

THE KARIMNAGAR DISTRICT COOPERATIVE CENTRAL BANK LTD., KARIMNAGAR

POLICY ON APPOINTMENT/REAPPOINTMENT OF STATUTORY AUDITORS

1. INTRODUCTION

This policy provides a comprehensive framework for the appointment, reappointment, and removal of Statutory Auditors (SAs) at Karimnagar District Central Cooperative Bank (DCCB). It is formulated in compliance with the guidelines issued by the Reserve Bank of India (RBI) as per the Banking Regulation Act, 1949, as amended by the Banking Regulation (Amendment) Act, 2020. This policy is applicable to all accounting periods commencing on or after April 1, 2024.

2. OBJECTIVES

The key objectives of this policy are:

- To ensure the selection of qualified, experienced, and independent Statutory Auditors.
- To maintain transparency, objectivity, and fairness in the appointment and reappointment process.
- To comply with all statutory and regulatory requirements as outlined by the RBI.

3. APPLICABILITY

This policy applies to the appointment, reappointment, and removal of Statutory Auditors for Karimnagar DCCB.

4. DEFINITIONS

- **“Statutory Auditor (SA)”** refers to an auditor appointed under Section 30(1A) of the Banking Regulation Act, 1949.
- **“Bank”** refers to Karimnagar District Central Cooperative Bank (DCCB).
- **“RBI”** refers to the Reserve Bank of India.
- **“NABARD”** refers to the National Bank for Agriculture and Rural Development.
- **“Board”** refers to the Board of Directors of Karimnagar DCCB.
- **“Audit Committee of the Board (ACB)”** refers to the committee responsible for overseeing the audit process and ensuring compliance with regulatory guidelines.

5. ELIGIBILITY CRITERIA FOR APPOINTMENT OF STATUTORY AUDITORS

The eligibility criteria for the appointment of SAs are based on the guidelines provided in Appendix I of the RBI Circular:

5.1 ASSET SIZE AND AUDIT FIRM REQUIREMENTS

- **Above ₹15,000 crore:** The audit firm must have a minimum of 5 Full-Time Partners (FTPs), out of which 4 should be Fellow Chartered Accountants (FCA) with at least three years of association with the firm. Additionally, the firm must have 2 FTPs/paid CAs with CISA/ISA/DISA qualifications, 8 years of audit experience, including 2 years in StCBs/CCBs, and at least 8 professional staff.
- **₹1,000 crore to ₹15,000 crore:** The audit firm must have a minimum of 3 FTPs, out of which 2 should be FCA partners with at least three years of association with the firm. The firm must have 1 FTP/paid CA with CISA/ISA/DISA qualification, 4 years of audit experience, including 1 year in StCBs/CCBs, and at least 4 professional staff.
- **Up to ₹1,000 crore:** The audit firm must have a minimum of 2 FTPs, out of which 1 should be an FCA partner with at least three years of association with the firm. The firm should preferably have 1 FTP/paid CA with DISA/CISA/ISA qualification and at least 1 year of audit experience, including 1 year in StCBs/CCBs, with at least 2 professional staff.

5.2 ADDITIONAL CONSIDERATIONS

- The firm must be duly qualified under Section 141 of the Companies Act, 2013.
- The firm should not be under debarment by any government agency, NFRA, ICAI, RBI, or other financial regulators.
- The appointment should comply with ICAI's Code of Ethics and must not result in any conflict of interest.
- Any firm associated with a partner who is a director in the bank shall not be appointed as SA.

6. SELECTION AND APPOINTMENT PROCEDURE

The procedure for the selection and appointment of SAs is as follows, based on Appendix II of the RBI Circular:

6.1 ANNUAL LIST FROM NABARD

- NABARD shall obtain a list of eligible audit firms from ICAI on an annual basis and share this list with the bank.

