

Appendix -11

Process/ framework - Appointment of Statutory Auditor

- A. Brief:** Comprehensive Regulatory Guidelines on appointment of Statutory Auditor of Commercial banks are being issued by Reserve Bank of India (RBI) vide Ref. No. DoS. CO. ARG/ SEC.01/ 08.91.001/ 2021-22 dated 27 April 2021 which supersedes all previous guidelines issued on the subject and will be applicable for Financial years from FY 2021-22 onwards. The guidelines are being issued under Sec 30(1A) of the Banking regulation Act, 1949. Primary purpose of the Statutory Audit is for an independent auditor to review the Bank's Financial Statements and present an opinion whether the Financial Statements give full information required by the Banking Regulation Act, 1949 in the manner required for Banking Companies and provide a true & fair view in conformity with the generally accepted accounting principles.
- B. Background:** - The bank perceives that it should have an internal guideline which, among other things, describes the procedure to be followed by the bank while appointing the Statutory auditor of the bank including but not limited to aspects related to auditor's eligibility, approvals, broad guideline on deciding number of auditors, remuneration, review of the performance etc. Hence it is proposed to document the procedure for appointment of Statutory Audit herein below. The document will however, in principle, be guided by regulatory guidelines in this regard and as amended from time to time.
- C. Responsibility:**- The Finance & Accounting Department (hereinafter referred to as "FAD") will be responsible for initiating and co-ordinating the process for selection of the Statutory Auditors. However, the final decision shall be made in consultation with India Management and other relevant departments (as may be required) following due approval process described later in the document.
- D. Scope of work:** - Besides the routine audit requirements prescribed under Guidance note on Bank audits, generally broad direction on the scope of audit including certifications required from the Statutory Auditors is prescribed by RBI for each year. The degree of examination deemed required will be left to the discretion of the appointed Auditor.
- E. Tenure of the Statutory Auditor:** - The Statutory Auditor will be appointed initially for one year which can be extended for further years within the maximum permissible tenure allowed under the guidelines in force subject to auditor being eligible as per the prescribed guidelines. As per the latest guidelines, no Statutory audit firm shall be allowed to continue with the Bank for a period of more than 3 years and shall not be eligible for re-appointment as Statutory Audit until the expiry of 6 Financial Years from last audit [Cooling off period]. Further, the bank may terminate the contract with the Statutory auditor before expiry of the contractual tenure with prior approval from RBI.

