

Policy for Appointment of Statutory Auditors (SAs)

1. Introduction

Reserve Bank of India (RBI) vide its circular no. RBI/2021-22/25 Ref No. Dos co.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, has issued guidelines for appointment of Statutory Auditors (SAs).

2. Purpose:

Each Entity Shall formulate a Board/LMC Approved Policy to be hosted on its official website/ public domain and formulate necessary procedure there under to be followed for appointment of SAs.

3 . Applicability:

This policy will be applicable for Financial Year 2023-24 and onwards.

4. Prior Approval of RBI:

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

5. Number of SAs and Branch Coverage:

(a) Minimum number of SAs to be appointed by the Bank shall be one if the Bank's asset size as on March 31 of previous year, is upto Rs.15,000 crore ; else, minimum of two SA (Partnership firm/LLPs) shall be appointed. The Bank shall ensure that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms. The Bank shall finalize the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

(b) The number of SAs to be appointed for a financial year shall be decided, 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. The actual number of SAs to be appointed shall be decided by Board subject to the following limits:

Asset Size of the Bank	Maximum No. of Auditors
Up to Rs 5,00,000 crore	4
Above Rs 5,00,000 crore and up to Rs 10,00,000 crore	6
Above Rs 10,00,000 crore and up to Rs 20,00,000 crore	8
Above Rs 20,00,000 crore	12

6. Eligibility Criteria of Auditors:

The minimum standards and eligibility norms for audit firms to be appointed as SAs are given as Annex 1

7. Independence of Auditors:

(a) The Board shall monitor and assess the independence of the auditors . Any concerns in this regard may be flagged by the Board of Directors of the Bank to the concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

(b) In case of any concern with the Management of the Entities 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.

(c) Concurrent auditors of the Bank will not be considered for appointment as SAs. The audit of the Bank and any entity with large exposure (As defined in RBI instructions on 'Large Exposures Framework') to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.

(d) 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 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 Bank which may not normally result in a conflict of interest , and the Bank will take a decision in this regard, in consultation with the ACB. (A conflict would not normally be created 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)

(e) The restrictions as detailed in Para 7 (c) and 7 (d) above, will 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. Professional Standards of SAs:

(a) The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

(b) The Board / ACB 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 / ACB, with the full details of the audit firm.

(c) In the event of lapses in carrying out audit assignments resulting in misstatement of 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 Bank, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

9. Tenure and Rotation:

(a) In order to protect the independence of the auditors/audit firms, Bank shall appoint the SAs 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 RBI.

(b) 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. In case an audit firm has conducted audit of the Bank for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Bank for six years from completion of part-tenure.

(c) An audit firm proposed to be appointed as SA of the Bank, 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], eight UCBs and 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. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. 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. Shared/Sub-contracted audit by any other/associate audit under the same network of audit firm 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.

10. Audit Fees and Expenses:

(a) The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions

(b) 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.

(c) The Board/ACB shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

11. Statutory Auditor - Appointment Procedure

Minimum procedural requirements are given at Annex-2

12. Review of the policy:

Policy will be reviewed yearly.

Annex-1

A. Basic eligibility :

Asset size of the Bank as on 31st March of the previous year	Min No. of Full Time partners (FTPs) associated with the firm for a period of at least three (3) years Note 1	Out of 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 RS 1000 crore and up to Rs 15000	3	2	1	8	12

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of short listing 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 short listing 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 short listing for considering them as professional staff for the purpose.

B. Additional Consideration

- (i) The audit firm, proposed to be appointed as SAs, 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 Bank 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 an RBI Regulated group Entity, the said firm shall not be appointed as SA of the bank. Bank shall, as part of the process for selection of firms for appointment as SAs, obtain appropriate disclosures in this regard, including details of directorships in Group Entities that are not regulated by RBI.
- (v) If the asset size of the Bank is 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 Entities where the accounting and business data reside in order to achieve audit objectives.
- (vi) For audit of UCBs, the SA 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 in which the UCB/branch of the UCB is located.

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 shall 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.

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, the Bank may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

ANNEX-2

Minimum Procedural requirement for Appointment of SAs

1. The Entities shall shortlist minimum of 2 audit firms for every vacancy of SAs 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 SAs does not get delayed. However, in case of reappointment of SAs by banks/UCBs till completion of tenure of continuous term of 3 years, there would not be any requirement of short listing and sending names of multiple audit firms to RBI while seeking approval to appointment. First preference will be given to existing SAs for their re-appointment subject to compliance of eligibility norms. The Bank shall obtain the willingness from the existing SAs for re-appointment. In case such consent is not received from any of the existing SAs, Bank shall follow the process for appointment of New SA as per Bank procedure by inviting Applications /Expression of interest from Audit firms subject to fulfilling the eligibility criteria as per RBI circular.
2. The banking companies shall continue to follow the existing procedure followed by them for selection of SAs. They shall place the name of shortlisted audit firms, in order of preference, before their Board / ACB for selection as SAs. Upon selection of SAs by the bank in consultation with their Board/ ACB and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SCAs/SAs.
3. The UCBs shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SAs. Upon selection of SAs by the UCBs in consultation with their Board and verifying their compliance with the eligibility norms prescribed by RBI, the UCBs shall seek RBI's prior approval for appointment of SAs.
4. The Entities shall obtain a certificate, along with relevant information as per Form B, from the audit firm(s) proposed to be appointed as SAs by the Entity 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 SCAs/SAs of the Entities, under the seal of the said audit firm.
5. 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 SA by them comply with all eligibility norms prescribed by RBI for the purpose.
6. While approaching the RBI for its prior approval for appointment of SAs, Banks shall indicate their 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 SAs in the order of preference and also furnish information as per Form B and Form C as mentioned above, to facilitate expeditious approval of appointment/re-appointment of the concerned audit firm.

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

Asset Size of Entity 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 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 / directors¹⁵ 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

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

1. 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.
2. The bank/UCB 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/UCB 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/UCB as SCA/SA/SBA.
4. The bank/UCB has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of Commercial Banks (excluding RRBs)/UCBs.

Signature
(Name and Designation)
Date: