

CAPITAL SMALL FINANCE BANK LIMITED

Policy for Appointment of Statutory Auditors [Updated up to August 18, 2021]

CAPITAL SMALL FINANCE BANK LIMITED

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Policy for Appointment of Statutory Auditors

1. Background:

The Reserve Bank of India has issued guideline vide notification number RBI/2021-22/25 Ref. No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs. These Guidelines supersede all the existing circulars/notification on appointment of Statutory Auditor by Banks. Accordingly, the Bank is required to formulate a board approved policy and formulate necessary procedure thereunder to be followed for appointment of Statutory Auditor (SA). Apart from conforming to all relevant statutory/regulatory requirements in addition to the RBI circular, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

2. Definitions:

2.1 Statutory Auditor ('SA'): the expression statutory auditor means and includes a chartered accountant appointed as an auditor under a Central/State or Provincial Act as well as an auditor appointed under any agreement.

2.2 Network: As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014, the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

3. Applicability:

This Policy will be applicable to the Bank for Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Auditors.

4. Prior Approval of RBI:

The Bank will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SA on an annual basis before 31st July of the reference year. The Bank shall approach the Central Office of RBI (Department of Supervision).

5. Number of Statutory Auditors

5.1 Based on various 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 Bank shall decide on the total number of SAs to be appointed. However, total number shall be subject to the following limits.

5.2 If Asset size during the previous year is ₹15,000 crore or more, the Bank will appoint a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)].

5.3 If Asset size during the previous year is less than ₹15,000 crore, the Bank will appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit.

Sr. No.	Asset Size of the Entity	Maximum number of SAs
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1.	Up to ₹5,00,000 crore	4
2.	Above ₹ 5,00,000 crore and Up to ₹ 10,00,000 crore	6
3.	Above ₹ 10,00,000 crore and Up to ₹ 20,00,000 crore	8
4.	Above ₹ 20,00,000 crore	12

The Bank will ensure that joint auditors do not have any common partners and they are not under the same Network of audit firms. Further, the Bank, in consultation with joint SAs, will finalise the work allocation among them, before the commencement of the statutory audit to ensure that audits are conducted in a timely and effective manner.

6. Eligibility Criteria of Auditors:

The Bank shall appoint audit firm(s) as its SA(s) fulfilling the eligibility norms as mentioned below:

6.1 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 least 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 ₹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, if asset size is above ₹1,000 crore, 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

The Bank shall also 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 this purpose.

Note 3: Audit Experience

Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks/ 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 shortlisting for considering them as professional staff for the purpose.

6.2 Additional Consideration

- 6.2.1** 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.
- 6.2.2** 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.
- 6.2.3** 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.
- 6.2.4** If Asset Size is above ₹1,000 crore SA 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 Bank where the accounting and business data reside in order to achieve audit objectives.

6.3 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

7. Independence of Auditors

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

7.2 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 Board, under intimation to the concerned SSM/RO of RBI.

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

7.4 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SA for the Bank should be at least one year, before or after its appointment as SA (Applicable from FY 2022-23 as stated in RBI FAQ released on the subject). However, during the tenure as Statutory Auditor, an audit firm may provide such services to the Bank, which may not normally result in a conflict of interest, and Bank may take their own decision in this regard, in consultation with the Board/ACB.

7.5 The restrictions as detailed in para 6.3 and 6.4 above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

8. Professional Standards of Statutory Auditors

8.1 The Board or ACB of the Bank shall review the performance of SA on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SA or any other matter considered as relevant shall be reported to the RBI within two months from completion of the annual audit. Such reports should be sent with the approval/ recommendation of the Board or ACB, with the full details of the audit firm.

8.2 In the event of lapses in carrying out audit assignments resulting in misstatement of the Bank's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SA in relation to the Bank, the SA would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

9. Tenure and Rotation

9.1 In order to protect the independence, appointment of SA shall be 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.

9.2 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.

10. Audit Fees and Expenses

10.1 The audit fees for SA shall be decided in terms of the relevant statutory/ regulatory provisions.

10.2 The audit fees for SA 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.

11. Appointment Procedure

11.1 Minimum of 2 audit firms shall be shortlisted for the vacancy of SA 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 SA does not get delayed. However, in case of reappointment of SA 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.

11.2 The name of the shortlisted audit firms shall be placed in order of preference, before ACB for selection. The bank in consultation with the ACB select and verify their compliance with the eligibility norms prescribed by RBI. Further, the bank shall seek RBI's prior approval for appointment of SA.

11.3 The Bank shall obtain a certificate, along with relevant information as per Form B from the audit firm proposed to be appointed as SA by the Entity to the effect that the audit firm complies with all the eligibility norms prescribed by the RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment, under the seal of the said audit firm.

11.4 Further, the Bank shall verify the compliance of the audit firm 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 proposed to be appointed as SA by them comply with all the eligibility norms prescribed by RBI for the purpose.

11.5 While approaching the RBI for its prior approval for appointment of SA, the Bank shall indicate their 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 SA 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.

12. Review of the Policy

12.1 The policy shall be reviewed annually and be placed before the Audit Committee of the Board for recommendations. Further, the same shall be approved by the Board of Directors.

12.2 The Board approved Policy will be hosted on Banks official website.

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

*Exclusively associated in case asset size is more than ₹ 1,000 crore

#Details may be furnished separately.

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 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.

C. Declaration from the firm

The firm complies with all eligibility norms prescribed by RBI regarding appointment. 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 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:

FORM C

Certificate to be submitted by the Bank regarding eligibility of audit firm proposed to be appointed as Statutory Auditor

1. The bank is desirous of appointing M/s _____, Chartered Accountants (Firm Registration Number _____) as Statutory Auditor (SA) for the financial year _____ for their 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 the RBI for appointment of SA of banks.

Signature

(Name and Designation)

Date