

# AU Small Finance Bank Limited

POLICY FOR APPOINTMENT OF  
STATUTORY AUDITORS OF THE  
BANK

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## **1. PURPOSE**

1.1. As per RBI circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 and subsequent FAQ released, the Bank 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 the RBI circular, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

## **2. APPLICABILITY**

2.1. This Policy will be applicable to the Bank for Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditors.

## **3. PRIOR APPROVAL OF RBI**

3.1. 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**

4.1. 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.

4.2. The statutory audit shall be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. The Bank shall ensure to obtain eligibility certificate from the firm(s) that joint auditors of the Bank do not have any common partners and they are not under the same network of audit firms. Further, the Bank shall finalise the work allocation among Statutory Auditors, before the commencement of the statutory audit, in consultation with ACB and Statutory Auditors.

4.3. Considering the above factors and the other requirements of the bank, the actual number of Joint Statutory Auditors to be appointed, shall be subject to the following limits:

Sl. No.	Asset Size	Maximum number of Statutory Auditors
1	Up to ₹ 5,00,000 crore	4
2	Above ₹ 5,00,000 crore and Up to ₹ 10,00,000 crore	6
3	Above ₹ 10,00,000 crore and Up to ₹ 20,00,000 crore	8
4	Above ₹ 20,00,000 crore	12

## 5. COVERAGE OF AUDIT

5.1. The Statutory Auditors shall visit and audit at least the Top 20 Branches, 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 Sec 143(8) of the Companies Act, 2013

## 6. MINIMUM ELIGIBILITY CRITERIA OF AUDITORS

6.1. The Bank shall ensure to obtain Eligibility Certificate as per the prescribed format for adherence to the minimum eligibility criteria as mentioned in the RBI circular for appointment of the Statutory Auditors considering the asset size of the Bank.

## 7. INDEPENDENCE OF AUDITORS

7.1. 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 Bank and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

7.2. 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 Statutory Auditors shall approach the Board/ACB of the Bank, under intimation to the concerned SSM/RO of RBI.

7.3. Concurrent auditors of the Bank should not be considered for appointment as Statutory Auditors. The audit of the Bank and any entity with large exposures to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.

7.4. 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 Bank should be at least one year, before or after its appointment as Statutory Auditors (Applicable from FY 2022-23 as stated in RBI FAQ released on the subject) However, during the tenure as Statutory Auditor, an audit firm may provide such services to the Bank, which may not normally result in a conflict of interest, and Bank may take their own decision in this regard, in consultation with the Board/ACB.

7.5. The restrictions as detailed in para 7.3 and 7.4 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.**

8.1. The Board/ACB of Bank 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**

9.1. In order to protect the independence of the auditors/audit firms, Bank 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, 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.

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

## **10. AUDIT FEES AND EXPENSES**

10.1. The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions.

10.2. The audit fees for Statutory Auditors for the Bank 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.

10.3. The ACB shall make recommendation to the RBI for fixing audit fees of Statutory Auditors.

## **11. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS**

11.1. The Bank has prescribed the detailed procedural guidelines as per Annex A, in conformity with the instructions under this policy and all relevant statutory/regulatory requirements for appointment of Statutory Auditors.

## **Annexure A**

### **Procedure for Appointment of Statutory Auditors**

1. The Bank shall shortlist minimum of 2 audit firms for every vacancy of Statutory Auditors 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, 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.

2. Bank shall place the name of shortlisted audit firms, in order of preference, before Audit Committee of the Board (ACB) for selection as Statutory Auditors.

Upon selection of Statutory Auditors in consultation with the ACB and verifying the compliance with the eligibility norms prescribed by RBI, Bank shall seek RBI's prior approval for appointment of Statutory Auditors.

3. Bank shall obtain a certificate, along with relevant information as per Form B of RBI circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, from the audit firm(s) proposed to be appointed as Statutory Auditors 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 Statutory Auditors, under the seal of the said audit firm.

4. The Bank shall ensure to obtain Eligibility Certificate as per the prescribed format for adherence to the minimum eligibility criteria as mentioned in the RBI circular and after being satisfied of their eligibility, recommend the names along with a certificate, in the format as per Form C of RBI circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, stating that the audit firm(s) proposed to be appointed as Statutory Auditors comply with all eligibility norms prescribed by RBI for the purpose.

5. While approaching the RBI for its prior approval for appointment of Statutory Auditors, Bank shall indicate its total asset size as on March 31st of the previous year (audited figures), forward a copy of Board/ACB Resolution recommending names of audit firms for appointment as Statutory Auditors 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 / directors\* 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:

\*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.

## 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