

# **POLICY ON APPOINTMENT OF STATUTORY AUDITORS**



## Contents

1. PREAMBLE .....	3
2. APPLICABILITY .....	3
3. REVIEW OF THE POLICY .....	3
4. PRIOR APPROVAL OF RBI .....	3
5. NUMBER OF STATUTORY AUDITORS AND BRANCH COVERAGE.....	3
6. ELIGIBILITY CRITERIA FOR APPOINTMENT OF STATUTORY AUDITORS...	4
7. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS.....	6
8. INDEPENDENCE OF AUDITORS .....	8
9. PROFESSIONAL STANDARDS FOR STATUTORY AUDITORS (AS PER THE RBI GUIDELINES) .....	9
10. TENURE AND ROTATION .....	10
11. AUDIT FEES AND EXPENSES .....	10
ANNEXURE 1 .....	11
ANNEXURE 2 .....	12

## Statutory Audit Policy Document

### 1. Preamble

The Statutory Audit Policy document serves as the basic guidance for appointment of Statutory Auditors of the Bank. This document has been framed in compliance with the RBI Circular on 'Guidelines for Appointment of Statutory Auditors' dated 27<sup>th</sup> April 2021.

### 2. Applicability

The Policy shall be applicable for appointment of Statutory Auditors of the bank from financial year 2021-22 onwards including amendments, if any, made by the Regulator from time to time.

### 3. Review of the Policy

This Policy shall be reviewed by the Board of Directors as and when any changes are to be incorporated in the Policy due to change in applicable law or regulation, or at least once in every three years and updated accordingly.

### 4. Prior Approval of RBI

4.1 Prior approval of RBI (Department of Supervision) shall be taken for appointment / re-appointment of Statutory Auditors, on an annual basis before 31<sup>st</sup> July of the reference year.

4.2 The Bank shall approach the Central Office of RBI (Department of Supervision) for this purpose.

### 5. Number of Statutory Auditors and Branch Coverage

5.1 As mandated by RBI guidelines for Entities with asset size of ₹15,000 crore and above as at the end of the previous year, the Statutory Audit of the Bank shall be conducted under joint audit of a minimum of two audit firms (Partnership firms / Limited Liability Partnerships (LLPs)). It shall be ensured that the joint auditors do not have any common partners, and they are not under the same network [as defined in Rule 6(3) of the Companies (Audit and Auditors) Rules, 2014] of audit firms. The work allocation among the SAs shall be finalised before commencement of the Statutory Audit in consultation with the SAs.

5.2 The number of SAs over and above the minimum number as stipulated in 4.1, if required, shall be decided by the Board, inter alia taking in to account the relevant factors such as the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerisation, availability of other independent audit inputs, identified risks in financial reporting etc. The actual number of SAs to be appointed shall be decided by the Board subject to the following limits duly considering any modifications or amendments published by RBI from time to time –

Sl. No.	Asset Size of the Bank	Maximum number of SAs
1.	Upto ₹5,00,000 crore	4
2.	Above ₹5,00,000 crore and Upto ₹10,00,000 crore	6
3.	Above ₹10,00,000 crore and Upto ₹20,00,000 crore	8
4.	Above ₹20,00,000 crore	12

5.3 The SAs shall visit and audit at least the top 20 branches, to be selected in order of the level of outstanding advances, in such a manner as to cover minimum of 15% of total gross advances of the Bank. In addition, the adherence to provisions of Section 143 (8) of Companies Act, 2013 regarding audit of accounts of all Branches shall be ensured.

## 6. Eligibility Criteria for appointment of Statutory Auditors

### 6.1 Basic Eligibility

The basic eligibility for appointment / re-appointment of an Audit Firm as Statutory Auditors of the Bank is designed by Board of the Bank duly considering the minimum criteria prescribed by the Regulator based on the asset size of the Bank as on 31<sup>st</sup> March of previous year. The Bank lies in the asset size category 'Above ₹15,000 crore', and accordingly the basic eligibility criteria is as follows –

Asset Size of Entity as on 31st March of Previous Year	Above ₹15,000 crore
Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years	8
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	4
Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification	2
Minimum No. of years of Audit Experience of the firm	15
Minimum No. of Professional staff	30

\*Based on business exigencies, additional requirement for number of auditors to be engaged for audit and other requirements will be communicated to the Auditors as required

6.1.1 Audit Firm should have a minimum of 8 full time partners (FTPs) associated with the firm for a period of at least 3 years.

