



## **STATUTORY AUDIT POLICY AND APPOINTMENT PROCEDURE**

**2025-26**

The Statutory Audit Policy and appointment procedure policy is made in compliance with the guidelines issued by Reserve Bank of India vide Circular No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021.

As per the norms the Bank is required to take prior approval from Reserve Bank of India for appointment / reappointment of Statutory Auditors on an Annual basis. The Bank shall apply to the Department of Supervision, RBI, Hyderabad, Regional office before 31 July of the reference year.

### **1. Eligibility criteria of Auditors**

The RBI has placed banks under various categories according to their Asset Size as on 31 March of previous year.

The total assets of the Darussalam Co-operative Urban Bank Ltd as on 31<sup>st</sup> March 2025 amounted to Rs.956.50 crores. As such the Bank is required to appoint the Audit firms as its Auditors for Banks whose asset size is up to Rs.1000 crores as per RBI guidelines.

The Audit firm to be eligible for appointment as Statutory Auditor shall fulfill the following eligibility norms:

- A. The Audit firm shall have minimum two (2) full time partners (FTPs) associated with the firm for a period of at least three (3) years.
- B. Out of total FTPs, there should be minimum one (1) Fellow Chartered Accountant (FCA) partners associated with the firm for a period of at least three (3) years.
- C. There shall be at least one full time partner / paid CA with CISA / ISA Qualification. (Not mandatory to our bank as total assets of the bank are less than Rs.1000 Crores as at the end of previous year).
- D. The firm shall have minimum 6 years of audit experience as Statutory Auditor of Commercial Banks (excluding RRBs) / UCBs / NBFCs / AIFIs.
- E. The firm shall have minimum eight (8) professional staff including audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audits but excluding typists / computer operators / subordinate staff etc. There should be at least one-year continuous association of professional staff with the firm for considering them as professional staff for the purpose.

Additional considerations

- I) The audit firm should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- II) The firm should not be under debarment by any Government Agency, National Financing 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 Auditor 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 bank, the said firm shall not be appointed as Statutory Auditor.
- V) The Statutory Auditor 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.

- VI) After selecting the Statutory Auditor for appointment as per existing procedure the Bank shall seek RBI's prior approval for appointment of Statutory Auditor.
- VII) The Bank shall obtain a certificate along with relevant information as per Form B, from the audit firm(s) proposed to be appointed as Statutory Auditor 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 under the seal of the said audit firm.

## **2. Independence of Auditors**

The Board of Directors of the Bank 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 Regional Office of RBI.

Concurrent auditors of the Bank should not be considered for appointment as Statutory Auditors of the Bank.

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

The Statutory Auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

The Audit Committee of the Bank 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.

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.

#### **4. Tenure and Rotation**

In order to protect the independence of the auditors/audit firms, the Bank will have to appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, the 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.

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.

One audit firm can concurrently take up statutory audit of a maximum of eight Urban Cooperative Banks during a particular year, subject to compliance with required eligibility criteria and other conditions.

#### **5. Audit Fees and Expenses**

The audit fees for Statutory Auditors of the Bank shall be decided by the Board of Directors of the Bank from time to time.

The audit fees for Statutory Auditors of the Bank shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative units (branches), complexity of transactions, level of computerization, identified risks in financial reporting etc.

#### **6. Procedure for Appointment of Statutory Auditors**

1. 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 by the bank 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 Statutory Auditors. Upon selection of Statutory Auditors by the Bank in consultation with the Board and verifying their compliance with eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of Statutory Auditors.

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 Statutory Auditors 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 Statutory Auditor 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 Statutory Auditor by the Bank complies with all eligibility norms prescribed by RBI for the purpose.

5. While approaching the RBI for its prior approval for appointment of Statutory Auditors, the Bank shall indicate its total asset size as on March 31st of the previous year (audited figures), forward a copy of Board 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.

6. The name of the audit firm approved by the RBI will be placed before the General Body for its approval.

Date: 12-04-2025

Place: Hyderabad