Policy for Selection and Appointment of Statutory Auditors (SAs) - 2025

Division: Chennai

Document Control

Serial No	Type of Information	Document Data
1	Policy Title	Selection and Appointment of Statutory Auditors (SAs)
2	Date of Approval	27.11.2024
3	Policy Superseded	-
4	Policy Version Number	2.0
5	Policy Owner	Chennai Branch
6	Policy Approval	Board of Directors

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1. **Purpose**

The Bank is required to formulate a Board approved Policy and frame necessary procedure there under to be followed for appointment of Statutory Auditor (SA) as per Reserve Bank of India circular dated April 27,2021. Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

2. **Applicability**

This Policy will be applicable to the Bank in respect of appointment/reappointment of Statutory Auditors.

3. **Prior approval of RBI**

The Bank is required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of Statutory Auditors, on an annual basis. For the purpose, the Bank is required to apply to The Department of Supervision, Central Office, RBI, Mumbai before 31st July of the reference year.

4. **Number of Statutory Auditors**

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

The Bank shall decide on the number of SAs 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. The actual number of SAs to be appointed shall be decided subject to the following limits as per the extant RBI Circular.

Classification:Restricted-External

Asset Size of the Bank	Maximum no. of Statutory Auditors
Upto ₹ 500,000 crore	4
Above ₹ 500,000 crore and Upto ₹ 1,000,000 crore	6
Above ₹ 1,000,000 crore and Upto ₹ 2,000,000 crore	8
Above ₹ 2,000,000 Crore	12

5. Eligibility Criteria of Auditors

As per the revised guidelines, the eligibility criteria to be fulfilled by audit firms for appointment of SAs of the Bank has been divided into two parts, namely

a. Basic Eligibility

b. Additional Consideration

The details of the same, as applicable to the Bank, is as under

A. Basic Eligibility

Asset Size of Entity as on 31st 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
Upto ₹1,000 crore	2	1	1	6	8

Note 1

There should be at least one-year continuous association of partners with thefirm as on the date of empanelment (for Public Sector Banks) 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.

Classification:Restricted-External

For this purpose, 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) The Board/ACB/LMC 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 empanelment for Bank 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)/All India Financial Institutions (AIFIS)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 date of empanelment 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.

Classification:Restricted-External

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. SAs 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 Bank in order to achieve audit objectives.

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.

6. Independence of Auditors

a. The Local Management Committee (LMC) shall 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 LMC to the Board of Directors of the Bank and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

b. 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 SAs shall approach the LMC, under intimation to the concerned SSM/RO of RBI.

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c. The Concurrent Auditors of the Bank should not be considered for appointment as SAs of the Bank. The audit of the Bank and entity with large exposure (as defined in RBI instructions of Large Exposure 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 may take its own decision in this regard, in consultation with the LMC.

e. The above restrictions detailed in para 5.3 and 5.4 shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

f. 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 maters,
   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

7. 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 LMC shall review the performance of SAs on an annual basis and place the report to the Local Advisory Board (LAB). 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 LAB, with the full details of the audit firm.

Classification:Restricted-External

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

8. Tenure and Rotation

a. In order to protect the independence of the auditor's/audit firms, Bank shall appoint the SA 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.

b. An audit firm would not be eligible for reappointment in the same Bank 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 / Banks.

c. Further, the audit firms which have already completed tenure of 1 year or 2 years with the Bank (appointed as per the existing guidelines) may be permitted to complete the balance tenure only, i.e., 2 years and 1 year respectively, if they fulfil the eligibility norms on an annual basis. However, 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 with the Bank for six years from completion of part-tenure.

d. An 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], 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.

e. For the purpose of this Policy, 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.

Classification:Restricted-External

f. 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 audit fees for SAs shall be decided in terms of the relevant Statutory/Regulatory provisions. 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.

The Country Manager shall make recommendation to the Board of Directors who are the competent authority fixing audit fees of SAs of the Bank.

10. Procedure for Appointment of Statutory Auditors

a. The appointment of SAs will be made on an annual basis, subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability.

b. Based on the vacancy position, the Bank 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 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. The Bank shall place the names of the shortlisted audit firms in order of preference to the Board of Directors for their approval.

c. The Bank shall obtain a certificate, along with relevant information as per Form B (Annexure I), from the audit firm(s) proposed to be appointed/ reappointed as SAs, 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/ reappointment of SAs of the Bank, under the seal of the said audit firm.

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d. 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 (Annexure II), 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. The SAs are required to declare the list of their major corporate clients to avoid conflict of interest.

e. While approaching the RBI for its prior approval for appointment of SAs, the Bank shall indicate the total asset size as on March 31st of the previous year (audited figure).

f. Upon receipt of confirmation from the RBI, final appointment letter will be issued to the audit firm. The same will also be placed before the LAB in the ensuing meeting.

11. Scope of Audit

Scope of the SA of the Bank will be strictly as per RBI guidelines. The audit firm will be required to conduct limited review of financial results for September and December apart from detailed review for the year ended March, subject to RBI guidelines. The audit assignment also includes issue of certificates mandated by RBI as part of the annual audit process. The details of certification to be undertaken by the SAs and other areas of annual audit is reviewed by RBI on an annual basis and necessary instructions are issued to the Bank which will be communicated to the SA separately.

The SAs shall be advised to furnish the Audited Financials for March 31st and the necessary certification by June 30, 2024 and the Long Form Audit Report (LFAR) should be forwarded to the concerned Senior Supervisory Manager (SSM), Department of Supervision (DoS), Reserve Bank of India (RBI) within 02 months from the completion of LFAR.

12. Review of the Policy

The Policy will be reviewed by Chennai Branch on an annual basis in tune with the regulatory guidelines issued from time to time or internal requirements or as and when considered necessary.

Classification:Restricted-External

Annexure - I
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 SAs

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 SAs 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.

Classification:Restricted-External

C. Declaration from the firm:

The firm complies with all eligibility norms prescribed by RBI regarding appointment of 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 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:

Note: *For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.*

Classification:Restricted-External

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 SAs

The Bank is desirous of appointing M/s, Chartered Accountants (Firm Registration Number) as Statutory Auditor (SAs) 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.

The Bank obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Central Auditor (SAs) for FY along with relevant information (copy enclosed), in the format as prescribed by RBI.

The firm has no past association/association for_____years with the Bank as SAs.

The Bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of Commercial Banks (excluding RRBs)/UCBs.

Signature

(Name and
Designation)
Date: