

## Policy on Appointment of Auditors of the Company

### Purpose

In line with provisions of Companies Act, 2013, the guidelines issued by Reserve Bank of India from time to time and good corporate governance practices to ensure independence of auditors, this policy outlines broad parameters including qualification, eligibility and tenor, to be considered for appointment and continuation of Statutory Auditors, Internal Auditors and Secretarial Auditors of the Company.

### A. STATUTORY AUDITOR

#### Number of Statutory Auditor and Branch Coverage

Considering the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, statutory audit of the Company shall be conducted by one Statutory Auditor till asset size reaches INR 15,000 crore.

Statutory Auditor 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 Company.

#### Process, Eligibility Criteria and Independence of Auditors

Process and Eligibility:

- The Company shall shortlist minimum of 2 audit firms for every vacancy of Statutory Auditor so that even if a 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 Statutory Auditor does not get delayed.
- Statutory Auditors shall comply with eligibility criteria prescribed under provisions of (i) the Companies Act, 2013, (ii) Guidelines for appointment of Statutory Auditors issued by the Reserve Bank of India, as amended from time to time; and (iii) circulars, notifications, guidelines or directions issued by the Securities and Exchange Board of India.
- \*Concurrent auditors of the Company should not be considered for appointment as Statutory Auditors of the Company.
- The audit of the Company and any entity with large exposure<sup>1</sup>, to the Company for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- 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.

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<sup>1</sup> As defined in RBI instructions on 'Large Exposures Framework'

\* this restriction shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partners

- The Company shall obtain a certificate, along with relevant information as prescribed by RBI from the audit firm(s) proposed to be appointed as Statutory Auditors 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 as Statutory Auditors, under the seal of the said audit firm.

Independence:

- 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 shall be flagged by the Audit Committee to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- \*The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory for the Company or any audit/non-audit works for group entities should be at least one year, before or after its appointment as Statutory Auditors. However, during the tenure as Statutory Auditor, the firm may provide such services to the Company which may not normally result in a conflict of interest, which are also approved by the Audit Committee. 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.

Professional Standards and reporting of lapse

- Statutory Auditors shall be strictly guided by the relevant professional standards in discharge of the audit responsibilities with highest diligence.
- The Audit Committee of the Company 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 the Audit Committee, with the full details of the audit firm.
- In the event of lapses in carrying out audit assignments resulting in misstatement of the Company's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the Statutory Auditors, the Statutory Auditors would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

Tenure and Rotation

In order to protect the independence of the audit firm, the Company shall appoint Statutory Auditors for a continuous period of three years, subject to the Auditor satisfying the eligibility norms each year. In case the Company removes its Statutory Auditors before completion of three years tenure, it shall inform concerned SSM/RO at RBI along with reasons/justification for the same, within a month of such a decision being taken.

\* this restriction shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partners  
An audit firm would not be eligible for reappointment in the Company for six years (two tenures) after completion of full or part of one term of the audit tenure.

#### Audit Fees and Expenses

- The audit fees for Statutory Auditors shall be decided by the Audit Committee or persons authorised by the Audit Committee under update to Audit Committee.
- The audit fees for Statutory Auditors of the Company 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.

#### **B. INTERNAL AUDITOR**

This policy shall be read with Policy to be adopted by the Company under RBI Circular on Risk Based Internal Audit

#### Appointment

- The Board of Directors, upon recommendation of the Audit Committee shall appoint Internal Auditor who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Audit Committee and Board of Directors.
- Person / Firm proposed to be appointed as Internal Auditors shall fulfil eligibility criteria as maybe prescribed under the provisions of the Companies Act, 2013 and circulars, regulations, guidelines issued by the Reserve Bank of India.
- The internal audit function shall have sufficient authority, stature, independence and resources thereby enabling internal auditors to carry out their assignments properly. The Head of Internal Audit (HIA) shall be a senior executive with the ability to exercise independent judgement. The HIA and the internal audit functionaries shall have the authority to communicate with any staff member and get access to all records that are necessary to carry out the entrusted responsibilities.
- Requisite professional competence, knowledge and experience of each internal auditor is essential for the effectiveness of internal audit function. The areas of knowledge and experience may include banking/financial entity's operations, accounting, information technology, data analytics, forensic investigation, among others. The collective skill levels should be adequate to audit all areas of the Company.

- the Head Internal Audit shall directly report to the CEO and the 'Reviewing authority' shall be the Audit Committee and the 'Accepting authority' shall be the Board in matters of his performance appraisal.
- Audit Committee shall meet the HIA at least once in a quarter, without the presence of the senior management. The HIA shall not have any reporting relationship with the business verticals and shall not be given any business targets.

#### Periodicity of Audit and Reporting

- The risk assessment of business and other functions of the organization shall at the minimum be conducted on an annual basis.
- Internal Auditors shall report directly to the Audit Committee. Internal Auditors shall submit a quarterly report to the Audit Committee.

#### Independence:

- The Audit Committee shall review performance of Internal Auditors on annual basis. Audit Committee shall 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 shall be flagged by the Audit Committee to the Board of Directors of the Company.
- Effective from 01 April 2022, the internal audit function shall not be outsourced. However, where required, expert including former employees can be hired on a contractual basis subject to the Audit Committee being assured that such expertise does not exist within the audit function of the Company. Any conflict of interest in such matters shall be recognised and effectively addressed. Ownership of audit reports in all cases shall rest with regular functionaries of the internal audit function.

#### Tenure and Rotation

In case the Company appoints an expert in addition to in-house internal audit function of the Company, in order to protect the independence of the expert, the Company shall appoint such experts for a continuous period of five years.

Such expert would not be eligible for re-appointment in the Company for two years after completion of full or part of one term of the audit tenure.

#### Audit Fees and Expenses

- The audit fees for Internal Auditor experts shall be decided by the Audit Committee or persons authorised by the Audit Committee.
- The audit fees for Internal Auditor expert 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.

### **C. SECRETARIAL AUDITOR**

#### Appointment

- The Board of Directors shall appoint a company secretary in practice to conduct Secretarial Audit of the Company in terms of requirements of the Companies Act, 2013.
- The Company to give all assistance and facilities to the company secretary in practice, for auditing the secretarial and related records of the company.
- Requisite professional competence, knowledge and experience of secretarial auditor is essential for the effectiveness of secretarial audit function.

#### Scope

- The Secretarial Auditor shall submit his report on compliance with all laws applicable to the Company.
- The Secretarial Auditor shall additionally submit a separate compliance report confirming compliance with circulars, regulations, directions and guidelines issued by the Securities and Exchange Board of India.

#### Tenure and Rotation

In order to protect the independence of the audit firm, the Company shall appoint Secretarial Auditors for a continuous period of five years.

An audit firm would not be eligible for reappointment in the Company for two years after completion of full or part of one term of the audit tenure.

#### Audit Fees and Expenses

- The audit fees for Secretarial Auditors shall be decided by the Board of Directors or persons authorised by the Board of Directors.
- The audit fees for Secretarial Auditor of the Company shall be reasonable and commensurate with the scope and coverage of audit, etc.

### **REVIEW OF POLICY**

The Policy shall be reviewed at least once a year.