There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as fulltime partners. 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
- The Board / ACB 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.

6.1.2 The firm should have full-time partners who satisfy minimum continuous association with the firm as given below.

- At least one partner with a continuous association with the firm for at least 15years,
- One partner with continuous association for at least 10 years,
- Two partners with continuous association for at least 5 years

- 6.1.3 At least two partners should have a minimum of 15 years and 10 years of experience in practice. The proposed Engagement Partner/s should have a minimum of 2 years' experience of Statutory Central Audit of Commercial Banks.
- 6.1.4 Out of the full-time partners, minimum four shall be Fellow Chartered Accountants (FCAs) Partners associated with the firm for a period of at least three years.
- 6.1.5 Minimum number of Full Time Partners or paid CAs with CISA / ISA qualification shall be two. There should be at least one-year continuous association of paid CAs with CISA / ISA qualification with the firm as on date of shortlisting for considering them as paid CAs with CISA / ISA qualification for the purpose.
- 6.1.6 The Audit Firm should have a minimum of 15 years of audit experience. Audit experience shall mean experience of the audit firm with minimum Statutory Central / branch Audit experience of 15 years of Commercial banks (excluding RRB's) with business size of not less than Rs.1 lakh crore, of which the Statutory Central Audit experience should be a minimum of 5 years. In the 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.
- 6.1.7 There shall be a minimum of 30 professional staff. Professional staff shall include audit and articled clerks with the knowledge in book-keeping, accountancy and who are engaged in on-site audits but excludes typists, stenographers, computer operators, secretary/ies, subordinate staff etc. There should be at least one-year continuous association of professional staff with the firm as on the date of shortlisting for considering them as professional staff for the purpose.  
Out of 30 professional staff mentioned above, firm should have at least 10 full time qualified Chartered Accountants and need not have minimum requirement of continuous association with the firm.
- 6.1.8 Standing of the firm should be at least 15 years, which would be reckoned from the date of availability of one full-time FCA continuously with the firm.

## 6.2 Additional Criteria

- 6.2.1 The audit firm, proposed to be appointed as SA shall be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- 6.2.2 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), RBI or Other Financial Regulators. Any debarment / disciplinary actions against partners of the firm will be factored in our scoring criteria.
- 6.2.3 It shall be ensured that the appointment of SA 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.
- 6.2.4 If any partner of a Chartered Accountant firm is a director in the Bank, the said firm shall not be appointed as SA of any of the group entities<sup>1</sup> of the Bank.

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<sup>1</sup>The Group Entities refer to RBI Regulated Entities in the Group, which fulfil the definition of Group Entity. However, if an audit firm engaged with audit / non-audit works for the Group Entities (which are not regulated by RBI) is being considered by any of the RBI Regulated Entities in the Group for appointment as SAs, it would be the responsibility of the Board / ACB of the concerned RBI Regulated Entity to ensure that there is no conflict of interest and independence of auditors is ensured, and this should be suitably recorded in the minutes of the meetings of Board / ACB.

- 6.2.5 The auditors 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 Bank where the accounting and business data reside in order to achieve audit objectives.
- 6.2.6 An audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks (including not more than one Public Sector Bank 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 and within the overall ceiling prescribed by any other statutes or rules. For this purpose, a group of audit firms having common partners and / or under the same network, will be considered as one entity. 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

### **6.3 Continued Compliance with eligibility criteria**

- 6.3.1 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 may promptly approach the Bank 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.
- 6.3.2 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, in such cases, allowing the concerned audit firm to complete the audit, as a special case will be at the discretion of RBI.

