



POLICY FOR APPOINTMENT OF STATUTORY AUDITORS (SAs) - FY 2021-22 ONWARDS

1. Background:

- 1.1** The Reserve Bank of India vide its circular No. RBI/2021-22/25 Ref No.DOS.CO.ARG/SEC.01/08.91.001/ 2021-22 dated April 27, 2021 (the “Circular”), has issued fresh guidelines for appointment of Statutory Auditors (SAs) of Commercial Banks under Section 30(1A) of the Banking Regulation Act, 1949, thereby superseding all previous guidelines issued on the subject.
- 1.2** The objective of this policy is to establish proper procedure for appointment of SAs and to conform with the extant norms of Reserve Bank of India, and applicable provisions of Banking Regulation Act, 1949, Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Accordingly, RBL Bank Limited (the “Bank”) has prepared the policy to align with the new guidelines.

2. Applicability:

- 2.1** The guidelines issued by the RBI circular is applicable to the Bank for Financial Year 2021-22 and onwards in respect of appointment/ reappointment of SAs of the Bank.

3. Prior Approval of RBI:

- 3.1** The Bank will seek prior approval of RBI (Department of Supervision) for appointment/ reappointment of SAs on an annual basis under the provisions of Section 30(1A) of the Banking Regulation Act, 1949. For the purpose, the Bank shall apply to Department of Supervision, RBI, Mumbai before 31st July of the reference year for such approval.

4. Procedures to Shortlist a Statutory Auditor:

4.1 Number of SAs and Branch Coverage:

- 4.1.1** Minimum number of SAs to be appointed by the Bank shall be two since the Bank’s asset size as on March 31 of the previous year, is above Rs.15,000 crore.
- 4.1.2** The Bank shall ensure that joint auditors of the Entity do not have any common partners and they are not under the same network* of audit firms.
- *As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014)
- 4.1.3** The Bank shall finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with the SAs.
- 4.1.4** While RBI circular allows the number of SAs to be appointed for a financial year to be decided, 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. The actual number of SAs to be appointed shall be decided by Board subject to the following limits:

Asset size of the Bank	Maximum numbers of SAs
Upto ₹5,00,000 crore	4
Above ₹5,00,000 crore and upto ₹10,00,000 crore	6
Above ₹10,00,000 crore and upto ₹20,00,000 crore	8
Above ₹20,00,000 crore	12

For RBL Bank the Board has decided the go with 2 Joint Auditors.

4.1.5 The SAs shall visit and audit at least the Top 20% of the branches of the Bank, 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 Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches. Section 143 (8) mentions that audit of branches will be done by the SA or an auditor who is equally qualified.

4.2 Eligibility Criteria of SAs:

4.2.1 The minimum standards and eligibility norms for audit firms to be appointed as SAs shall be, as given below:

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	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
	Note 1		Note 2	Note 3	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, 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:

- The full-time partner should not be a partner in other firm/s.
- She / He should not be employed full time / part time elsewhere.
- 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.
- The Bank will take conformation from SAs 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 will 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: 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.

4.2.2 Additional Consideration for eligibility as SA

(i) The audit firm, proposed to be appointed as SAs, 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 Bank shall ensure that appointment of 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 SA of the Bank or any of the group entities* of the Bank.

**Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.*

(v) SAs 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.

4.2.3 Continued Compliance with basic eligibility criteria applicable for SA

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 shall 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 SA/Bank will approach RBI, to allow the concerned audit firm to complete the audit, as a special case, subject to specific approval of the Audit Committee of the Bank.

4.2.4 Eligibility Criteria of SAs as per Companies Act, 2013

The Bank will obtain a certificate from the proposed audit firm(s) stating the appointment eligibility with respect to the requirements of Section 139(1) of the Companies Act, 2013 read with Rule 4 of the Companies (Audit and Auditors) Rules, 2014 and Section 141 of the Companies Act, 2013. The Bank will also obtain the Peer Review Certificate of the proposed audit firm(s).

4.3 Independence of Auditors:

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

4.3.2 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 SAs shall approach the Board*/ACB of the Entity, under intimation to the concerned SSM/RO of RBI.

