



## **Policy on Appointment of Statutory Auditor**

**Document History**

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## Introduction

Bank's Policy for Appointment of Statutory Auditors (SA's) is designed to lay down the guidelines on appointment of statutory auditors within the regulatory framework. In addition to conforming to all relevant statutory/regulatory requirements, the policy is designed to ensure necessary transparency and objectivity for most key aspects of this important assurance function.

## Regulatory Framework

This policy is governed by RBI circular DoS. CO. ARG /SEC. 01/08.91.001/2021-22 dated April 27, 2021, i.e., the guidelines for Appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) with respect to the appointment and tenure of the statutory auditors of banks.

Further, as per RBI requirements emanating from the vide circular, the Banks shall formulate a Board approved policy for appointment of auditors and publish the same on its official website / public domain.

## Prior Approval of RBI

The Bank shall take prior approval of RBI for appointment / reappointment of SAs, on an annual basis. Further, Bank shall apply to Department of Supervision, RBI before 31st July of the reference year for such approval.

## Number of SCAs

Policy is framed with the below key regulatory frameworks:

1. The Board of the Bank and the Audit Committee (ACB) will decide on the number of SAs for the Bank audit, after 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.
2. In case the Bank decides to appoint joint auditors, they shall not have any common partners and they shall not fall under the same network of audit firms. As per the circular, Banks with asset size of Rs. 15,000 Crores and above (at the end of the previous year) should have minimum of two audit firms
3. ACB will 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 of the Bank and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
4. 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 SA shall approach the Board/ACB of the Bank, under intimation to the concerned SSM/RO of RBI.

## Professional Standards of SCAs

1. The SCAs/SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
2. The Board/ACB of Bank will review the performance of SA on an annual basis.

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

### **Tenure and Rotation**

1. The Bank will appoint the SA for a continuous period of three years. Further, the Bank may remove the audit firms during the above period only with the prior approval of the ACB and the Board and concerned office of RBI (Department of Supervision), as applicable.
2. 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. However, audit firms can continue to undertake statutory audit of other entities in the group.
3. 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.

### **Audit Fees and Expenses**

The audit fees for SCAs/SAs shall be 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. ACB will recommend the audit fees and to be approved by the Board.

Apart from the eligibility criteria as per regulatory compliance, the Bank will further evaluate the independence and other factors affecting integrity and reliability of the Firm before appointing any Statutory Auditors firm. The decision to select any statutory audit firm will be final decision of the Bank, subject to necessary approval from regulatory authorities and shareholders.

### **Procedure for Appointment of SCAs/SAs**

Below are the key points for appointment of SAs/SCAs:

1. The Bank will 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. However, in case of reappointment of 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.
2. The Bank will continue to follow the existing procedure for selection of SA. The name of shortlisted audit firms, in order of preference, will be placed before ACB for recommendation to the Board for selection as SA. Upon selection of SA by the bank in consultation with ACB and verifying their compliance with the eligibility norms prescribed by the RBI, the Bank will seek RBI's prior approval for appointment of SAs/SCAs.
3. The Bank shall obtain a certificate along with relevant information as mentioned in Form B (**Annexure- I**) of the RBI circular DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 from the audit firm(s) proposed to be appointed as 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 under the seal of the said audit firm.
4. The Bank will 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 mentioned in Form C of the RBI circular

DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, stating that the audit firm(s) proposed to be appointed as 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 SAs, the Bank will indicate its 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 SAs in the order of preference and also furnish information as per Form B (**Annexure-I**) and Form C (**Annexure-II**) as mentioned above, to facilitate expeditious approval of appointment/re-appointment of the concerned audit firm.
6. After receipt of RBI approval, the list of approved SAs shall be put to board for recommendation to the shareholders for their approval at the Annual General Meeting.

#### **Recommendation of the ACB**

1. 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.
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.
3. The ACB shall review the performance of SAs on an annual basis. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
4. 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.

