



Policy on Appointment of Statutory Auditor

History of Revisions

Version	Summary of Revisions	Date of Approval
1.0	Policy Formulation	xx-xxx-21

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1. Preamble

1.1 Objective of the Policy

The objective of this Policy is to provide a framework, which will enable the Equitas Small Finance Bank in appointment/reappointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs).

1.2 Scope of the Policy

This policy will cover the role and responsibilities of the Equitas Small Finance Bank (ESFB or “Bank” or “Entity”) in appointment/reappointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs).period in line with the RBI guidelines. The policy will cover the number of SCAs / SAs required for branch coverage, eligibility criteria, Independence, professional standards of Auditors, tenure, audit fees and appointment procedure in detail to ensure that audits are conducted in a timely and effective manner.

2. Regulatory Framework Applicable Regulations

2.1 [RBI Circular on Guidelines for Appointment of Statutory Central Auditors \(SCAs\)/Statutory Auditors \(SAs\) of Commercial Banks \(excluding RRBs\), UCBs and NBFCs \(including HFCs\) dated April 27, 2021](#)

2.1.1 Applicability

2.1 These guidelines will be applicable to the Commercial Banks (excluding RRBs), (hereinafter referred to as the Entities) for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SCAs/SAs¹ of the Entities. (Clause 2.1 of the circular)

2.1.2 Prior Approval of RBI:

- a. Commercial Banks (excluding RRBs) will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SCAs/SAs, on an annual basis .For the purpose, Bank should apply to Department of Supervision, RBI before 31st July of the reference year.
- b. For the purpose, all Commercial Banks (excluding RRBs) in India under Mumbai Region shall approach the Central Office of RBI (Department of Supervision). (Clause 3.1 & 3.2 of the circular).

2.1.3 Number of SCAs / SAs and Branch Coverage:

- a. For Entities with asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. All other Entities should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit. It should be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms. Further, the Entity may finalise the work allocation among SCAs/SAs, before the commencement of the statutory audit, in consultation with their SCAs/SAs.
- b. The Entities should 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 Entity, the actual number of SCAs/SAs to be appointed should be decided by the respective Boards, subject to the following limits:

Sl. No.	Asset Size of the Entity	Maximum number of SCAs/SAs
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

The above limits have been prescribed to ensure that the number of SCAs/SAs appointed by the Entities are adequate, commensurate with the asset size and extent of operations of the Entities, with a view to ensure that audits are conducted in a timely and effective manner. This will be subject to review in future based on the experience.

- c. SCAs/SAs shall visit and audit at least the Top 20 branches/Top 20% of the branches of the Entities (in case of Entities having less than 100 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 Entities. In addition, the banking companies and NBFCs shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches. (Clause 4 of the circular).

2.1.4. Eligibility Criteria of Auditors

Each Entity is required to appoint audit firm(s) as its SCA(s)/SA(s) fulfilling the eligibility norms as prescribed below (Annex 1 of Circular):

2.1.4.1 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
Above ₹15,000 crore	5	4	2	15	18

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, for appointment as SCAs/SAs of all Commercial Banks (excluding RRBs), and other Entities with asset size above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For all Commercial Banks (excluding RRBs) with asset size above ₹ 1,000 crore, 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 should 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:

For Commercial Banks, 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.

2.1.4.2 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) Further, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SCA/SA of any of the group entities of that Entity.
- (v) The auditors for Entities with asset size above ₹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.

2.1.4.3 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 Entity 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, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

2.1.5. Independence of Auditors

- a. For Commercial Banks, the 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 Commercial Bank and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- b. 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 SCAs/SAs shall approach the Board/ACB of the Entity, under intimation to the concerned SSM/RO of RBI.
- c. Concurrent auditors of the Entity should not be considered for appointment as SCAs/SAs of the same Entity. The audit of the Entity and any entity with large exposure to the Entity 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 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 Entities may take their own decision in this regard, in consultation with the Board/ACB.
- e. The restrictions as detailed in para c and d above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners. (Clause 6 of the circular)

2.1.6. Professional Standards of SCAs/SAs

- a. The SCAs/SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- b. The Board/ACB of Entities 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.
- c. In the event of lapses in carrying out audit assignments resulting in misstatement of an Entity's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and

responsibilities of the SCAs/SAs in relation to Entities, the SCAs/SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework. (Clause 7 of the circular)

2.1.7. Tenure and Rotation

- a. In order to protect the independence of the auditors/audit firms, Entities will have to appoint the SCAs/SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, Commercial Banks (excluding RRBs) 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, as mentioned at Para 2.1.2 above.
- b. 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. However, audit firms can continue to undertake statutory audit of other Entities.
- c. One 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. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. For the purpose of this circular, 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. (Clause 8 of the circular).