**Board shall be directly approached only when the auditors notice a matter of concern involving any member of the ACB*

4.3.3 Concurrent auditors of the Bank will not be considered for appointment as SAs.

4.3.4 The audit of the Bank and any entity with large exposure* to the Bank for the same reference year will be factored in while assessing independence of the auditor. The threshold limit will be Entities with gross exposure of more than 3% of the Tier 1 capital of the Bank as at 31 March of the previous year.

**As defined in RBI instructions on 'Large Exposures Framework'*

4.3.5 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 should be at least one year, before or after its appointment as SAs wef FY 22-23. For FY21-22 if an audit firm is involved in some non audit work with the Bank/subsidiary, the auditor should relinquish the assignment prior to be appointed as SA. However, 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 will take a decision in this regard, in consultation with the ACB.

**A conflict would not normally be created 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).

- 4.3.6** The restrictions as detailed in para related to concurrent audit, Large exposure and non audit work above, will also apply to an audit firm under the same network* of audit firms or any other audit firm having common partners.

**As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014)*

5. Professional Standards of SAs:

- 5.1** The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 5.2** The ACB shall review the performance of SAs on an annual basis. Any serious lapses / negligence in audit responsibilities or conduct issues on part of the SAs or any other matter considered as relevant shall be reported to RBI within two months from completion of the annual audit. Such reports shall be sent with the approval / recommendation of the ACB, with the full details of the audit firm.
- 5.3** In the event of lapses in carrying out audit assignments resulting in misstatement of financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SAs in relation to Bank, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

6. Tenure and Rotation:

- 6.1** In order to protect the independence of the auditors/audit firms, Bank shall appoint the 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 RBI.
- 6.2** An audit firm would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure*.
- *In case an audit firm has conducted audit of the Bank for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Bank for six years from completion of part-tenure.*
- 6.3** An audit firm proposed to be appointed as SA of the Bank, 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], , 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 SA accordingly.
- 6.4** 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.

7. Audit fees and expenses:

- 7.1** The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions.

- 7.2** The audit fees for 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.
- 7.3** The ACB will agree on the Audit fees and shall make recommendation to the Board for its approval as per the relevant statutory/regulatory instructions for fixing audit fees of SAs.

8. Formats of Forms:

- 8.1** The Bank shall obtain a certificate, along with relevant information as per Form B, from the audit firm(s) proposed to be appointed/ reappointed as SAs, 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 Partner/s of the audit firm proposed for appointment/ reappointment of SAs of the Bank, under the seal of the said audit firm.
- 8.2** 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 the certificate from Audit Firm(s), and make submission to RBI in the format as per Form C, 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.

9. Appointment Procedure of Statutory Auditors:

9.1 Process for reappointment of existing Auditors:

- 9.1.1** First preference will be given to existing SAs for their re-appointment subject to compliance of eligibility norms. The Bank shall obtain the consent from the existing SAs for reappointment. On receipt of the consent, Bank shall take steps for the reappointment of the firm as SA as detailed below. In case such consent is not received from any of the existing SAs, Bank shall follow the process for appointment of New SA to fill that vacancy as detailed below.

9.2 Process for appointment of New firm as SAs:

- 9.2.1** The Senior management of the Bank will engage with potential audit firm(s) to be appointed as SA and undertake preliminary inquiries.
- 9.2.2** The Senior management will shortlist audit firms and propose the same to the ACB for evaluating the suitability of the audit firm(s) basis the relevant requirement of the Bank and RBI compliance.
- 9.2.3** The Senior management of the Bank shall shortlist minimum two audit firms for every vacancy of SA and propose to ACB.
- 9.2.4** The ACB will deliberate and select minimum of two audit firms in order of preference and recommend to Board for their approval. This is to ensure 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 SAs does not get delayed.
- 9.2.5** However, in case of reappointment of 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.
- 9.2.6** 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), along with a copy

of Board and /or 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.

9.2.7 The Bank shall seek the RBI's approval for appointment/ re-appointment of SAs under Sections 30 (1A) of the Banking Regulation Act, 1949.

9.2.8 After receipt of RBI approval, the list of approved SAs shall be recommended to the Shareholders for their approval at the next Annual General Meeting.

10. Review of the policy:

10.1 This policy will be reviewed at least 'once in three years' or 'as earlier' as the case may be.

10.2 In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.

11. The Board approved policy will be hosted on Banks official website.