



# CAPITALINDIA

Rediscover Business

## POLICY FOR APPOINTMENT OF STATUTORY AUDITORS

Version	:	1.00
Owned By	:	CFO
Approved By	:	Board
Effective From	:	28 <sup>th</sup> April 2023

## 1. Background

Reserve Bank of India (“RBI”) has issued guidelines RBI/2021-22/25 Ref.No. DoS. CO. ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, for Appointment of Statutory Auditors (SAs) of Commercial banks, (excluding RRBs), UCBs and NBFCs (including HFCs). The guidelines are issued 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. The guidelines require the Company to formulate a policy approved by the Board of Directors (“the Board”) to be hosted on official website/public domain and formulate necessary procedures thereunder to be followed for the appointment/ reappointment of SAs.

## 2. Objective

The Policy shall act as a guideline for appointment of the SA of the Company in pursuance of guidelines issued by RBI and other applicable provisions of other statutes from time to time.

## 3. Number of Statutory Auditors:

- i) The Company shall appoint minimum one SA till the time its asset size exceeds INR 15,000 crores and above as at the end of Previous year. The Company can appoint maximum four Joint SAs till the time the asset size exceeds INR 5,00,000 crores. The Company may finalize the work allocation among SAs, before the commencement of the statutory audit, in consultation with SAs.
- ii) The Company should decide on the number of SAs based on a Board Approved Policy, inter alia, 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.

## 4. Branch Coverage:

The SAs shall visit and audit at least the top 20 Branches where the Company has 100 or more branches or top 20% of the branches of the Company where the Company has less than 100 branches to be selected in order of the level of outstanding advances in such a manner so as to cover a minimum of 15% of total gross advances of the Company. In addition, the Company shall ensure adherence to the provisions of Sec 143(8) of the Companies Act, 2013 regarding audit of accounts of all branches as may be applicable.

## 5. Minimum Eligibility Criteria of Auditors

The SAs / proposed SAs should comply with the eligibility as prescribed under the said RBI guidelines. The same forms part of the policy as **Annexure 1**.

## 6. Independence of Auditors

- i) The Audit Committee of the Board ("**ACB**") shall monitor and assess the independence of the SAs 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 of the Company and the concerned Senior Supervisory Manager (SSM) / Regional Office (RO) of RBI.
- ii) In case of any concern with the Management of the Company 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 Company, under intimation to the concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- iii) Concurrent auditors of the Company, if any, will not be considered for appointment as SAs.
- iv) The time gap between any non-audit work (services mentioned at Section 144 of the Companies Act, 2013, internal assignments, special assignments, etc.) by the SAs of the Company or any audit/non-audit work for the Company's group entities should be at least one year, before or after its appointment as SAs. However, during the tenure as SA, an audit firm may provide such services to the Company, which may not normally result in a conflict of interest, and the Company may take its own decision in this regard, in consultation with the Board/ACB.
- v) The restrictions as detailed in para 6.(iii) and 6.(iv) above, shall apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

\* Conflict of Interest would not be created in the following special assignments.

- (i) Tax audit, tax representation and advice on taxation matters.
- (ii) Audit of interim financial statements.
- (iii) Certificates to be issued by the SA in compliance with statutory or regulatory requirements.
- (iv) Reporting on financial information or segments.

## 7. Professional Standards of SAs

- (i) The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- (ii) The Board /ACB of the Company 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, with the full details of the audit firm.
- (iii) In the event of lapses in carrying out audit assignments resulting in misstatement of the Company'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 the Company, the SAs would be liable to be dealt with suitably under the relevant statutory/ regulatory framework.

## 8. Tenure and Rotation

- (i) In order to protect the independence of the auditors/audit firms, the Company shall appoint the SAs for a continuous period of three years, subject to the SA satisfying the eligibility norms each year.
- (ii) If the Company removes the SA before completion of three years tenure, it shall inform concerned SSM/RO at RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.
- (iii) An audit firm would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure.
- (iv) One audit firm can concurrently take up statutory audit of a maximum of 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. 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 SAs 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

The Company shall ensure that the audit fees of the Company 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 risk in financial reporting etc.

The Audit fees shall be recommended by the ACB/ Board as per the relevant Statutory and regulatory instructions as permitted by the Shareholders of the Company.

## 10. RBI Reporting

Post appointment, the Company shall inform RBI regarding the appointment of SAs every year by way of certificate in **FORM A** within one month of such appointment.

## 11. Procedure for Appointment of Statutory Auditors

The RBI guidelines prescribe the procedure for appointment of SAs, which includes the following:

- i) The Company shall shortlist minimum of 2 audit firms for every vacancy of SA 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 SA does not get delayed.
- ii) The Company shall obtain a certificate, along with relevant information as per **FORM B**, from each of the audit firms proposed to be appointed as SAs that it complies with all the eligibility norms prescribed by RBI. Such certificate shall be duly signed by the main partner/s of the audit firm proposed for appointment under the seal of the said audit firm.
- iii) The ACB shall recommend the appointment of the SA to the Board and the Board shall recommend the same for the approval of the Shareholders. The Shareholders shall appoint the SA and the appointment of SA in case of casual vacancy shall be ratified by the Shareholders as per the provisions of the Companies Act, 2013.

## 12. Review of the Policy

This Policy shall be reviewed as and when deemed necessary and will be submitted to the Board for its approval on the recommendation of the ACB.

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall stand modified in accordance with regulations subject to ratification at the subsequent meeting.

## Annexure 1

### Eligibility criteria for appointment as Statutory Auditors (SAs)

#### A. Basic Eligibility

Asset Size of Company as on 31 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 ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12

Such other criteria as may be prescribed from time to time.

Along with the criteria as specified by the RBI, the Company shall also consider the criteria as per section 141 of the Companies Act, 2013.

**Note 1:** There should be at least one-year continuous association of partners with the firm as on the date of empanelment/shortlisting for considering them as full time partners. Further, for appointment as SAs, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

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:

- i) The full-time partner should not be a partner in other firm/s.
- ii) She/He should not be employed full time / part time elsewhere.
- iii) 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.

- iv) The Board/ACM 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:**

There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of shortlisting for considering them as Paid CAs with CISA/ISA qualification for the purpose.

**Note 3: Audit Experience:**

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 shortlisting for considering them as professional staff for the purpose.

**B. Additional Consideration**

- (i) The audit firm, proposed to be appointed as SAs for the Company, 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 Company shall ensure that appointment of 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 Company, the said firm shall not be appointed as SAs of the Company.
- (v) The auditors of the Company should 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 Company where the accounting and business data reside in order to achieve audit objectives.

### **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 Company 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 31<sup>st</sup> 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.



## FORM A

### Information to be submitted by the Company regarding appointment of SA

The Company has appointed M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as Statutory Auditor (SA) for the financial year \_\_\_\_ for their 1st/2nd/3rd term.

The Company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as SA of the Company for FY \_\_\_\_ along with relevant information in the format as prescribed by RBI.

The firm has no past association/association for \_\_\_\_\_ years with the company as SA.

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

Signature

(Name and Designation)

Date

## FORM B

### Eligibility Certificate from (Name and Firm Registration Number of the firm)

#### A. Particulars of the firm:

Asset Size of Company 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

\*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 SBA

#### 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 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 SAs of the Company. 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 willful 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: