



Policy on Appointment of Statutory Central Auditors and Concurrent Auditors

Document Version: 3.0

August 2022

Table of Contents

A. STATUTORY CENTRAL AUDITORS:	3
A.1 Introduction.....	3
A.2 Objective	3
A.3 Prior Approval of RBI:.....	3
A.4 Number of SCAs / SAs and Branch Coverage	3
A.5 Norms on eligibility, empanelment, and selection of statutory central auditors (SCAs)	4
A.6 Tenure and Rotation	6
A.7 Audit Fees and Expenses	7
A.8 Procedure for Appointment of SCAs/SAs.....	7
A.9 Reference List	8
B. ANNEXURES	9
B.1 Annexure 1 – Form B	9
B.2 Annexure 2 – Form C.....	10
C. LIST OF ACRONYMS	11

A. STATUTORY CENTRAL AUDITORS:

A.1 Introduction

The Board of Directors (the Board) of SBM Bank India Ltd ('the Bank') have adopted the following policy with regard to the Statutory Audit, in line with the extant norms of RBI Guidelines for Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFs (including HFCs), dated 27 April 2021.

A.2 Objective

The objective of this policy is to define the framework and eligibility criteria for appointment of statutory central auditors.

A.3 Prior Approval of RBI:

Bank shall take prior approval of RBI (Department of Supervision) for appointment / reappointment of SCAs / SAs, on an annual basis in terms of the statutory provisions. For the purpose, Bank would apply to Department of Supervision, RBI before 31st July of the reference year.

A.4 Number of SCAs / SAs and Branch Coverage

Bank will appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit, till the time, the asset size of the Bank is below INR 15,000 crore as at the end of previous year.

In case where Bank's asset size reaches or exceeds INR 15,000 crore as at the end of previous year, the statutory audit shall be conducted under joint audit of a minimum of two audit firms [Partnership firms / Limited Liability Partnerships (LLPs)].

It shall be ensured that joint auditors of the Bank, do not have any common partners and they are not under the same network of audit firms, as per RBI definition. Further, the Bank may finalize the work allocation among SCAs / SAs, before the commencement of the statutory audit, in consultation with their SCAs / SAs.

The Bank would decide on the number of SCAs / SAs based on a Board Approved Policy, inter alia, 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.

Considering the above factors and the requirements of the Bank, the actual number of SCAs / SAs to be appointed shall be decided by the Bank's Boards, subject to the following limits, stipulated by the RBI:

Sr. No.	Asset Size of the Bank	Maximum number of SCAs / SAs
1	Upto INR 5,00,000 crore	4
2	Above INR 5,00,000 crore and below INR 10,00,000 crore	6
3	Above INR 10,00,000 crore and below INR 20,00,000 crore	8
4	Above INR 20,00,000 crore	12

SCAs/SAs shall visit and audit at least the Top 20 branches / Top 20% of the branches of the Entities (in case where number of branches is less than 100), 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 Bank shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

A.5 Norms on eligibility, empanelment, and selection of statutory central auditors (SCAs)

The minimum standards required to be satisfied by audit firms for appointment as SCAs, Indian private sector banks have been classified into two categories, on the basis of their asset size, as on 31 March of the previous year as under:

- (i) banks with an asset size upto INR. 15,000 crores, and
- (ii) banks with an asset size above INR. 15,000 crores.

Accordingly, depending upon its asset size each private sector bank is required to appoint audit firm as its SCAs fulfilling the minimum norms relating to the standing of the firm, number of partners / CAs that are associated with the firm, minimum audit experience, etc. that are prescribed have been captured below:

Asset size of the bank as on 31 March of the 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 INR. 15,000 crores.	5	4	2	15	18
Above INR 1,000 crore and Upto INR. 15,000 crores.	3	2	1	8	12
Upto INR 1,000 crore	2	1	1	6	8

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:

- (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 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: 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 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.

❖ **Additional Consideration:**

- (i) The audit firm, proposed to be appointed as SCAs/SAs for Entities, 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 Entities shall ensure that appointment of SCAs/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 Bank, the said firm shall not be appointed as SCA / SA of any of the group entities of the Bank.
- (v) The Auditors for Bank with asset size above INR 1,000 crore 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.

❖ **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 may 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 Audit firm will reach out to RBI for consideration accordingly as RBI shall have the discretion to allow the concerned audit firm to complete the audit, with special consideration.

