

POLICY ON APPOINTMENT OF STATUTORY AUDITOR OF THE COMPANY

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POLICY ON APPOINTMENT OF STATUTORY AUDITORS**1. PURPOSE:**

As per RBI circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, the Company is required to formulate a Board Approved Policy and formulate necessary procedure thereunder to be followed for appointment of Statutory Auditor (SA). 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 Company for Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditors.

3. INTIMATION TO RBI

The Company is required to intimate RBI (Department of Supervision) for appointment/reappointment of Statutory Auditors, on an annual basis with in one month of the appointment.

4. NUMBER OF STATUTORY AUDITORS

The Company shall decide on the number of Statutory Auditors 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. based on the inputs of Audit Committee and Board of Directors of the Company.

5. COVERAGE OF AUDIT

The Statutory Auditors shall by physical or virtual visit and audit at least the Top 20 branches/Top 20% of the branches of the Company, 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 Entities. In addition, the Company shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

6. MINIMUM ELIGIBILITY CRITERIA OF AUDITORS

The Company shall adhere to the minimum eligibility criteria as mentioned in the RBI circular for appointment of the Statutory Auditors considering the asset size of the Company.

a. Basic Criteria:

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 Cr	5	4	2	15	18
Above ₹ 1000 Cr up to ₹ 15,000 Cr	3	2	1	8	12
Upto ₹ 1000 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.

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: 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 Condition:

- The audit firm, proposed to be appointed as Statutory Auditor, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
- 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.
- The Company shall ensure that appointment of Statutory Auditor 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.
- 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 Statutory Auditor of the Company. The Company shall, as part of the process for selection of firms for appointment as Statutory Auditor, obtain appropriate disclosures in this regard, including details of directorships in Group Entities that are not regulated by RBI.
- The Statutory Auditor 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 Company 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 Company may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

7. INDEPENDENCE OF AUDITORS

- a. Audit Committee of the Board (ACB) 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 ACB to the Board of Directors of the Company and concerned Senior

Supervisory Manager (SSM)/Regional Office (RO) of RBI.

- b. In case of any concern with the Management of the Company such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the Statutory Auditors shall approach the Board/ACB of the Company, under intimation to the concerned SSM/RO of RBI.
- c. Concurrent auditors of the Company should not be considered for appointment as Statutory Auditors. The audit of the Company and any entity with large exposures to the Company 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 Statutory Auditors for the Company or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as Statutory Auditors. However, during the tenure as Statutory Auditor, an audit firm may provide such services to the Company, which may not normally result in a conflict of interest, and the Company may take their own decision in this regard, in consultation with the Board/ACB.
- e. The restrictions as detailed in para 7 (c) and 7 (d) above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

8. PROFESSIONAL STANDARDS OF STATUTORY AUDITORS

The Statutory Auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

The Board/ACB of Company shall review the performance of Statutory Auditors on an annual basis. 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. Such reports should be sent with the approval/recommendation of the Board/ACB, with the full details of the audit firm.

9. TENURE AND ROTATION

In order to protect the independence of the auditors/audit firms, the Company will have to appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, the Company can remove the audit firms during the above period and shall inform concerned SSM/RO at RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.

An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure.

10. AUDIT FEES AND EXPENSES

The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions. The audit fees for Statutory Auditors for the Company 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 Board / ACB shall make recommendation to the Competent Authority (By Shareholders in AGM/EGM) for fixing audit fees of Statutory Auditors as per the relevant statutory/regulatory instructions.

11. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS

- The company shall invite applications from eligible Audit firms.
- Interests/Applications received will be evaluated by the CFO in consultation with the MD&CEO based on the template for evaluation devised for the purpose. Based on the evaluation result CFO in consultation with the MD&CEO will shortlist 2 firms for every vacancy identified.
- The shortlisted names will be presented to the ACB/Board. ACB/Board will select firms from the list as required. In case ACB/Board require shortlisted firms may be requested to give a presentation on their capability in brief.
- The Company shall place the name of shortlisted audit firms, in order of preference, before ACB for selection. ACB will select the firms for adequate number (twice the number of vacancies from the shortlisted firms) of audit firm(s) indicating their names with the template score. ACB 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 Statutory Auditors does not get delayed. However, in case of reappointment of Statutory Auditors by the Company till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting.

- Thereafter, the Company 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 Company 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.
- The Company shall obtain a certificate, along with relevant information as per prescribed format from the audit firm proposed to be appointed as Statutory

Auditors by the Entity to the effect that the audit firm 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 Statutory Auditors of the Company, under the seal of the said audit firm.

- The Statutory Auditors are required to declare the list of their major corporate clients to avoid conflict of interest. In case any of the Statutory Auditors is auditors of a corporate client who is assisted by the Company, then files of such corporate client shall be audited by the other Statutory Auditors.

12. REVIEW OF THE POLICY

The policy shall be updated at least once in a year. The policy shall be placed to Audit Committee of the Board for recommendation and Board for approval.