## Eligibility Criteria For Audit Firms

### (A) Basic Eligibility

Minimum standards and eligibility norms for audit firms to be appointed as SA is given below:-

Asset Size of the bank as on 31st March of PY	Minimum no of Full time Partners (FTPs) associated with the firm for period of at least 3 years (Note 1)	Out of total FTPS minimum no of fellow chartered accountant partners associated with the firm for period of at least 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)
Up to Rs 1,000 Crore	2	1	1	6	8
Above Rs 1,000 and up to Rs 15,000 Crore	3	2	1	8	12
Above Rs 15,000 Crore	5	4	2	15	18

**Note 1:** There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as full-time partners. Further, 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:

- A. The full-time partner should not be a partner in other firm/s.
- B. She / He should not be employed full time / part time elsewhere.
- C. 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.
- D. 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.

**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 shall mean experience of the audit firm as Statutory Auditor of Banks. 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 shortlisting for considering them as professional staff for the purpose.

**(B) Additional Consideration**

1. 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]. 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.
2. 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 purpose
3. The audit firm should have at least 2 Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3) years.
4. The audit firm shall have minimum 8 years of Audit Experience.
5. The audit firm shall have at least 12 professional staff.
6. Audit Team include professional staff and article clerks with Knowledge of book-keeping and accountancy and who are engaged in on-site audits but exclude typists/stenos/computer operator/ subordinate staff/secretaries etc
7. 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
8. Concurrent auditors of the Bank will not be considered for appointment as Statutory Auditors.
9. Audit firm, proposed to be appointed as SAs for Bank, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
10. The Bank will evaluate the firms based on various other qualitative factors such as vintage of the firms, size of the firm/number of partners, Banking experience etc.
11. 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.
12. Bank shall adhere with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.
13. 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.), audit firm should 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.

14. Any Partner of Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SCA/SA of any Group entity.
15. The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SCA/SA for the Bank or any audit/non-audit works for Bank's 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, which may not normally result in a conflict of interest, and the bank may take their own decision in this regard, in consultation with the Board/ACB.  
  
A conflict would not normally be created in the case of the following special assignement. Highlighted below is the Indicative List for reference –
  - a) Tax Audit, tax representation and advise on Tax matters,
  - b) Audit of interim financial statements
  - c) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements
  - d) Reporting on financial information or segments
16. There should be at least one-year continuous association of partners with the firm as on the date of shortlisting for considering them as full-time partners. Further, for appointment as SCAs/SAs in case the asset size is above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.
17. In case the asset size is above ₹ 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:
  - 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 won 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.
18. In case of asset size above ₹1,000 crore, SAs should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATs) 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.
19. 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.

### **Amendments / Modifications**

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.



**Review of the Policy**

The Appointment of Statutory Auditors Policy shall be reviewed as and when required by the Bank, to comply with changes /modifications in regulatory guidelines. Any changes proposed in this policy shall be placed before the Audit Committee for recommendation to the Board for approval. In case there are any regulatory changes requiring modifications to the Policy, the same shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy till the time the same is suitably amended.

**Disclosure of Policy**

The Policy will be available on the Bank's website.

**Conflict in Policy**

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.

**Annexure-I**
**Form B- Eligibility Certificate (Name and Firm Registration Number of the firm)**
**A. Particulars of the firm**

Asset Size of the bank as on 31st March of PY	Number of Full time Partners (FTPs) associated with the firm for period of at least 3 years	Out of total FTPS minimum no of fellow chartered accountant partners associated with the firm for period of at least 3 years	Number of full time partners/ paid CAs with CISA/ISA qualification	Number of years of audit experience of the firm	Number of professional staff

**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>15</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:

### Annexure-II

#### **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.

1. The bank 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 for FY \_\_\_\_\_ along with relevant information (copy enclosed), in the format as prescribed by RBI.
2. The firm has no past association/association for \_\_\_\_\_ years with the bank/UCB as SCA/SA/SBA.
3. The bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of Commercial Banks (excluding RRBs).

Signature  
(Name and Designation)  
Date