❖ Independence of Auditors

- The 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 and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- Concurrent auditors of the Bank shall not be considered for appointment as SCAs / SAs of the Bank. The audit of the Bank and any entity with large exposure to the Bank for the same reference year shall 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 SCAs/SAs for the Entities or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SCAs/SAs. However, during the tenure as SCA/SA, an audit firm may provide such services to the concerned Entities 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.
- The restrictions as detailed above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

❖ Professional Standards of SCAs / SAs

- The SCAs / SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- Board / ACB of the Bank shall review the performance of SCAs / SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SCAs / 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 Board / ACB, with the full details of the audit firm.

A.6 Tenure and Rotation

- The Bank shall appoint the SCAs / 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 the concerned office of RBI (Department of Supervision), as applicable for prior approval for appointment.
- 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.
- 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.
- 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 SCA/SA accordingly. 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.

A.7 Audit Fees and Expenses

The matters relating to remuneration etc., payable to the SCAs have been left to the Board / shareholders of the bank and shall be decided accordingly with compliance of the relevant statutory / regulatory provisions. Same 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.

A.8 Procedure for Appointment of SCAs/SAs

- The Bank shall continue to follow the existing procedure followed by them for selection of SCAs/SAs. The name of shortlisted audit firms, in order of preference, shall be placed before the ACB for selection as SCAs / SAs. Upon selection of SCAs/SAs by the bank in consultation with the ACB and post verification of compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SCAs/SAs.
- The Bank shall shortlist minimum of 2 audit firms for every vacancy of SCAs / 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 SCAs/SAs does not get delayed. However, in case of reappointment of SCAs/SAs by the Bank till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting multiple audit firms while seeking approval to appointment.
- The Bank shall obtain a certificate, along with relevant information as per Form B, from the audit firm(s) proposed to be appointed as SCAs/SAs by the Entity 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 SCAs/SAs of the Entities, 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, stating that the audit firm(s) proposed to be appointed as SCA/SA by them comply with all eligibility norms prescribed by RBI for the purpose.
- While approaching the RBI for its prior approval for appointment of SCAs/SAs, Bank shall indicate the 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 SCAs / SAs 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.
- The Bank shall host the approved policy for appointment of SCAs / SAs on its official website / public domain.

A.9 Reference List

- A review of the Bank's systems of internal control and assessment of internal compliance would be conducted with reference to Reserve Bank of India (RBI) Circular dated August 14, 1996 on concurrent auditing in Banks, as amended from time to time, specifically the revision of RBI's guidelines on Concurrent Audit System in Commercial Banks dated July 16, 2015 and latest RBI's guidance on the Concurrent Audit System in Commercial Banks dated 18 September 2019 (DBS.CO.ARS.No.BC.01/08.91.021/2019-20), the Bank's policies and desk-top-procedures and operating circulars issued by Head Office from time to time.
- Assessment of the external compliance would be conducted with reference to RBI instructions, guidelines and directives issued from time to time, Rules and Regulations under Banking Regulation Act, 1949, Foreign Exchange Management Act (FEMA) 1999, and Circulars of Foreign Exchange Dealers Association of India (FEDAI), serving as a feedback mechanism for the Compliance Department for assessing the areas of compliance breaches / failures. Verification of the level of compliance in the bank for ensuring compliance with the spirit of the RBI guidelines contained in their circular DBS.CO.PP.BC.6/11.01.005/2006-07 dated April 20, 2007 on "Compliance Function in Banks and dated March 04, 2015.
- Sec 189- Audit and Auditors, Companies Act,2013,

B. ANNEXURES

B.1 Annexure 1 – Form B

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

A. Particulars of the firm:

Asset size of the bank as on 31 March of the previous year	Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years	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	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional staff

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:

B.2 Annexure 2 – 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

1. The Bank 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 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:

C. LIST OF ACRONYMS

ACB	-	Audit Committee Board.
AML	-	Anti - Money Laundering.
Bank	-	SBM Bank (India).
Board	-	Board of Directors of the Bank.
CAs	-	Chartered Accountants.
CAD	-	Credit Administration Department.
CTR	-	Cash Transgression report
FCA	-	Fellow Chartered Accountant.
HoIA	-	Head of Internal Audit.
IAD	-	Internal Audit Department of the Bank.
ICAI	-	Institute of Chartered Accountants of India.
KYC	-	Know Your Customer.
RBI	-	Reserve Bank of India.
RMC	-	Risk Management Committee.
SCA	-	Statutory Central Auditors.
STR	-	Suspicious Transaction report.