Scotiabank

GLOBAL BANKING AND MARKET

BNS India Appointment of Statutory Auditors policy

Document Control

Version	Date	Author	Description of Changes
1.0	August 2021	Bhushan Desai	New Document
1.1	February 2022	Bhushan Desai	Amendments to existing policy
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Governance	
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Owner	Bhushan Desai –Head of Finance
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Contents

1. Background

This document is prepared as per the Reserve Bank of India guidelines dated 27 April 2021 which requires that banks should have a Board approved policy for appointment of Statutory auditors This document is to be reviewed and approved on at minimum every three years, or whenever there is material change.

2. Purpose

The purpose of this document is to provide a framework and guidance in relation to process to be followed by the bank for appointment of Statutory Auditors

RBI vide its circular RBI/2021-22/25 has provided guidelines for appointment of statutory auditors. These guidelines include various aspects including number of auditors to be appointed, eligibility criteria to be considered for shortlisting the audit firm for appointment, procedures for monitoring and performance assessment of auditors and conditions of removal of statutory auditors

3. Prior Approval of RBI:

3.1 Commercial Banks (excluding RRBs) and UCBs will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SCAs/SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, they should apply to Department of Supervision, RBI before 31st July of the reference year.

3.2 For the purpose, all Commercial Banks (excluding RRBs) in India and UCBs under Mumbai Region shall approach the Central Office of RBI (Department of Supervision).

4. Number of SCAs/SAs and Branch coverage:

A. <u>Number of statutory auditors to be appointed:</u>

4.1 As per Guidelines for Appointment of Statutory Auditors of Commercial banks dated 27 April 2021, for Entities with asset size of Rs. 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.

4.2 The Entities should decide on the number of SCAs/SAs based on a Board/Local Management Committee (LMC) 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.

B. Eligibility Criteria for appointing Statutory Auditors:

(i.) 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 Leas 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 Rs.15,000 Crore	5	4	2	15	18
Above Rs. 1,000 crore and Up to Rs.15,000 crore	3	2	1	8	12
Up to Rs. 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 shortlisting of the audit firm for considering them as full-time partners. Further, for appointment as Statutory Auditors for the bank which has an asset size above Rs. 1,000 crores, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

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) Local Management Committee shall examine and ensure that 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 empanelment for considering the firm for appointment as Statutory Auditors

Note 3: Audit Experience:

For Commercial Banks (BNS India is a commercial bank), audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks. In case of merger and demerger of audit firms, merger effect will be given after 2 years of merger while demerger will be affected 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.

(ii.) Additional Consideration

(i) The audit firm, proposed to be appointed as Statutory Auditors 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 Bank shall ensure that appointment of Statutory Auditors 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 any Public Sector Bank (PSB), the said firm shall not be appointed as Statutory Auditor of any PSB. Further, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as Statutory Auditor of any of the group entities of that Entity.

(v) The auditors for Entities with asset size above Rs.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 to achieve audit objectives.

(iii.) 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, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

C. Independence of Auditors:

(i.) The Audit Committee 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 Audit Committee to MANCOM and Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

(ii.) 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[6] to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.

(iii.) 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[7], and Entities may take their own decision in this regard, in consultation with the Board/ACB/LMC.

(iv.) The restrictions as detailed in para (ii.) and (iii.) above, should also apply to an audit firm under the same network[8] of audit firms or any other audit firm having common partners.

(v.) Audit Committee shall review the performance of Statutory Auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory Auditors 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 MANCOM with the full details of the audit firm.

(vi.) 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.

D. Tenure and Rotation:

The bank will appoint Statutory Auditors for a continuous period of three years, subject to the firm satisfying the eligibility norms each year. Further, the Bank can remove the audit firm 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 for six years (two tenures) after completion of full or part of one term of the audit tenure.

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 statute or rules. 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.

E. Audit Fees and Expenses

The audit fees for SCAs/SAs of all the Entities shall be decided in terms of the relevant statutory/regulatory provisions.

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.

The Board/ACB/LMC of Entities shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

F. Statutory Audit policy and Appointment Procedure:

Bank shall formulate a Board/LMC Approved Policy to be hosted on its official website/public domain and formulate necessary procedure thereunder to be followed for appointment of SCAs/SAs. Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function

Procedure for appointment of Statutory Auditors

1. 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/UCBs 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 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/LMC for selection as SCAs/SAs. Upon selection of SCAs/SAs by the bank in consultation with their ACB/LMC and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SCAs/SAs.

3. 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.

4. The Commercial Banks (excluding RRBs)/UCBs 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.

5. While approaching the RBI for its prior approval for appointment of SCAs/SAs, Commercial Banks (excluding RRBs)/UCBs shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board/ACB Resolution (resolution not needed for foreign banks operating under branch mode) 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.