

**NSDL Payments Bank Limited**

# **Policy for Appointment of Statutory Auditors (SAs)**

## **Version 1.0**

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## Policy on Appointment of Statutory Auditors

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### 1. Introduction:

Reserve Bank of India vide its circular RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27th April 2021, had issued guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs). In terms of the above-mentioned circular each *Entity 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*

1.1 The guidelines issued under Section 30(1A) of the Banking Regulation Act, 1949 and Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 are applicable to banking companies in respect of appointment/reappointment of SAs. Section 30(1A) provides that notwithstanding anything contained in any law for the time being in force or in any contract to the contrary, every banking company shall, before appointing, re-appointing or removing any auditor or auditors, obtain the previous approval of the Reserve Bank.

The appointment of statutory auditors is also guided by section 139 (1) of Companies Act 2013, whereby

- the Bank shall place the matter relating to such appointment at every annual general meeting:
- Provided further that before such appointment is made, the written consent of the auditor to such appointment, and
- A certificate from the auditors that the appointment, if made, shall be in accordance with the conditions as may be prescribed,

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- Provided also that the certificate shall also indicate whether the auditor satisfies the criteria provided in section 141 in respect to its eligibility, qualifications and disqualifications of auditors.:

### 2. Prior Approval of RBI:

- 2.1 The Bank will take prior approval of RBI (Department of Supervision) for appointment/reappointment SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, the bank will apply to Department of Supervision, RBI before 31st July of the reference year.
- 2.2 For the purpose, the bank will approach the Central Office of RBI (Department of Supervision).

### 3. Number of SAs and Branch Coverage

- 3.1 As per the guidelines, for Entities with asset size of ₹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. It will be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms. Further, the Entity may finalize the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs. The bank will adhere to guidelines.
- 3.2 The Bank will decide on the number of 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.

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Considering the above factors and the requirements of the Bank, the actual number of SAs to be appointed will be decided by the respective Boards/LMC, subject to the following limits:

Sl. No.	Asset Size of Entity	Maximum number of SCAs/SAs
1.	Upto ₹5,00,000 crore	4
2.	Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore	6
3.	Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore	8
4.	Above ₹ 20,00,000 crore	12

The above limits will ensure that the number of SAs appointed by the Bank are adequate, commensurate with the asset size and extent of operations of the Bank, with a view to ensure that audits are conducted in a timely and effective manner. This will be subject to review in future based on the experience.

#### 4. Eligibility Criteria of Auditors

The Bank will appoint audit firm(s) as its SA(s) fulfilling the eligibility norms as prescribed in **Annex I**.

#### 5. Independence of Auditors

5.1 The Audit Committee of the Board (ACB)/ LMC 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 will be flagged by the ACB/LMC to the Board of Directors of the Bank and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

5.2 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 may approach the Board/ACB/LMC of the Entity, under intimation to the concerned SSM/RO of RBI.

5.3 Concurrent auditors of the Bank will not be considered for appointment as SAs of the Bank. The audit of the Bank and any entity with large exposure to the Bank for the same reference year will also be explicitly factored in while assessing independence of the auditor.

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5.4 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 will be at least one year, before or after its appointment as SAs. 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 its own decision in this regard, in consultation with the Board/ACB/LMC.

5.5 The restrictions as detailed in para 5.3 and 5.4 above, will also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

### 6. Professional Standards of SAs

6.1 The SAs will be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

6.2 The Board/ACB/LMC of the Bank will 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 will be reported to RBI within two months from completion of the annual audit. Such reports will be sent with the approval/recommendation of the Board/ACB/LMC, with the full details of the audit firm.

6.3 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 Entities, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

### 7. Tenure and Rotation

7.1. In order to protect the independence of the auditors/audit firms, the Bank will 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 the concerned office of RBI (Department of Supervision), as applicable for prior approval for appointment.

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7.2 An audit firm will not be eligible for reappointment in the Bank for six years (two tenures) after completion of full or part of one term of the audit tenure.

7.3. 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 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 clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. 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. The incoming audit firm will not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

### 8. Audit Fees and Expenses

8.1 The audit fees for SAs of Bank will be decided in terms of the relevant statutory/regulatory provisions.

8.2 The audit fees for SAs of the Bank will 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.

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

### 9. Statutory Audit Policy and Appointment Procedure

9.1 A Board/LMC Approved Policy will be hosted on the Bank's official website/public domain and necessary procedures thereunder will be followed for appointment of SAs.

9.2 Guidelines on minimum procedural requirements are given at **Annex II**.

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## ANNEX I

### Eligibility Criteria for Appointment as SA

#### A. 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 <b>Note 1</b>	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 <b>Note 2</b>	Minimum No. of years of Audit Experience of the firm <b>Note 3</b>	Minimum No. of Professional staff <b>Note 4</b>
Above ₹15,000 Crore	5	4	2	15	18
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Upto ₹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 of shortlisting for considering them as full time partners. Further, for appointment as SAs, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

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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:

- (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/LMC 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.

### **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 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. For UCBs and NBFCs, audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ UCBs/NBFCs/ 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as professional staff for the purpose.

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### B. Additional Consideration

- (i) The audit firm, proposed to be appointed as SCAs/SAs 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 will 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) The auditors 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.

### C. 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.

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#### Procedure for Appointment of SAs

1. The Bank will shortlist minimum **of 2 audit firms** for every vacancy of 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 SAs does not get delayed. However, in case of reappointment of SAs 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 name of shortlisted audit firms, in order of preference, will be placed before ACB/LMC for selection as SAs. Upon selection of SAs by the bank in consultation with ACB/LMC and verifying compliance with the eligibility norms prescribed by RBI, the bank will seek RBI's prior approval for appointment of SAs.
3. The Bank will obtain a certificate, along with relevant information as **per Form B**, 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 proposed for appointment of SAs of the Bank, 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 per **Form C**, stating that the audit firm(s) proposed to be appointed as SA 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.

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## FORM B

### Eligibility Certificate from (Name and Firm Registration Number of the firm)

#### A. Particulars of the firm:

Asset Size of Entity as on 31st March of Previous Year	Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) years	Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years	Number of Full Time Partners/ Paid CAs with CISA/ISA Qualification	Number of Years of Audit Experience#	Number of Professional staff

Details may be furnished separately for experience as SAs

#### B. Additional Information:

- (i) Copy of Constitution Certificate.
- (ii) Whether the firm is a member of any network of audit firms or any partner of the firm is a partner in any other audit firm? If yes, details thereof.
- (iii) Whether the firm has been appointed as SCA/SA by any other Commercial Bank (excluding RRBs) and/or All India Financial Institution (AIFI)/RBI/NBFC/UCB in the present financial year? If yes, details thereof.
- (iv) Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- (v) Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.

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### C. Declaration from the firm

The firm complies with all eligibility norms prescribed by RBI regarding appointment of SCAs/SAs of Commercial Banks (excluding RRBs)/UCBs/NBFCs (as applicable). It is certified that neither I nor any of our partners / members of my / their families (family will include besides spouse, only children, parents, brothers, sisters or any of them who are wholly or mainly dependent on the Chartered Accountants) or the firm / company in which I am / they are partners / directors<sup>15</sup> have been declared as wilful defaulter by any bank / financial institution.

It is confirmed that the information provided above is true and correct.

Signature of the Partner

(Name of the Partner)

Date:

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**FORM C**

**Certificate to be submitted by the Commercial Banks (excluding RRBs) and UCBs  
regarding eligibility of audit firm proposed to be appointed as SA**

The bank is desirous of appointing M/s....., Chartered Accountants (Firm Registration Number ( ) as Statutory Auditor (SA) for the financial year for 1st/2nd/3rd term and therefore has sought the prior approval of RBI as per the section 30(1A) of the Banking Regulation Act, 1949/ Section 10 (1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980/ Section 41(1) of SBI Act, 1955.

2. The bank has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Auditor of the Bank for FY ..... along with relevant information (copy enclosed) in the format as prescribed by RBI.

3. The firm has no past association/association for ..... years with the bank as SA.

4. The bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SAs of Banks.

Signature of the Partner

(Name of the Partner)

Date:

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