



THE ZOROASTRIAN CO-OPERATIVE BANK LIMITED

**POLICY ON
APPOINTMENT OF STATUTORY AUDITOR
2021-22**

Reserve Bank of India vide circular RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 April 27, 2021, have issued the following guidelines 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 **UCBs (hereinafter referred to as the Entities)** for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs¹ of the Entities.

2.2 As per RBI guidelines regarding appointment of SCAs/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.

3. Prior Approval of RBI:

3.1 The Bank 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 **31st July** of the reference year.

3.2 For the purpose, 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.

4. Number of SCAs / SAs and Branch Coverage

4.1 For Banks 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 Banks should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It shall be ensured that joint auditors of the Bank do not have any common partners and they are not under the same network of audit firms. Further, the Bank may finalize the work allocation among SCAs/SAs, before the commencement of the statutory audit, in consultation with their SCAs/SAs.

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, The Zoroastrian Cooperative Bank shall appoint **one audit firm (Partnership firm/LLPs) for conducting statutory audit.**

4.3 In terms of RBI guidelines on 'Norms on eligibility, empanelment and selection of Statutory Branch Auditors, 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 Bank 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

The Bank will 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 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 Bank to the concerned SSM/RO of RBI.

6.2 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 SCAs/SAs shall approach the **Board* /ACB/LMC** of the Bank, under intimation to the concerned SSM/RO of RBI.

**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.*

6.3 Concurrent auditors of the Bank shall not be considered for appointment as SCAs/SAs of the same Bank. The audit of the Bank and any Bank with large **exposure#** to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor. (# As defined in RBI instructions on 'Large Exposures Framework')

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 Bank 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 Banks which may not normally result in a conflict of **interest***, and Bank may take their own decision in this regard, in consultation with the Board/ACB/LMC.

**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.*

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**** of audit firms or any other audit firm having common partners.

***As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014*

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.

7.2 The **Board+ /ACB** of the Bank 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#** 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.

+ Board shall review the performance of SCAs/SAs in case ACB is non-existent in the Bank.

Circular dated March 26, 2004 on 'Assessment of Performance of Statutory Auditors' addressed to the PSBs has been superseded by this circular.

7.3 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 SCAs/SAs in relation to Banks, the SCAs/SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

The audit firms which have already completed tenure of 1 year or 2 years with any Bank 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.

In case an audit firm has conducted audit of any Bank 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 Bank for six years from completion of part-tenure.

8. Tenure and Rotation

8.1. In order to protect the independence of the auditors/audit firms, Bank will appoint the SCAs/SAs for a continuous period of **three years***, subject to the firms satisfying the eligibility norms each year.

Further, the audit firms which have already completed tenure of 1 year or 2 years with any Bank 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.

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 3.2 above.

8.2 An audit firm would not be eligible for reappointment in the same Bank 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.

In case an audit firm has conducted audit of the Bank 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 Bank for six years from completion of part-tenure.

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 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 shall be decided in terms of the relevant statutory/regulatory provisions.

9.2 The audit fees for SCAs/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.

9.3 The Board/ACB/ of the Bank 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 The Board approved policy will be hosted on the official website/public domain and Bank will formulate necessary procedure thereunder to be followed for appointment of SCAs/SAs. Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, there should be necessary transparency and objectivity for most key aspects of this important assurance function.

10.2 Guidelines on minimum procedural requirements are:

1. The Bank 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, 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 place the name of shortlisted audit firms, in order of preference, before the Board for selection as SCA/SA. Upon selection of SCAs/SAs by the Bank in consultation with the Board 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.. The Bank 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 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 SCAs/SAs of the Bank, under the seal of the said audit firm.

4.. The Bank shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI for the purpose and after being satisfied of their eligibility, recommend the names along with a certificate, in the format as per **Form C**, 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.

5. While approaching the RBI for its prior approval for appointment of SCAs/SAs, 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 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.

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 Rs15,000 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 the Bank 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. The Bank with asset size above Rs 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 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 UCBs 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 affected 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 Bank 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.

** 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.

(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 the Bank, 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.

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.

Procedure for Appointment of SCAs/SAs

1. The Bank 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.
4. The Bank 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 their Board and verifying their compliance with the eligibility norms prescribed by RBI. The Bank shall seek RBI's prior approval for appointment of SCAs/SAs.
5. The Bank 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 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 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, 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 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 B**Eligibility Certificate from (Name and Firm Registration Number of the firm)****A. Particulars of the firm:**

Asset Size of Entity as on 31st 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
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***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 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:

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 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.

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: