') to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.

5.3 During the tenure as SA, an audit firm may provide such services to the Bank which may not normally result in a conflict of interest, and the Bank will take a decision in this regard, in consultation with the ACB.

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.

However, if an audit firm is involved in any non-audit work with the Bank and/or any audit/non-audit work in other Reserve Bank of India Regulated Group Entities and completes or relinquishes the said assignment prior to the date of appointment as SA of the Bank for FY 2021-22, the said audit firm would be eligible for appointment as SA of the Bank for FY 2021-22.

The restrictions as detailed in para hereinabove in para 5.3 will also apply to an audit firm under the same network (As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms or any other audit firm having common partners.

5.4 The statutory auditors should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of the Marathi language.

6 The firms whose partner/s or relatives of partners (as defined in Director's relatives in Reserve Bank of India's master circular on Board of Directors) are on the Board of this Bank will not be eligible for the appoint as statutory auditors for the Bank.

7. Procedure for Selection and appointment of Statutory Auditors :

7.1 The Audit committee will shortlist chartered accountant firms from the applications received for appointment of statutory auditor. **Firms willing to produce irrevocable consent to the bank to act as a Statutory Auditors will be qualified for shortlisting.** After carrying out due diligence the Audit committee will recommend shortlisted audit firm in order of preference to the Board of

Directors for selection of Statutory Auditors

The Board of Directors after due diligence and satisfaction with the information, declaration and certification given by shortlisted firms recommended by Audit committee and verifying their compliance with the eligibility norms as prescribed by Reserve Bank of India will send the list of 2 audit firms (in order of preference) to Department of Supervision, Reserve Bank of India before 31st July of reference year for prior approval of appointment of statutory auditors.

The actual number of statutory audit firms to be appointed can be decided by the Board subject to the prescribed minimum one audit Firm and subject to the limit prescribed by Reserve Bank of India However, the Board may review and decide on the number of statutory audit firms any time as per the requirement of the bank if felt necessary.

- 7.2 The bank will obtain a certificate, along with relevant information as per **Form B**, from the audit firm proposed to be appointed as statutory auditors by the bank to the effect that the audit firm complies with all the eligibility norms prescribed by Reserve Bank of India. This certificate should be signed by the partner/s of the audit firm proposed for appointment of statutory auditors under the seal of the said audit firm.
- 7.3 Bank will verify the compliance of audit firm to the eligibility norms prescribed by Reserve Bank of India 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 proposed to be appointed as statutory auditors by them comply with all eligibility norms prescribed by Reserve Bank of India.
- 7.4 On due approval by Reserve Bank of India, Bank will approach the audit firms to obtain their consent in writing strictly in order of preference. The audit firms should give their consent in writing for consideration of appointment the Bank for the particular year and the subsequent continuing years subject to their fulfilling the eligibility norms prescribed by Reserve Bank of India from time to time. If the approached audit firm does not give consent, the bank will approach the next audit firm in order of preference for obtaining consent.

The appointment of statutory auditors is subject to complying with the stipulated norms on eligibility issued by Reserve Bank of India from time to time. The consent letter should clearly state that the audit firms will not have any claim against the Bank and Reserve Bank of India

- 7.5 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 short listing and sending names of multiple audit firms to Reserve Bank of India while seeking approval for appointment.

The audit firm should give their consent in writing for consideration of appointment in Bhagini Nivedita Sahakari bank for the particular year and the subsequent continuing years subject to their fulfilling the eligibility norms prescribed by Reserve Bank of India from time to time.

8. Scope and Periodicity of Audit :

The scope and periodicity of the statutory audit will be as per prevailing statutory / regulatory guidelines issued by regulatory / supervisory authorities in this regard from time to time. In absence to any statutory / regulatory guidelines, the Board of Directors approved policy for the same will prevail.

Statutory auditors has to visit and audit all the branches and head office to cover the entire scope of audit including entire portfolio of advances.

9. Guidelines :

- 9.1** The Board of Directors will monitor and assess the independence of the auditors. Any concerns in this regard will be flagged by the Board of Directors to the concerned RO of Reserve Bank of India.
- 9.2** In case of any concern with the management of the Bank such as non-availability of information / non co-operation by the Management, which may hamper the audit process, the statutory auditors shall have to approach the Board of the Bank under intimation to the concerned RO of Reserve Bank of India.
- 9.3** In the event of acceptance of the appointment as statutory auditors of the bank, all the internal assignments of the auditors in Bhagini Nivedita Sahakari Bank, if any, will stand withdrawn.
- 9.4** The time gap between any non-audit works by the statutory auditors for the bank should be at least one year before or after its appointment as statutory auditors.
- 9.5** The restrictions as detailed in Para 7.1 and 7.5 will also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
- 9.6** The incoming audit shall not be eligible if it is associated with the outgoing audit firm under the same network of audit firms.

10. Professional Standards of Statutory Auditors :

- 10.1** The Board will review the performance of statutory auditors on an annual basis. Any serious lapses / negligence in audit responsibilities or conduct issues on the part of statutory auditors or any other matter considered as relevant will report to Reserve Bank of India with approval / recommendation of the Board with full details of the audit firm within two months from completion of the annual audit.
- 10.2** In event of lapses in carrying out audit assignments resulting in misstatement of Bank's financial statements, and any violations / lapses vis-à-vis the Reserve Bank of India's directions / guidelines regarding the role and responsibilities of the SA will be liable to be dealt with suitably under the relevant Statutory / Regulatory framework.

11. Tenure and Rotation :

11.1 The Bank will make the appointment of statutory auditors for a continuous period of three years subject to the firms satisfying the eligibility norms every year.

11.2 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.

12. Audit fees and Expenses :

The audit fees for statutory auditors shall be in accordance with the relevant statutory/regulatory provisions.

13. Removal :

Bank will not remove the audit firm during the above period without the prior approval of the Reserve Bank of India. The Board of Director of the bank will be the complete authority to recommend removal of any statutory auditors Reserve Bank of India.

14. Declarations/Undertaking to be obtained from the Audit Firm :

14.1 A suitable undertaking from the firm to the effect that the audit work will be carried out by their own staff and they will not subcontract the audit work.

14.2 There are no adverse remarks / disciplinary proceedings pending / initiated against the firm / any of its partners on the records of ICAI, which would make them ineligible for appointment as auditors.

14.3 None of the partners or the Firm / Company in which they are Partners / Directors are defaulters in any Bank or Financial Institution.

14.4 Associate firms or sister concerns of statutory audit Firm will be disqualified for internal assignment where the main firm / partners are allotted statutory audit in a particular year.

14.5 List of declarations to be obtained from auditors

- 1) Annexure A – Declaration of Fidelity, Secrecy, Non-disqualification
- 2) Annexure B – Declaration of Indebtedness
- 3) Annexure C – Declaration about Director Relative
- 4) Annexure D – Declaration of Eligibility Norms
- 5) Annexure E – Undertaking

The Board of Directors will have power to make/changes/modifications in this policy or prepare entirely new policy as per the modifications / changes, if any, made by Reserve Bank of India in norms/criteria/procedure from time to time.