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

- 7.1 When new Statutory Auditor(s) are required to be identified due to retirement of existing SA(s) on completion of the term for which they are appointed or due to any vacancy arising owing to disqualification or any other reasons, a Request For Proposal prepared in line with the requirements of this Policy, duly approved by the MD & CEO, shall be published in the official website of the Bank inviting proposals from eligible Chartered Accountant Firms.
- 7.2 The Bank shall obtain complete profile of the firms complying with the eligibility criteria stipulated by RBI. A score card shall be prepared for these firms (as decided by the Head of Internal Audit Department) and the details of the firms scoring above a stipulated mark along with the order of preference shall be placed before the Audit Committee of the Board.
- 7.3 Audit Committee of the Board shall interact with the shortlisted firms and recommend a minimum of 2 audit firms for every vacancy in order of preference to the Board of Directors for approval. This would ensure that, even if the 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. The Audit Committee of the Board

may also recommend the number of Statutory Auditors over and above the minimum number of SAs stipulated in 5.1, if required, taking in to consideration relevant factors stipulated in 5.2 above.

7.4 The Bank shall obtain the following documents from the shortlisted firms –

- Certificate of Membership and Practice of Individual partners issued by ICAI
- Certificate referred under Regulation 33(1)(d) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015./Peer review Certificate
- Written Consent / willingness to act as SCAs / SAs of the Bank pursuant to Section 139 of the Companies Act, 2013
- Certificate/ declaration that firm complies with all the prescribed eligibility norms as stipulated by RBI and companies Act 2013 and other statutory/ regulatory requirements, if any, as applicable, for appointment of the firm as Statutory Auditor of the Bank.
- Confirmation that firm is eligible for appointment as Auditors and not disqualified under the Companies Act, 2013
- Confirmation that the appointment will be in accordance with the limits specified in Section 141(3)(g) of the Companies Act 2013.
- Confirmation that there is no proceeding or order against the firm pending with respect to matters of professional conduct as required under Rule 4(1)(d) of the Companies (Audit & Auditors) Rules 2014.
- Confirmation that the firm is not auditor of any entities with large exposures to the Bank for the reference year and that if they happen to take up an audit assignment at any Large Exposure Entity with the Bank or if any of their audit clients turn out to be a Large Exposure Entity with the Bank in future during their term as SA of the Bank, the same will be promptly brought to the attention of the Bank indicating conflict of interest, if any, and whether audit independence is thereby affected.
- Confirmation that firm complies with all the prescribed eligibility norms mentioned in ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.

7.5 The Bank shall also obtain a certificate, along with relevant information as per Form B (Annexure 1), from the audit firms proposed to be appointed as SAs to the effect that the audit firms comply with all the eligibility norms prescribed by RBI for the purpose.

7.6 The above certificates / confirmations should be signed by the main partner/s of the audit firm proposed for appointment of SAs of the Bank, under the seal of the said audit firm.

7.7 The Bank shall verify the compliance of audit firm 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 (Annexure 2), stating that the audit firms proposed to be appointed as SA by them comply with all eligibility norms prescribed by RBI for the purpose.

7.8 Upon selection of SAs by the bank in consultation with ACB and the Board and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SAs. While approaching the RBI for its prior approval for appointment of SAs, the Bank shall include the following –

- Details of the shortlisted audit firms (minimum of 2 for every vacancy of SAs), duly approved by the Board of Directors, in the order of preference.
- Indicate the total asset size as on March 31st of the previous year (audited figures),
- A copy of Board/ ACB Resolution recommending names of audit firms for appointment as SAs in the order of preference
- Information as per Form B (as mentioned in 7.5) and Form C (as mentioned in 7.6) to facilitate expeditious approval of appointment/ re-appointment of the concerned audit firm.

7.9 In case of reappointment of SAs, till completion of tenure of continuous term of 3 years, there is no requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.

## **8. Independence of Auditors**

- 8.1 The Audit Committee of the Board 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 concerned Senior Supervisory Manager (SSM) / Regional Office (RO) of RBI.
- 8.2 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 of the Bank, under intimation to the concerned SSM/RO of RBI.
- 8.3 Firms engaged as Concurrent Auditors of the Bank should not be considered for appointment as Statutory Auditors until completion of the cooling period requirement of one year. This restriction shall 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.
- 8.4 The Audit of the Bank and any entity with large exposure to the Bank (as defined in RBI instructions on Large Exposure Framework) for the same reference year shall also be explicitly factored in while assessing independence of the auditor. There is no prohibition for an audit firm doing audit of any Company / Entity with Large Exposure to the Bank from being appointed as SA of the Bank. It only stipulates that this aspect should also be explicitly factored while assessing independence of the auditor. In this regard, the Audit Committee of the Board shall see that there is no conflict of interest and the independence of auditors is ensured.



- 8.5 The time gap between any non-audit works (services mentioned at Section 144<sup>2</sup> of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SAs for the Bank or any audit/non-audit works for its Group Entities should be at least one year<sup>3</sup>, before or after its appointment as SAs.
- 8.6 The restriction in 7.3, 7.4 and 7.5 shall 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. However, during the tenure as SA, an audit firm may provide such services which may not normally result in a conflict of interest (like Tax Audit, tax representation and advice on taxation matters, audit of interim financial statements, certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements, reporting on financial information or segments thereof) and a decision in this regard can be taken in consultation with the Board or the Audit Committee of the Board.

## 9. Professional Standards for Statutory Auditors (as per the RBI guidelines)

- 9.1 The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 9.2 The Board or the Audit Committee of the Board 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 shall be sent with the approval / recommendation of the Board or the Audit Committee of the Board with full details of the Audit Firm.
- 9.3 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 SAs in relation to Entities, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

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<sup>2</sup> **Section 144 of Companies Act 2013** prescribes that an auditor shall provide to the company only such other services as are approved by the Board of Directors or the Audit committee, but which shall not include any of the following services:

- (a) accounting and bookkeeping services;
- (b) internal audit;
- (c) design and implementation of any financial information system;
- (d) actuarial services;
- (e) investment advisory services;
- (f) investment banking services;
- (g) rendering of outsourced financial services;
- (h) management services; and
- (i) any other kind of services as may be prescribed

<sup>3</sup> This stipulation shall be applicable prospectively, i.e. from FY 2022-23. Therefore, if an audit firm is involved in some non-audit work with the Entity and / or any audit / non-audit work in other RBI Regulated Entities in the Group and completes or relinquishes the said assignment prior to the date of appointment as SCA / SA of the Entity for FY 2021-22, the said audit firm would be eligible for appointment as SCA / SA of the Entity for FY 2021-22.

## **10. Tenure and Rotation**

- 10.1 Audit firms shall be appointed as the Statutory Auditor for a continuous period of three years subject to the firms satisfying the eligibility norms each year. The audit firms can be removed during this period of three years only with the prior approval of the Central Office of RBI (Department of Supervision).
- 10.2 An audit firm would not be eligible for reappointment of SAs in the Bank for six years (two tenures) after completion of full or part of one term of the audit tenure.

## **11. Audit Fees and Expenses**

- 11.1 The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions. The audit fees for SAs 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.
- 11.2 Based on the recommendations of ACB, the Board of the Bank shall decide the Audit fees and expenses which would be subject to the approval of shareholders in their meetings pursuant to Regulation 36(5) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

**Eligibility Certificate from (Name and Firm Registration Number of the Firm)****A. Particulars of the firm:**

<b>Asset Size of Entity as on 31<sup>st</sup> March of Previous Year</b>	<b>Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) years</b>	<b>Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years</b>	<b>Number of Full Time Partners / Paid CAs with CISA / ISA Qualification</b>	<b>Number of Years of Audit Experience<sup>#</sup></b>	<b>Number of Professional Staff</b>

\*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<sup>4</sup> 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:

<sup>4</sup> 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.

## Annexure 2

Form C

### Certificate regarding eligibility of audit firms 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 1<sup>st</sup> / 2<sup>nd</sup> / 3<sup>rd</sup> 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.

2. 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 (SA) of the bank 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 as SA.

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

Signature

(Name and Designation)

Date: