

# Policy for Appointment of Statutory Auditors

**This document contains the policy and procedure for appointment of statutory auditors of SCB's in line with new guidelines issued by the Reserve Bank of India in April 2021 specifying the various aspects to be covered while appointing the statutory auditors of the bank.**

**May 2023**

## 1. MANDATORY INFORMATION

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## 1. Revision History

Author	Version	Date	Department/ Reviewer	Description

## Emirates NBD Bank (P.J.S.C), India

### Policy for Appointment of Statutory Auditors (SAs) – for Year 2021-22 and onwards

#### 1. Introduction:

The Reserve Bank of India ('RBI') in terms of notification bearing reference no. RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27<sup>th</sup> April, 2021, issued new guidelines for appointment of Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) (hereinafter referred to as 'Entities').

These guidelines are applicable from FY 2021-22 and onwards in respect of appointment / re-appointment of SAs of the Entities.

#### 2. Purpose:

The objective of this policy is to establish proper procedure for appointment of SAs and to conform with the extant norms of Reserve Bank of India, and applicable provisions of Banking Regulation Act, 1949; and Companies Act, 2013 as per of this policy document.

#### 3. 3. Definitions:

a) "Audit Committee" means the Audit Committee of the Board.

b) "Board" means Board of Directors of the Bank.

c) "Statutory Auditors (SAs)" mean auditors appointed as per the policy to conduct statutory audit of the Bank.

d) "RBI circular" means RBI circular RBI/2021-22/25 Ref No. DOS.CO.ARG/ SEC.01/ 08.91.001/ 2021-22. dated April 27, 2021

#### 4. Applicability:

Guidelines issued by RBI circular dated April 27, 2021 will be applicable to the Bank for Financial Year 2021-22 onwards in respect of appointment/ reappointment of SAs.

#### 5. Prior Approval of RBI:

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

#### 6. Number of SAs and Branch Coverage:

Minimum number of SAs to be appointed by the Bank shall be two if the Bank's asset size as on March 31<sup>st</sup> of previous year, is Rs.15,000 crore or more; else, minimum of one SA shall be appointed.

Currently for our Bank size only one SA would be appointed subject to RBI approval.

The SAs shall visit and audit at least the Top 20% of the 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. In addition, the Bank shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

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## 7. Eligibility Criteria of Auditors:

The minimum standards and eligibility norms for audit firms to be appointed as SAs shall be, as given below:

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
Above ₹15,000 crore	5	4	2	15	18
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Upto ₹1,000 crore	2	1	1*	6	8

\* Not mandatory for UCBs/NBFCs with asset size of upto ₹ 1,000 crore.

### 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:

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

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**Audit Experience:** Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ 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 shortlisting 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 the Bank, the said firm shall not be appointed as SA of the Bank or any of the group entities\* of the Bank.

\* Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.

(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 (CAATTs) 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.

**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.

**8. Independence of Auditors:**

- The Audit Committee of the Board (ACB) and EXCO shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best

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practices. Any concerns in this regard may be flagged by the ACB to the Board of Directors and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

- 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.
- 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<sup>2</sup>, and the Bank will take a decision in this regard, in consultation with the ACB and EXCO.  
(<sup>2</sup> 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)
- The restrictions as detailed in para 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.

## 9. Professional Standards of SAs

- The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- The 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 EXCO and subsequently to RBI within two months from completion of the annual audit. Such reports shall be sent with the approval / recommendation of the ACB, with the full details of the audit firm.
- 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.

## 10. Tenure and Rotation

- 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.
- 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<sup>3</sup>. (<sup>3</sup> 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.)

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- 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, A group of audit firms having common partners and/or under the same network, will be considered as one entity. 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.

## **11. 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.

## **12. Statutory Auditor - Appointment Procedure**

### **a) Process for reappointment of existing Auditors**

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. On receipt of the consent, Bank shall take steps for the re-appointment of the firm as SA as detailed in paragraph 11 onwards. In case such consent is not received from any of the existing SAs, Bank shall follow the process for appointment of New SA to fill that vacancy as detailed below.

### **b) Process for appointment of New firm as SAs :**

Applications will be invited from the Audit firms / past auditors of the Bank / firms associated with Bank in past / firms having their Head Office or Branch in Mumbai, subject to fulfilling the eligibility criteria as per para 7 above.

The short listed audit firms will make presentation to the Management, including compliance on para 7 and 8 as above, for final selection. ACB/EXCO will select the firms with intimation to Group Finance for adequate number of audit firm(s) in order of preference indicating their names against the vacancy. ACB/EXCO shall select 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.

Thereafter, Bank will approach the audit firms to obtain their irrevocable consent in writing strictly in order of preference. If the approached audit firm does not give consent, the Bank will approach the next audit firm in order of preference for obtaining consent till the time the number of audit firms who have given the consent equals to number of vacancies for the particular year.

Thereafter, the bank shall seek RBI's approval for appointment/ re-appointment of SAs under Sections 30 (1-A) of the Banking Regulation Act, 1949.

### **General process to be followed:**

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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.

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. In case any of the SAs is auditors of a corporate client who is assisted by the Bank, then files of such corporate client shall be audited by the other SA.

### **13. Review of the policy:**

The Audit Committee of the Board and EXCO Committee of the Bank may review the policy as and when required / need-based.

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.



**Annexure I**

**Form B**

**Eligibility Certificate from (Name and Firm Registration Number of the firm)**

**A. Particulars of the firm:**

<b>Asset Size of Entity as on 31st March of Previous Year</b>	<b>Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) years</b>	<b>Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years</b>	<b>Number of Full Time Partners/ Paid CAs with CISA/ISA Qualification</b>	<b>Number of Years of Audit Experience#</b>	<b>Number of Professional staff</b>
*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 / 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.

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: