



Policy on Appointment of Statutory Auditors (SAs)

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1. INTRODUCTION:

The Board of Directors (the “Board”) of CSB Bank Limited (the “Bank or Company”) have adopted the policy and procedures with regard to Appointment of Statutory Auditors (‘Policy on Appointment of Statutory Auditors’), in line with the requirements of extant norms of Reserve Bank of India, Section 30(1A) of Banking Regulation Act, 1949, as per Section 139, 141 and other applicable provisions of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 and SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015.

The Board and Audit Committee will review and may amend this policy from time to time.

2. PURPOSE:

The objective of this policy is twofold; to establish proper procedure for appointment of Statutory auditors, 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 Obligation and Disclosure Requirements) Regulation, 2015.

3. DEFINITIONS:

- a) **“AGM”** mean Annual General Meeting of the Bank
- b) **“Audit Committee”** means the Audit Committee of the Board.
- c) **‘Audit Committee of Executives/Committee of senior officials’** means Committee of Executives formed at the Executive level.
- d) **“Board”** means Board of Directors of the Bank.
- e) **“RBI”** means Reserve Bank of India
- f) **“RFP (Request for Proposal) document”** means documents floated to invite expression of interest for the position of the Statutory Auditors of the Bank.
- g) **“Statutory Auditors (SAs)”** means auditors appointed as per the policy with the approval of Reserve Bank of India and Shareholders of the Bank to take up the Audit of the Central/Head Office, Branches controlling and all other offices of the Bank.

4. STATUTORY AUDITORS (SAs):

A. ELIGIBILITY NORMS AS ADVISED BY RBI VIDE CIRCULARS DOS.CO.ARG/ SEC.01/08.91.001/2021-22 DATED APRIL 27, 2021.

Statutory audit will be conducted under joint audit of a minimum of two audit firms (Partnership firms/Limited Liability Partnerships (LLPs)). Joint auditors of the Bank should not have any common partners and they are not under the same network of audit firms. The term of SAs will be for a period of upto three years commencing from the date of AGM in which their appointment is approved by the shareholders.

The tenure of appointment of SAs will be for a period up to three years, subject to approval by RBI on an annual basis in terms of Section 30(1A) of the Banking Regulation Act, 1949 and the shareholders at the Annual General Meeting in terms of Section 139 and 141 of the Companies Act, 2013 and Companies (Audit and Auditors) Rules, 2014, for a maximum period of three years.

Eligibility criteria to be fulfilled by audit firms for appointment as SAs of the Bank will comprise of –

- (a) Basic Eligibility and
- (b) Additional Consideration.

The details of the same, is as under:

A.1 – Basic Eligibility

Minimum no. of full time partners associated with the firm for a period of at least three years ¹	Out of 'A', minimum no. of Fellow Chartered Accountant (FCA) partners associated with the firm for a period of at least three 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
A	B	C	D	E
5	4	2	15	18

- i Minimum 5 full time partners exclusively associated with the firm for a period of atleast three (3) years, Out of the total full time partners of the firm, 4 should be full time FCA associated with the firm for a period of at least three (3) years.
- ii A minimum of 2 Full Time Partners/ Paid CAs with CISA/ISA Qualification.
- iii The firm shall have minimum overall audit experience of 15 years, out of which Central Audit experience not less than 8 years, with a stipulation of having conducted Central Audit in any Bank, at least one term in the last 5 years, preferably closest to the date of assignment to be taken up in the Bank.
- iv The number of professional staff should be 18.

Notes

1. Full time partners associated with the firm:

There should be at least one year continuous association of partners with the firm as on the date of application for 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 partner's association with the firm would mean exclusive association. The definition of 'exclusive association' will be based on the following criteria:

- I. The full-time partner should not be a partner in any other firm/s.
- II. She / He should not be employed full time / part time elsewhere.
- III. 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.

- IV. Board / Audit Committee of the Board 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, which will ensure the capability of the firm for the purpose

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 application for empanelment 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 two 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 bookkeeping 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 for empanelment for considering them as professional staff for the purpose.

The above norms are subject to extant guidelines issued by RBI.

- v One audit firm will be permitted to take up the statutory audit 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.
- vi 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. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible.
- vii 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.
- viii An Audit firm, subject to its fulfilling the prescribed eligibility norms will be allowed to continue as the Statutory Auditor for a period of three years and thereafter the said firm will be compulsorily rested for a period of six years.
- ix Concurrent auditors of the Bank will not be considered for appointment as Statutory Auditors of the Bank.

A.2 - Additional Consideration

- (a). The audit firm, at the time of submission of application for empanelment as SAs should be duly qualified for appointment as auditor of the Bank in terms of Section 141 of the Companies Act, 2013.

- (b). 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.
- (c). The appointment of SAs must 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.
- (d). If any partner of a Chartered Accountant firm is a director in the Bank, the said firm cannot be appointed as SA of any of the group entities of the Bank.
- (e). The applicant firm should have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATs) and Generalized Audit Software (GAS), commensurate with the degree/complexity of computer environment of the Bank, in order to achieve audit objectives.
- (f). Concurrent auditors of the bank will not be considered for appointment as SAs.
- (g). If an audit firm empaneled/considered for appointment as SAs is carrying out audit of any entity (borrower) with large exposure to the Bank for the period during which the firm is proposed to be appointed as SAs, the same shall be explicitly factored in while assessing independence of the auditor to be considered as SAs.
- (h). The time gap between any non-audits works (services mentioned in Section 144 of Companies Act, 2013, internal assignments, special assignments etc.) by the SAs of the bank should be at least one year, before or after appointment as SAs. However, during the tenure as SA/SA, an audit firm may provide such services to the concerned which may not normally result in a conflict of interest, and Bank may take their own decision in this regard, in consultation with the Audit Committee.
- (i). 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 must 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.

B. GENERAL ELIGIBILITY NORMS FOR AUDITORS:

- a Where a firm including a limited liability partnership is appointed as an auditor of the Bank, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.
- b The following persons shall not be eligible for appointment as an auditor of the Bank, namely:—
 - i a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008 (6 of 2009);
 - ii an officer or employee of the Bank;
 - iii a person who is a partner, or who is in the employment, of an officer or employee of the Bank;
 - iv a person who, or his relative or partner—
 - (a). is holding any shares of or interest in the Bank or of its holding or associate company or a subsidiary of such holding company: Provided that the relative may hold shares or interest in the company of face value not exceeding one thousand rupees or such sum as may be prescribed;
 - (b). is indebted to the Bank, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed; or
 - (c). has given a guarantee or provided any security in connection with the indebtedness of any third person to the Bank, or its holding or associate company or a subsidiary of such holding company, for such amount as may be prescribed;

- v a person or a firm who, whether directly or indirectly, has business relationship with the Bank, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;
 - vi a person whose relative is a director or is in the employment of the Bank as a director or key managerial personnel;
 - vii a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;
 - viii a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
 - ix any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144.
- c Where a person appointed as an auditor of the Bank incurs any of the disqualifications mentioned above after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.
 - d The Auditors / Audit Firms should not be a wilful defaulter of other Banks / Financial institutions.
 - e The Auditors / Audit Firms should not carry out any assignment of the Internal Audit of the Bank.
 - f The Auditors / Audit Firms should not enter into sub-contract of the Audit assigned to them.
 - g The eligible Auditors / Audit Firms should be qualified under provisions of Section 141 of the Companies Act, 2013 for appointment as Auditors of the Bank. No adverse remarks / disciplinary proceedings pending / initiated against the firms / any of its Partners on the record of Institute of Chartered Accountants of India.

C. PROFESSIONAL STANDARDS OF SAs

- a The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- b The Board/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 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 SAs in relation to Bank, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

D. PROCEDURE FOR APPOINTMENT:

- I. The appointment of Statutory Auditors will be made, subject to their fulfilling the eligibility norms prescribed by RBI and applicable provisions of Companies Act, 2013 and SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015, and also subject to their suitability.
- II. As per the screening of applications received, the shortlisted proposed names of SAs will be recommended to Audit Committee of Board (ACB) and Board of the Bank for Approval.
- III. Once the approval is given by the Board, the Bank will furnish the applications in the prescribed manner with necessary enclosures with the Reserve Bank of India for approval and to the effect that the audit firm proposed to be appointed as SAs comply with all the prescribed eligibility norms.

- IV. The appointment of the Audit firm will be subject to the approval of Shareholders at the Annual General Meeting.

E. OTHER MATTERS

- I. The consent letter/certificate should be signed by the main partner/s of the audit firm proposed for appointment of SAs of the bank under the seal of the said audit firm. Once the consent is given by the audit firm the same will be treated as irrevocable.
- II. In case the RBI is not approving any of the name/s recommended by the Bank, suitable audit firm from the standby list to be selected and recommended to Reserve Bank of India for Approvals.
- III. The matters related to fees / Remuneration etc. payable to the SAs will be decided by the Board with the approval of the shareholders of the Bank.
- IV. A cooling off period of six years has to be followed for taking up of two successive assignments of three years each.

F. PROCESS FOR APPOINTMENT OF STATUTORY AUDITORS:

(1) Preparation, review and Floating of RFP (Request for Proposal)

Audit Committee of the Board (ACB) shall oversee the appoint process of the Statutory Auditors. The Audit Committee of Executives/Committee of senior officials shall be vested with the responsibility of preparing and floating RFP, and receiving the proposals from auditors, analysing and placing recommendatory note to the Audit Committee of the Board for approval. Only when the RFP parameters have to be tweaked and in variation from the Board approved policy, then the same shall be incorporated after obtaining ACB approval.

(2) Selection

- i. Proposals received from the auditors, complete in all respects and within the prescribed time as per the RFP floated in this connection, will be scrutinized on the basis of the basic eligibility criteria as given above in Clause 4.I by the Audit Committee of Executives/Committee of senior officials and the Company Secretary is a special invitee to the said process.
- ii. The Audit Committee of Executives/Committee of senior officials shall evaluate the application received on the basis of edibility criteria as mentioned in the RFP, in terms of expertise, experience, qualifications, reputation, availability of qualified CAs, sufficient trained personnel with the firm and such other factors as the Bank may deem fit for its requirements. Rating card for individual rating and overall rating of the Auditing Firms form part of the RFP
- iii. The prima facie scrutiny of the proposals shall be done by Audit Committee of Executives/Committee of senior officials and the Committee shall submit all applications received and its comments/views to the Audit Committee of the Board along with the basis of comments/views.
- iv. Audit Committee of the Board alone is empowered to reject those proposals which do not meet the eligibility criteria.
- v. The final selection of the Audit firms will be approved by the Board on the recommendation of Audit Committee of the Board.

- vi The Bank also reserves the right to make query with the firm or any other agency, ask for additional information, particulars, and submission of one or more undertakings from any firm, at any point of time. None of such act shall be deemed as an offer of engagement as Central Auditor by the Bank to the firm unless and until the Bank intimates in writing to the firm regarding appointment as Central Auditors of the Bank.

5. REVIEW OF THE POLICY:

1. The Audit Committee of the Board and Board of the Bank may review the policy annually or as and when it deems necessary.
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.
