

Policy for Appointment of Statutory Auditors(SAs) of Fingrowth Co-operative Bank Ltd.

The Policy for Appointment of Statutory Auditors as detailed below has been prepared as per the guidelines issued by the RBI vide Circular No RBI/2021-22/25 Ref. No. DoS.CO.ARG/ SEC.01/08.91.001/2021-22 dated April 27, 2021.

1. Applicability:

- 1.1 These guidelines will be applicable to the bank for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SAs of the bank.
- 1.2 As RBI guidelines for appointment of SAs shall be implemented for the first time for UCBs 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.

2. Prior Approval of RBI:

- 2.1 Bank will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SAs, on an annual basis from RBI before 31st July of the reference year.
- 2.2 Bank shall approach the Regional Office of RBI (Department of Supervision), at Jaipur.

3. Eligibility Criteria of Auditors:

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

4. Independence of Auditors:

- 4.1 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.
- 4.2 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 SAs shall approach the Board/ACB/LMC of the Bank, under intimation to the concerned SSM/RO of RBI.
- 4.3 Concurrent auditors of the Bank should not be considered for appointment as SAs of the Bank. The audit of the Bank and any entity with large exposure to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 4.4 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special

assignments, etc.) by the SAs for the Bank or any audit/non-audit works for its group companies should be at least one year, before or after its appointment SAs. However, during the tenure as SA, an audit firm may provide such services to the Bank / group companies which may not normally result in a conflict of interest, and Bank / group companies may take their own decision in this regard, in consultation with the Board/ACB/LMC.

- 4.5 The restrictions as detailed in para 4.3 and 4.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

5. Professional Standards of SCAs/SAs:

- 5.1 The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 5.2 The Board/ACB/LMC of Entities shall review the performance of SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SAs 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/LMC, with the full details of the audit firm.
- 5.3 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 SAs in relation to Entities, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

6. Tenure and Rotation:

- 6.1 In order to protect the independence of the auditors/audit firms, Bank / group companies will have to appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, Bank can remove the audit firms during the above period only with the prior approval of the concerned office of RBI (Department of Supervision), as applicable for prior approval for appointment, as mentioned at Para 2.2 of this circular.
- 6.2 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. However, audit firms can continue to undertake statutory audit of other Entities.
- 6.3 One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI], eight UCBs and eight NBFCs during a particular year, subject

to compliance with required eligibility criteria and other conditions for each Entity and within overall ceiling prescribed by any other statutes or rules. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. For the purpose of this circular, a group of audit firms having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of 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.

Note:

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.

7. Audit Fees and Expenses

- 7.1 The audit fees for SAs of the Bank shall be decided in terms of the relevant statutory/regulatory provisions.
- 7.2 The audit fees for SAs of 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.
- 7.3 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 SAs.

8. Statutory Audit Policy and Appointment Procedure

- 8.1 The Bank shall approved Policy shall be hosted on its official website/public domain and formulate necessary procedure thereunder to be followed for appointment of 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.
- 8.2 Guidelines on minimum procedural requirements are given at [Annex II](#).

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 ₹15,000 crore	5	4	2	15	18
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Upto ₹1,000 crore	2	1	1*	6	8

* Not mandatory for UCBs/NBFCs with asset size of upto ₹ 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 ₹ 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 ₹ 1,000 crore, 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:

- The full-time partner should not be a partner in other firm/s.
- She / He should not be employed full time / part time elsewhere.
- 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.
- 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 ₹ 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 of that Entity.

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

Procedure for Appointment of SAs

1. The Bank shall shortlist minimum of 2 audit firms for every vacancy of 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 SAs does not get delayed. However, in case of reappointment of 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 bank shall continue to follow the existing procedure followed for selection of SAs. It shall place the name of shortlisted audit firms, in order of preference, before their ACB/LMC for selection as SAs. Upon selection of 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 SAs.
3. The Bank shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SA. Upon selection of SAs by the Bank in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of SAs.
4. The Entities shall obtain a certificate, along with relevant information as per **Form B**, from the audit firm(s) proposed to be appointed as 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 SAs of the Entities, under the seal of the said audit firm.
5. The Banks 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 SA by them comply with all eligibility norms prescribed by RBI for the purpose.
6. While approaching the RBI for its prior approval for appointment of SAs, the Bank
 - i) Shall indicate their total asset size as on March 31st of the previous year (audited figures).
 - ii) 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 SAs in the order of preference.
 - iii) 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 B**Eligibility Certificate from (Name and Firm Registration Number of the firm)****A. Particulars of the firm:**

Asset Size of Entity as on 31 st 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 associatedwith 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 Professionalstaff

*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 the Partner)

Date:

Certificate to be submitted by the Bank regarding eligibility of audit firm proposed to be appointed as SA

The bank is desirous of appointing M/s....., Chartered Accountants (Firm Registration Number.....) as 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.

The Bank has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as statutory Auditor of the bank for FY..... along with relevant information (copy enclosed), in the format as prescribed.

The firm has no past association/association for..... years with the bank as SA.

The bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of Bank.

Signature
(Name & Designation)

Date: