



## POLICY FOR APPOINTMENT/REAPPOINTMENT/ REMOVAL OF STATUTORY AUDITORS

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## **1. OBJECTIVE**

1.1 The objective of this Policy is to document the process and criteria which is required to be considered by the Bank while putting up the proposal to the Audit Committee of the Board (ACB) of the Bank for the purpose of appointment of statutory auditors (SAs). The Bank has formulated the Policy on Appointment of Statutory Auditors ("Policy") pursuant to the specific requirement of the in Clause 10.1 Circular bearing reference no. RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 issued by the Reserve Bank of India ("RBI"). In addition to the compliance requirements with respect to all relevant statutory requirements, the instructions contained in the aforesaid RBI Circular have been incorporated in the policy document.

## **2. APPLICABILITY**

2.1 The Policy shall be applicable to the Bank from the date of approval by Board.

## **3 CRITERIA TO BE CONSIDERED BEFORE APPOINTMENT OF STATUTORY AUDITORS:**

The Bank shall consider the following factors while considering appointment/ reappointment of Statutory Auditors:

3.1 Provisions of the RBI Guidelines

3.2 Eligibility criteria of the SAs as prescribed by RBI from time to time

3.3 Qualification as an auditor as per Section 141 of the Companies Act, 2013.

3.4 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.

3.5 The appointment of SAs should be in line with the ICAI's Code of Ethics/ any other such standards adopted and should not give rise to any conflict of interest.

3.6 Written consent of the auditor to such appointment and certificate that the appointment, if made, shall be in accordance with the conditions stipulated under the RBI Guidelines and other statutory provisions.

3.7 The prescribed limit on minimum and maximum number of joint auditors based on asset size of the Bank and other prescribed factors from time to time including in terms of the RBI Guidelines.

3.8 Limit on Bank audits by SAs as prescribed by RBI from time to time.

3.9 The time gap between any non-audit works (services mentioned at Section 144 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 (as defined under the RBI guidelines) should be at least one year, before or after its appointment as SAs. The look back stipulation of one year shall be applicable from FY 2022-23. During the tenure as SA, an audit firm may provide such services to the Bank which may not normally result in a conflict of interest, and the Bank shall decide in this regard, in consultation and approval of the ACB. (A conflict would not normally be created inter alia 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)

- 3.10 Concurrent auditors of the Bank should not be considered for appointment as SAs.
- 3.11 The restrictions would also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
- 3.12 Any restrictions due to the directorship of a partner of an audit firm in the group entity of the Bank as defined under these guidelines.
- 3.13 Any other applicable regulations for the Bank from time to time.

#### **4. RECOMMENDATION OF THE ACB**

4.1 ACB shall monitor and assess the independence of the SAs on various parameters including audit of any entity with large exposure to the Bank by the SAs and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. The ACB shall recommend to the Board of Directors the appointment/ reappointment, remuneration, subject to the approval of the RBI and the shareholders, and oversee the work performed by the SAs for the purpose of preparing or issuing an audit report or related work.

4.2 The SAs will report directly to the ACB and the ACB will oversee the resolution of disagreements between management and the SAs, if they arise. The ACB shall review the performance of SAs on an annual basis. Criteria for reviewing the performance of Statutory Auditors of the Bank and serious lapses, if any is given in Annexure 1 to this policy. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence. 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 ACB.

#### **5. PROCEDURE FOR APPOINTMENT/ REAPPOINTMENT OF STATUTORY AUDITORS**

- 5.1 The Bank shall shortlist minimum of 2 (Two) 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.
- 5.2 The Bank shall place the name of shortlisted audit firms, in order of preference, before the ACB for selection as SAs, which shall consider the same and make its recommendation to the Board of Directors. Thereafter, upon confirmation of the shortlisted SAs by the Board of Directors and verifying their compliance with the eligibility norms prescribed by RBI and other relevant regulations, the Bank shall seek RBI's prior approval for appointment of SAs, for which purpose, the Bank shall submit to RBI, the names of the shortlisted SAs in order of preference. However, in case of reappointment of an SA 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 of such SA.
- 5.3 The Bank shall obtain a certificate on eligibility as prescribed by RBI from time to time, 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 of the Bank, under the seal of the said audit firm.