2.1.8. Audit Fees and Expenses

- a. The audit fees for SCAs/SAs of all the Entities shall be decided in terms of the relevant statutory/regulatory provisions.
- b. The audit fees for SCAs/SAs of all the Entities 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.
- c. The Board/ACB of Entities shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs. (Clause 9 of the circular).

2.1.9. Statutory Audit Policy and Appointment Procedure

- a. Each Entity shall formulate a Board approved Policy to be hosted on its official website/public domain and formulate necessary procedure thereunder to be followed for appointment of SCAs/SAs.
- b. Guidelines on minimum procedural requirements for appointment of SCAs /SAs are given below (Annex II of Circular):

- (i) The Entities 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 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.
- (ii) The banking companies shall continue to follow the existing procedure followed by them for selection of SCAs/SAs. They shall place the name of shortlisted audit firms, in order of preference, before their ACB for selection as SCAs/SAs. Upon selection of SCAs/SAs by the bank in consultation with their ACB and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SCAs/SAs.
- (iii) The Entities 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.
- (iv) The Commercial Banks (excluding RRBs) 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.
- (v) While approaching the RBI for its prior approval for appointment of SCAs/SAs, Commercial Banks (excluding RRBs) shall indicate their 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.

3 ESFB Policy framework

3.1. Number of Joint Auditors

The Board of the Bank will decide on the number of statutory auditors, taking into account the 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.

3.2 Eligibility Criteria

- a. Every audit firm to be considered for appointment as joint auditors shall satisfy the eligibility criteria as prescribed in the RBI Circular dated April 27, 2021 in terms of limits on number of banks audited by the firm, minimum number of full time partners, Fellow Chartered Accountants (FCA) partners, full time partners/ CAs with CISA/ ISA qualification, their period of association with the audit firm, audit experience, etc.
- b. The audit firm to be considered for appointment as joint auditors shall be duly qualified for appointment as auditors of a company under Section 141 of the Companies Act, 2013.

- c. 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.
- d. The appointment should be in line with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.
- e. The auditors 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
- f. The Bank will adhere to the procedure for appointment of statutory auditors as prescribed and detailed in the Annex II to the RBI Circular dated April 27, 2021 on the subject.

3.3 Independence of Auditors

- a. Audit Committee of the Board (ACB) will monitor and assess the independence of auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard will be flagged by ACB to the Board and concerned Senior Supervisory Manager (SSM)/ Regional Office (RO) of RBI.
- b. In case of any concerns faced with the management such as non-cooperation, non-furnishing of information, Auditors can approach the Board of the Bank under intimation to SSM/ RO of RBI
- c. Concurrent Auditors of the Bank will not be considered for appointment as statutory auditors.
- 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 auditors for the Bank or any audit /non-audit works for its group entities will be at least one year, before or after its appointment as auditors of the Bank.
- e. Auditors, may provide such services to the Bank, which may not normally result in a conflict of interest. Indicative list of such instance that will not result in such a conflict are as below:
 - (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.

3.4 Performance of Statutory Auditors

ACB will review the performance of statutory auditors on an annual basis. Any serious lapses/ negligence in audit responsibilities or conduct issues on part of the auditors or any other matter considered as relevant will be reported to RBI with the approval/ recommendation of ACB within two months from completion of the annual audit, with full details of the audit firm involved.

3.5 Tenure and rotation

- a. The Bank will appoint auditors for a continuous period of three years subject to firms satisfying eligibility norms every year and subject to annual approval of RBI. Audit firms can be removed during the above period only with the approval of RBI – Department of Supervision.
- b. The audit firm will not be eligible for reappointment as auditors of the Bank for six years after completion of full or part of one term of the audit tenure as prescribed above.

3.6 Audit Fees and Expenses

- a. The audit fees will be determined by the Board with the recommendation of Audit Committee and be subject to approval of shareholders as required under Companies Act, 2013.
- b. The Board will ensure that the audit fees is 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.

3.7 Statutory Audit Policy and Appointment Procedure

This Policy will be hosted on the Bank's official website as mandated by the RBI Circular and the Bank shall formulate necessary procedure to be followed for appointment of the auditors.

4 Provisions in policy over and above but in consonance with RBI guidelines

None

5 Changes to the Policy

Not Applicable

6 Periodicity of Review of the Policy

The Board will review this policy on need basis and as may be required under the regulations that may be issued in future.

Author of the Policy	Finance / Secretarial
Reviewer of the Policy	Compliance
Name of Committee which recommended to the Policy Formulation Committee of the Board	Executive Policy Formulation Committee
Date of Board Approval	June 17, 2021
Date of Next Review	The Board will review this policy on need basis.