



DHANLAXMI BANK

**Policy on Appointment of
Statutory Central Auditors (SCA)
and Statutory Branch Auditors (SBA)**

Version 2

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1. Introduction / Background:

Reserve Bank of India vide Circular No. RBI / 2021-22/ 25 Ref.No.Dos.CO.ARG /SEC /01/08.91.001/ 2021-22 dated April 27, 2021 has issued Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks, in terms of provisions of Section 30(1A) of the Banking Regulation Act, 1949. The policy on appointment of Statutory Central Auditors (SCAs)/Statutory Branch Auditors (SBAs) is designed in terms of the above guidelines and other applicable provisions of the Companies Act 2013.

2. Purpose:

The purpose of the policy is to define the guidelines / process to be followed during the appointment, re-appointment and removal of Statutory Central Auditors including the number of Statutory Central Auditors and their eligibility criteria, selection procedure and scope of audit.

3. Number of Statutory Central Auditors (SCAs):

Considering 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 with a view to ensure that audits are conducted in a timely and efficient manner Bank shall have the following number of Statutory Central Auditors (SCAs).

Sl. No.	Asset size as on 31st March of the preceding year	Number of joint auditors
1	Less than Rs.15,000/- crores	1
2	Rs.15,000/- crores to Less tha Rs.1,00,000/- crores	2
3	Rs.1,00,000/- crores to Less tha Rs.3,00,000/- crores	3
4	Rs.3,00,000/- crores to Less tha Rs.5,00,000/- crores	4

The Board of Directors of the Bank, based on the recommendation from the Audit Committee (ACB) shall decide on the number of Statutory Central Auditors to be appointed from time to time , if the asset size of the Bank is Rs.5,00,000 crore or above as per the guidelines issued by RBI.

4. Eligibility Criteria of Auditors:

Constitution of the audit firm for conducting the Statutory Audit of the bank shall be Partnership firms/Limited Liability Partnerships (LLPs). Eligibility criteria to be fulfilled by the audit firm(s) for appointment as SCA(s) of the Bank comprise of :-

- a) Basic Eligibility
- b) Additional Consideration

The details of the same is as under:

A. Basic Eligibility

Asset Size 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 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 ²	Minimum No. of years of Audit Experience of the firm ³	Minimum No. of Professional staff ⁴
Above ₹15,000 crore	5	4	2	15	18
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12

Notes:

1. **Full-Time partners (FTPs) associated with the firm:** - There should be at least one-year continuous association of partners with the firm as on the date of empanelment for considering them as full time partners. At least two partners of the firm shall have continuous association with the firm for at least 10 years. Further, the full-time partners 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.

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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

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.

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 application of empanelment for considering them as professional staff for the purpose.

5: Joint auditors of the bank should not have any common partners and should not be under the same network of audit firms.

B. Additional Consideration

- i) The audit firm, at the time of submission of application for empanelment as SCAs 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 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 the Bank, the said firm shall not be appointed as SCA of any of the group entities of the Bank
- v) The applicant firm should 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.
- vi) Concurrent auditors of the Bank will not be considered for appointment as SCAs.
- vii) 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.

- viii) The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SCA/SA of the Bank should be at least one year, before or after its appointment as SCA/SA. However, during the tenure as SCA/SA, an audit firm may provide such services to the Bank which may not normally result in a conflict of interest, and the Bank may take its own decision in this regard, in consultation with the Board/ACB.
- ix) The restrictions as detailed in Sl.No. vi, vii and viii above should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.
- x) 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 and within overall ceiling prescribed by any other statutes or rules. For this purpose, 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.
- xi) 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.

5. Tenure and Rotation:

The appointment/reappointment/removal of SCAs for undertaking the annual audit of the Bank shall be subject to prior approval of the Reserve Bank of India and shareholders at each Annual General Meeting.

The term of SCAs will be for a period of one year (commencing from the date of AGM in which their appointment is approved by the shareholders till the conclusion of the next AGM) which has to be approved by majority of the shareholders present and voting, either directly or through proxy.

The maximum tenure of appointment of SCAs will be for a period up to three years, subject to annual approval by the RBI and the shareholders at the AGM. In case of reappointment of SCAs, till the 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.

6. Procedure for appointment / re-appointment of SCAs:

- a) The Bank will empanel the requisite number of audit firms found eligible for appointment of SCAs. Audit firm desirous of getting themselves empanelled must submit the profile along with application for appointment (as per Annexure I attached) and eligibility form in 'Form B' (as per Annexure II attached). Bank reserves its right to call for additional information, over and above that specified therein. The application must be signed by the main partner/s of the audit firm under the seal of the said audit firm. Bank will shortlist profiles eligible to be considered for appointment / reappointment as SCAs and after due diligence, submit the same to the Audit Committee of Board / Board of Directors for further shortlisting / to seek approval of Reserve Bank of India.
- b) ACB will evaluate the details of the eligible audit firms on various parameters, including audit experience of other Banks, location, nature of clientele etc. Details of the firm as stated in item 'a' above as well as compliance of eligibility norms will be called for to determine their eligibility for selection as SCA.
- c) Based on selection of the audit firms for empanelment as SCAs and approval thereof by ACB, a shortlist of audit firms based on number of vacancies will be placed before the Board of Directors for approval. The Bank shall shortlist minimum of 2 audit firms for every vacancy of SCAs.
- d) Bank will seek RBI's prior approval for appointment of SCAs along with a certificate in 'Form C' (as per Annexure IV attached). Bank will also provide the details of the firm(s) to ICAI seeking confirmation whether any adverse remarks/disciplinary action is pending against the said firm(s), whereby the firm(s) become ineligible for appointment as SCAs of the Bank.
- e) Reappointment of SCAs until completion of tenure of continuous term of three years will be subject to fulfilling the terms of appointment as specified in the policy.
- f) The appointment/reappointment/removal of SCAs for undertaking the annual audit of the Bank shall be subject to prior approval of the Reserve Bank of India and shareholders at each Annual General Meeting. A resolution will be placed before the

shareholders at the AGM to approve the appointment of the selected firm(s) as SCAs of the Bank for a period of one year (commencing from the date of AGM in which their appointment is approved by the shareholders till the conclusion of the next AGM) which has to be approved by majority of the shareholders present and voting, either directly or through proxy.

- g) Once resolution is approved by the shareholders, an appointment order is issued to the firm, indicating their role and responsibilities along with the remuneration payable for the assignment. The firm will submit their acceptance to the offer of appointment and also submit necessary documents viz., declaration of eligibility, certificate of non-indebtedness etc. as per extant RBI, SEBI and other statutory / regulatory guidelines.

7. Scope of Audit

Scope of statutory central audit of the Bank will be strictly as per RBI guidelines. The audit firm will be required to conduct limited review of quarterly financial results as required under clause 49 of the listing agreement, subject to RBI guidelines. The audit assignment also includes issue of certificates mandated by RBI as part of the annual audit process. The details of certification to be undertaken by the SCAs and other areas of annual audit are reviewed by RBI on annual basis and necessary instructions are issued to the Bank which will be communicated to the SCAs separately.

In case of joint audit by more than one audit firms, Bank will finalize the work allocation among SCAs, before the commencement of the statutory audit, in consultation with the SCAs and as per regulatory guidelines.

8. Audit Fee and Expenses Payable

The audit fees for SCAs/SAs 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 shareholders may delegate the power to the Board of Directors, (based on the recommendation of the ACB) for approving the remuneration to statutory auditors by means of a resolution.

9. Number of branches to be audited

In terms of RBI guidelines SCAs 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.