- 5.4 The Bank shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI and other statutory requirements and recommend the names along with a certificate, in the prescribed format.
- 5.5 The Bank shall seek prior approval of RBI (Department of Supervision) for appointment/ reappointment of SAs, on an annual basis in terms of the statutory provisions before 31st July of the reference year.
- 5.6 While approaching the RBI for its prior approval for appointment of SAs, Bank shall submit details such as total asset size as on 31st March of the previous year (audited figures) of the Bank, a copy of the resolution of the ACB and/ or Board resolution recommending names of audit firms for appointment as SAs in the order of preference along with prescribed information.
- 5.7 The appointment of SAs shall be approved by the shareholders at the annual general meeting.

## **6. NUMBER OF SAs and BRANCH COVERAGE:**

- 6.1 In line with RBI Guidelines, for banks with asset size of ₹15,000 crores and above as at the end of previous year, the statutory audit shall be conducted under joint audit of a minimum of two (2) audit firms.
- 6.2 The Bank shall decide on the number of SAs to conduct joint statutory audit, 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. Considering the above factors and the requirements of the Bank, the actual number of SAs to be appointed shall be decided subject to the limit on maximum number of SAs by RBI.
- 6.3 SAs shall visit and audit at least the Top 20 branches of the Bank, 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 Bank. The provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches shall be adhered to. The SAs shall consider the centralised systems and processes of the Bank in their audit procedures.
- 6.4 Audit of the branches shall be the responsibility of Central Statutory auditors as per the RBI guidelines

## **7. TENURE AND ROTATION**

- 7.1 In order to protect the independence of the auditor/audit firms, the Bank will 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.

7.2 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.

#### **8. REMUNERATION TO AUDITORS:**

8.1 The audit fees for SAs shall be in terms of applicable regulatory provisions and shall be reasonable and commensurate with their respective 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. Further, it shall be the discretion of the ACB & the Board to decide on the quantum of remuneration payable to each joint SA as appointed by the Bank, depending upon their respective scope of work. The remuneration to SAs shall be approved in the annual general meeting of the Bank.

#### **9. CONFLICT IN POLICY:**

9.1 In the event of a conflict between this Policy and the extant regulations or laws (as may be amended, replaced, restated, from time to time), the regulations and laws shall prevail.

#### **10. AMENDMENTS / MODIFICATIONS:**

10.1 To the extent any change/ amendment is required in terms of any applicable law or change in regulations, the regulations would prevail over the Policy and the provisions in the Policy would be modified in due course to make it consistent with law, however, notwithstanding such non-modification or pending such modification, the applicable law and regulations (as changed) shall prevail over the Policy, and the Policy shall be read accordingly. Such amended Policy shall be placed before the ACB and the Board for noting and necessary ratification.

#### **11 REVIEW OF POLICY:**

11.1 This Policy shall be reviewed by the Board 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

Annexure 1

Criteria for reviewing the performance of Statutory Auditors of the Bank and serious lapses, if any.

Part 1 : Evaluation of Performance of Statutory Auditors

Particulars	Criteria for Evaluation	Scoring (1 to 5) *	Remarks. If any
Compliance with the Professional standards in discharge of their audit responsibilities with highest diligence	Auditors' independence is maintained throughout the period of Audit		
	Complied with ICAI Code of ethics in performing the Audit of the Bank		
	Complied with the appointment formalities prescribed Reserve Bank of India from time to time		
Depth of the knowledge relating to audit practices, accounting standards, RBI instructions / guidelines etc. of the partners, paid chartered accountants and other audit staff.	Whether the Partners/ Professional Staffs has experience in BFSI Sector and it was adequately deliberated during the period of Audit		
	Whether Partners / Senior staff involvement is adequate		
	Whether and relation among the staff and management is cordial and no adverse remarks noticed from any department		
Whether Scope of work is adequately covered	Whether Statutory Auditors Covered the work as per the		

	Scope determined by RBI and Management		
	Whether matters directed by ACB is appropriately covered in the scope and compliance with same, like Branch Audit Coverage, Data analytics etc.		
	Whether deliberations with ACB during the period was satisfactory including the points suggested for improvements.		
	Timely Completion of Review / Audit and Other Certifications as determined by Board		
Average **			

\*1- Below average 2- Average 3- Good 4- Very Good 5- Excellent

\*\* If Average of all rating is between 4 -5 - Excellent, Between 3-4- Very Good, Between 2-3 Good Between 1-2 Average and 1 or below – Below Average

#### Part 2: Evaluation of Serious Lapses of Auditors

Any serious lapses/ negligence in audit responsibilities or conduct issues on part of the SAs -