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Introduction

The Reserve Bank of India (RBI) vide circular DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 on Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) (herein after referred as “the Circular”) advised Banks to formulate a policy for appointment of auditors and publish the same on its official website/public domain with due approval of its Board of Directors. The RBI issued revised guidelines vide circular DoS. CO. ARG /S8213/08.91.001/2022-23 dated March 06, 2023 for appointment / re-appointment of SBA (Statutory Branch Auditors) for public sector banks.

Objectives of the Policy

Policy for Appointment of Statutory Auditors (SA’s) lays down guidelines on appointment of statutory auditors within the regulatory framework. In addition to conforming to all relevant statutory/regulatory requirements, the policy is designed to ensure necessary transparency and objectivity for most key aspects of this important assurance function.

Framework for Appointment

- The Bank is required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SAs, on an annual basis. For the purpose, Bank shall apply to Department of Supervision, RBI before 31st July of the reference year.
- The appointment/ re appointment would be in strict adherence to the circular.
- The Board of the Bank / the Audit Committee (ACB) will decide on the number of SAs for the Bank audit, 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. and the norms laid out in the circular. In case the Bank decided to appoint joint auditors, they should not have any common partners and they are not under the same network of audit firms.
- Concurrent auditors of the Bank should not be considered for appointment as SCA/SA. The audit of the Bank and any entity with large exposure to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.

Tenure of Appointment

- The Bank will appoint the SA for a continuous period of maximum three years. Further, the Bank may remove the audit firms during the above period only with the prior approval of the ACB / the Board and concerned office of RBI (Department of Supervision), as applicable.

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

Independence / Professional Standards / Audit Fees and Expenses of the SA

- ACB will 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.
- The Board/ACB of Bank will review the performance of SA on an annual basis.
- The audit fees shall be 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. ACB will recommend the audit fees which are to be approved by the Board. Apart from the eligibility criteria as per regulatory compliance, the Bank will further evaluate the independence and other factors affecting integrity and reliability of the Firm before appointing any Statutory Auditors firm. The decision to select any statutory audit firm will be final decision of the Bank, subject to necessary approval from regulatory authorities and shareholders.

Eligibility Criterion

The Bank shall ensure that the audit firm confirms to details mentioned in the ANNEXURE I of the RBI circular. Further, below are the key eligibility criteria for the audit firm:

1. Eligibility criteria of the SAs as prescribed by RBI from time to time based on the asset size of the Bank
2. Qualification as an auditor as per Section 141 of the Companies Act, 2013.
3. 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.
4. The appointment of SAs should be in line with the ICAI's Code of Ethics/ any other such standards adopted and should not give rise to any conflict of interest.
5. Written consent of the auditor to such appointment and certificate that the appointment, if made, shall be in accordance with the conditions stipulated under the RBI Guidelines and other statutory provisions.
6. The prescribed limit on minimum and maximum number of joint auditors based on asset size of the Bank and other prescribed factors from time to time including in terms of the RBI Guidelines.
7. Limit on Bank audits by SAs as prescribed by RBI from time to time.

8. 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 (as defined under the RBI guidelines) should be at least one year, before or after its appointment as SAs. The look back stipulation of one year shall be applicable from FY 2022-23. 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, and the Bank shall decide in this regard, in consultation and approval of the ACB. (A conflict would not normally be created inter alia 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)
9. Concurrent auditors of the Bank should not be considered for appointment as SAs.
10. The restrictions would also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
11. Any restrictions due to the directorship of a partner of an audit firm in the group entity of the Bank as defined under these guidelines.
12. Any other applicable regulations for the Bank from time to time.

Procedure for appointment of Statutory Auditor

Key steps involved are:

1. The Bank will shortlist minimum of 2 audit firms for every vacancy of SA 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 SA does not get delayed. However, in case of reappointment of SA by the Bank 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. The Bank will continue to follow the existing procedure for selection of SA. The name of shortlisted audit firms, in order of preference, will be placed before the Board for selection as SA. Upon selection of SA by the bank in consultation with Board/ACB and verifying their compliance with the eligibility norms prescribed by the RBI, the Bank will seek RBI's prior approval for appointment of SA.
3. The Bank shall obtain a certificate along with relevant information as mentioned in Form B of the RBI circular from the audit firm(s) proposed to be appointed as SAs by the Bank 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 under the seal of the said audit firm.

4. The Bank will 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 mentioned in Form C of the RBI circular, 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.
5. While approaching the RBI for its prior approval for appointment of SAs, the Bank will 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 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.

Conflict in the Policy

In the event of a conflict between this Policy and the extant regulations or laws (as may be amended, replaced, restated, from time to time), the regulations and laws shall prevail.

Review of the Policy

This Policy shall be reviewed by the Board as and when any changes are to be incorporated in the Policy due to change in applicable laws or regulations, or annually and updated accordingly.

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