10. Review of Performance:

Re-appointment of audit firm(s) as SCAs for their subsequent term of second and third year, as the case may be, will be undertaken by the ACB / Board, who will review their performance on annual basis and subject to their fulfillment of eligibility criteria as well as appointment terms, and recommend their re-appointment as SCAs for subsequent year. Thereafter, the procedure outlined under item '6' above will be followed.

At the time of annual review of the performance of SCAs by the ACB/Board, any serious lapses/negligence in audit responsibilities or conduct issues on part of the SCAs or any other matter considered as relevant, will be reported to RBI within two months from completion of the annual audit, based on the approval/recommendation of the ACB/Board, with the full details of the audit firm.

In the event of lapses in carrying out audit assignments resulting in misstatement of the financial statements of the Bank, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SCAs in relation to the Bank, the SCAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

11. Resignation

Resignation of SCA will be subject to the extant RBI guidelines as well as SEBI guidelines with regard to listed entities as under –

- a. If the SCA resigns within 45 days from the end of quarter of a financial year, then the auditor shall, before such resignation, issue the limited review / audit report for such quarter.
- b. If the SCA resigns after 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review / audit report for such quarter as well as the next quarter.
- c. Notwithstanding the above, if the SCA has signed the limited review / audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review / audit report for the last quarter of such financial year as well as the audit report for such financial year.
- d. Further, the SCA when submitting their resignation must also comply with the following, as per extant SEBI guidelines, which includes, inter-alia, reporting of concerns with respect to the Bank to the ACB:
 - In case of any concern with the Management of the Bank, such as non-availability of information/non-cooperation by the Management, which may

hamper the audit process, the SCA shall approach the Chairman of the ACB and the ACB shall receive such concern directly and immediately without specifically waiting for the quarterly ACB meetings.

- In case the SCAs propose to resign, all concerns with respect to the proposed resignation, along with relevant documents shall be brought to the notice of the ACB. In cases where the proposed resignation is due to non-receipt of information/ explanation from the Bank, the auditor shall inform the ACB of the details of information/ explanation sought for and not provided by the management, as applicable.
- On receipt of such information from the SCAs relating to the proposal to resign as mentioned above, the ACB / Board of Directors, as the case may be, shall deliberate on the matter and communicate its views to the management and the auditor.

12. Appointment of Statutory Branch Auditors

Bank will empanel the requisite number of audit firms found eligible for appointment as Statutory Branch Auditors (SBAs). Audit firms desirous of getting themselves empanelled must submit the requisite application cum eligibility form along with their profile. Bank reserves its right to empanel or to call for additional information, over and above that specified therein. The application must be signed by the main partner/s of the audit firm under the seal of the said audit firm.

After due diligence, the list of the firms selected for empanelment/appointment as Statutory Branch Auditors shall be placed before the ACB / Board of Directors of the Bank for its approval. The Board of Directors of the Bank, based on the recommendation from the Audit Committee (ACB) shall approve the list of Statutory Branch Auditors eligible for empanelment/appointment as Statutory Branch Auditors from time to time and also their remuneration. The list of Auditors eligible for empanelment/appointment as Statutory Branch Auditors (SBAs) as approved by the Board is forwarded to the RBI for final approval. After getting the approval from the RBI, the Bank shall finalize the number of auditors required for conducting statutory audit of the branches from the list empanelled. The allotment of branch/es will be decided and appointment letters shall be issued to the concerned auditors.

The appointment of Statutory Branch Auditors will be made on an annual basis, subject to their fulfilling the eligibility norms prescribed and also subject to their suitability.

The matters related to the fees / remuneration etc. payable to the SBAs will be decided by the Board as recommended by the Audit Committee of the Board with the approval of the shareholders of the Bank.

- 13.** The above norms should be read in line with the extant guidelines issued by RBI. Any amendments / additional conditions imposed / relaxations extended by the RBI post implementation / amendments made to this Policy, the same shall prevail over the conditions specified above.