F. Framework for appointment of Statutory Auditor/ Responsibility of Bank's Management Committee/ Reporting System etc:

S.No.	Requirement	Particulars	Process/ Policy [Proposed]	Note/ remarks																											
1	Number of SA + Branch Coverage	<p>[Minimum prescribed] Entities with Asset size \geq INR 150 bn as at end of PY, Statutory audit to be conducted under joint audit by minimum 2 firms.</p> <p>Maximum number of auditors prescribed by RBI:</p> <table border="1"> <thead> <tr> <th>Sl. No.</th> <th>Asset Size of the Entity</th> <th>Maximum number of SCAs/SAs</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>Upto ₹5,00,000 crore</td> <td>4</td> </tr> <tr> <td>2.</td> <td>Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore</td> <td>6</td> </tr> <tr> <td>3.</td> <td>Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore</td> <td>8</td> </tr> <tr> <td>4.</td> <td>Above ₹ 20,00,000 crore</td> <td>12</td> </tr> </tbody> </table> <p>Branch Coverage: For banks with branches < 100, auditor should visit and audit top 20% branches in terms of outstanding advances ensuring atleast 15% coverage of gross advances</p>	Sl. No.	Asset Size of the Entity	Maximum number of SCAs/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	<p>Based on Asset size and Branches in the preceeding FY, the Bank may appoint following number of auditors, subject to maximum ceiling prescribed by RBI in this regard. Change to number of Auditors to be considered upon either of the conditions specified below being satisfied:</p> <table border="1"> <thead> <tr> <th>Asset Size [INR Billion]</th> <th>Number of Branches</th> <th>Maximum Number of Auditors</th> </tr> </thead> <tbody> <tr> <td>> 150</td> <td>upto 20</td> <td>2</td> </tr> <tr> <td>> 1000</td> <td>upto 50</td> <td>3</td> </tr> <tr> <td>> 5000</td> <td>upto 100</td> <td>4</td> </tr> </tbody> </table> <p>Bank's operations are presently centralised. In the event the function is decentralised in future, the Bank will ensure that Auditors visit and audit top 20% branches in terms of outstanding advances ensuring atleast 15% coverage of Gross advances</p>	Asset Size [INR Billion]	Number of Branches	Maximum Number of Auditors	> 150	upto 20	2	> 1000	upto 50	3	> 5000	upto 100	4	<p>Besides the quantitative factors proposed in process/ policy bank to consider below factors, while deciding upon the number of auditors for any FY:</p> <ul style="list-style-type: none"> - complexity of transactions, - Level of computerization - availability of other independent audit inputs - identified risks in financial reporting <p>Note: List is indicative and not exhaustive</p>
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2	Appointment of Auditors	<p>Selection of Audit firms</p> <p>Auditor's eligibility</p> <p>Auditor's independence and conflict of interest</p> <p>Prior approval of RBI</p>	<p>Upon deciding the number of Auditors and an overall fee range for the engagement, the Bank to approach minimum of 2 Audit firms for each vacancy to send out RFPs [Request for proposal] to the Bank.</p> <p>Bank's MC to decide upon the audit firms in the order of preference considering factors like Firm's eligibility, Firm's profile, audit team's profile, work experience, firm's independence etc. [DH of other departments may also be pre-consulted during this process]</p> <p>Proposed Audit Firms should be compliant with requirements in ANNEX I and any other section of the guideline, as may be applicable to be eligible for the audit of the Banks</p> <p>Bank to assess the independence and conflict of interest position with the proposed Audit firms in terms of relevant regulatory provisions, standards and best practices.</p> <p>Bank to apply to Department of Supervision with the shortlisted audit firms in the order of preference on or before 31.July of the reference year</p>	<p>Management committee approval to be obtained for number of auditors to be appointed and ceiling of the Audit fees for the Financial year</p> <p>An indicative list of declarations Bank would obtain from the Audit firms is as below:</p> <ol style="list-style-type: none"> Joint auditors do not have common partners Firms are not under the same network of firms Compliance with Basic Eligibility norms <<Form B>> Qualification u/s 141 of the Companies Act, 2013 Audit firm not under debarment by <ul style="list-style-type: none"> - any Government Agency, - National Financial Reporting Authority (NFRA), - the Institute of Chartered Accountants of india (ICAI), - RBI or Other Financial Regulators. Any partner of the Accountant firm is not a director in any of the Group entities of Bank in India No Non-Audit services are being provided to Bank within FY preceeding the FY for which appointment is sought by the firm or any firm within the network of firms or firms with common partners <p>Bank shall verify the compliance of audit firm(s) to the eligibility norms and recommend the names along with a certificate, in the format as per Form C</p> <p>Bank's application to RBI to include:</p> <ul style="list-style-type: none"> - Indicate Bank's Total asset size as per last audited FS - Indicate names of selected Audit firms in order of preference - Form B - Form C 																											

S.No.	Requirement	Particulars	Process/ Policy [Proposed]	Note/ remarks
3	Other considerations	Non-Audit work <i>Note: Restriction on non-audit work to apply to audit firm under the same network of audit firms or any other audit firm having common partners.</i>	Bank to ensure that non-audit services are not provided by Statutory Auditor to Bank one year before or after the statutory Audit	Non-Audit work to include but not limited to services mentioned in Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc
			Bank to ensure that the Firm does not provide services creating conflict of Interest during the tenure as Statutory Auditor. Bank to decide on any such services in consultation with LMC	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
		Concurrent auditors should not be appointed as Statutory Auditors of the Bank		
		Tenure	Appointment shall be for continuous period of 3 years, subject to Statutory Auditor satisfying eligibility criterion. 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	For removal before this term prior permission would be sought from RBI
	Others	Audit fees and distribution of audit work to be finalised / agreed basis mutual consultation before commencement of Audit		
5	Review of performance	LMC of Entities shall review the performance of Statutory Auditor on an annual basis. Lapses in audit assignments resulting in misstatement of Financial statements and violation/ lapses with RBIs directions/ guidelines to be dealt with suitably under the relevant statutory/regulatory framework.	Members of Bank's Management (with relevant DHs, if deemed required) to have a meeting with the statutory audit on an annual basis post completion of audit to review the performance	Any serious lapses / negligence in audit responsibilities or conduct issues on part of the Statutory Auditors or any other matter considered as relevant shall be reported to RBI within two months from completion of the annual audit.

Note: This Policy is to be published on the Bank's website