6.2 SHORTLISTING AND APPROVAL

- The bank shall shortlist a minimum of two audit firms from the NABARD-provided list for each vacancy. The names of the shortlisted firms, in order of preference, shall be placed before the Board/ACB for 'in principle' approval.
- After Board/ACB approval, the bank shall submit an application for prior approval to the Department of Supervision, RBI, before July 31 of the reference financial year.

6.3 FINAL APPOINTMENT

- Upon receiving RBI's approval, the final appointment of the SA shall be made at the Annual General Meeting (AGM) of Karimnagar DCCB.

7. TENURE AND ROTATION OF STATUTORY AUDITORS

- **Tenure:** SAs shall be appointed for a period of one year and may be reappointed annually for a maximum of two additional years, provided they continue to meet the eligibility norms.
- **Rotation:** An audit firm shall not be eligible for reappointment in the same bank for six years immediately after completing its tenure. If an audit firm serves only a part of the tenure, it still cannot be reappointed for six years.

8. INDEPENDENCE AND CONFLICT OF INTEREST

- **Monitoring Independence:** The Board/ACB shall monitor the independence of SAs and ensure there are no conflicts of interest.
- **Concurrent Auditors:** Firms currently serving as concurrent auditors or with recent non-audit engagements with the bank are not eligible for appointment as SAs. A minimum gap of one year is required between any non-audit work and statutory audit engagement.

9. REVIEW OF PERFORMANCE OF STATUTORY AUDITORS

- **Annual Review:** The Board/ACB shall review the performance of SAs annually. This includes evaluating their adherence to audit standards, independence, and the quality of the audit.
- **Reporting Lapses:** Any significant lapses, negligence, or misconduct identified during the audit shall be reported to NABARD and RBI within two months of the audit's completion.

10. NUMBER OF BANKS AN AUDIT FIRM CAN AUDIT

- **Limitations:** An audit firm can concurrently take up statutory audits of a maximum of five banks (including not more than one StCB) in a year. This is in addition to the limit of 20 Regulated Entities (REs) as prescribed by RBI guidelines.

11. AUDIT FEES AND EXPENSES

- **Determination:** The audit fees for SAs shall be decided by the Board/ACB based on the scope of the audit, the complexity of the bank's operations, and the auditor's experience.

- **Reasonableness:** The fees must be reasonable and commensurate with the size, spread, and complexity of the bank's operations. The Board/ACB shall ensure that the fees align with statutory and regulatory provisions.

12. GUIDELINES FOR SELECTION OF BRANCHES FOR AUDIT BY SAS

The selection of branches for audit shall follow the guidelines outlined in Appendix III of the RBI Circular:

- **Coverage:** The branches selected for audit should cover at least 70% of the total advances outstanding.
- **Top Branches:** The top 20 branches or the top 20% of branches in terms of outstanding advances should be compulsorily included in the audit.
- **Risk-based Selection:** Branches where fraud, embezzlements, or suspicious transactions have occurred, or where loan business growth exceeds 50% over the preceding year, should be considered for audit.
- **Board/ACB Decision:** The actual selection of branches shall be decided by the Board/ACB, considering bank-specific characteristics such as fraud risk, credit risk, and other operational factors.

13. DOCUMENTATION AND DISCLOSURE

- **Policy Disclosure:** This policy shall be hosted on the official website of Karimnagar DCCB and made available to the public.
- **Audit Coverage Disclosure:** The bank shall disclose the extent of branch/business coverage under statutory audit for the current and previous years on its website.
- **Documentation:** All documentation related to the selection, appointment, and performance review of SAs shall be maintained by the bank for a minimum period of eight years.

14. AMENDMENTS AND UPDATES

Any amendments or updates to this policy shall require approval from the Board/ACB and shall be communicated to the RBI. The policy shall be reviewed periodically to ensure continued compliance with regulatory requirements.

15. COMPLIANCE WITH STATUTORY AND REGULATORY GUIDELINES

This policy is designed to comply with all relevant statutory and regulatory guidelines issued by the RBI, ICAI, and other relevant authorities. The bank shall ensure that the appointment and reappointment of SAs are conducted in strict adherence to these guidelines.