

Policy on Appointment of Statutory Auditors

Policy Approval Committee	
Board Committee	Audit Committee
Approver	Board of Directors
Policy Owner	Finance and Accounts Department
Review Frequency	At least annually
Last amended/approved	July 04, 2021

Version No.	Effective Date	Approved on	Summary of major Changes
V 1.0	July 01, 2021	July 04, 2021	Adoption of new Policy

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POLICY ON APPOINTMENT OF STATUTORY AUDITORS

1. PURPOSE

The Bank has formulated the Policy on Appointment of Statutory Auditors (“Policy”) pursuant to the requirement of the Circular bearing reference no. RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 issued by the Reserve Bank of India (“RBI”).

Apart from conforming to all relevant statutory/regulatory requirements in addition to the instructions mentioned in aforesaid RBI Circular, this Policy affords necessary transparency and objectivity for most key aspects of Statutory Audit and assurance function.

2. APPLICABILITY

The Policy shall be applicable to the Bank for appointment/reappointment of its statutory auditors for the Financial Year 2021-22 and onwards.

3. PRIOR APPROVAL OF RBI

The Bank shall take prior approval of RBI (Department of Supervision) for appointment/reappointment of statutory auditors, on an annual basis, in terms of the Banking Regulation Act, 1949. For the purpose, the Bank shall apply to Department of Supervision, Central Office of RBI, Mumbai before 31st July of the reference year.

4. NUMBER OF STATUTORY AUDITORS AND BRANCH COVERAGE

The Bank shall decide on the number of statutory auditors after 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.

The statutory audit shall be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. The Bank shall ensure to obtain eligibility certificate from the firm(s) confirming that joint auditors of the Bank do not have any common partners and they are not under the same network of audit firms.

Further, the Bank shall finalise the work allocation among Statutory Auditors, before the commencement of the statutory audit, in consultation with the Statutory Auditors.

Considering the above factors and the requirements of the Bank, the actual number of statutory auditors to be appointed shall be decided by the Board of Directors, subject to the following limits:

Sr. No.	Asset Size	Maximum number of Statutory Auditors
1	Up to Rs. 5,00,000 Crore	4
2	Above Rs. 5,00,000 Crore and Up to Rs. 10,00,000 crore	6
3	Above Rs. 10,00,000 Crore and Up to Rs. 20,00,000 Crore	8

4	Above Rs. 20,00,000 Crore	12
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The Statutory Auditors 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 Bank. In addition, the Bank shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

5. MINIMUM ELIGIBILITY CRITERIA OF AUDITORS

The Bank shall obtain certificate in prescribed format from proposed Statutory Auditors in order to verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI and shall recommend the names along with a certificate, in the prescribed format, stating that the audit firm(s) proposed to be appointed as statutory auditors comply with all eligibility norms prescribed by RBI for the purpose.

The statutory auditor 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 statutes or rules. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. For the purpose of this policy, 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 shall not be permissible. The statutory auditor 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.

The statutory auditors shall also ensure to comply with the eligibility criteria prescribed in the Annex 1 of the RBI circular Guidelines for Appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SAs) of Commercial Banks (Excluding RRBs), UCBs and NBFCs (Including HFCs) dated April 27, 2021

6. INDEPENDENCE OF AUDITORS

- a. The Audit Committee shall monitor and assess the independence of the statutory 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 the Board of Directors of the Bank and Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- b. 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 statutory auditors shall approach the Board of Directors/ Audit Committee of the Bank, under intimation to the concerned SSM/RO of RBI.
- c. Concurrent auditors of the Bank shall not be considered for appointment as Statutory Auditors. The audit of the Bank and any entity with large exposures to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- d. 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 auditors for the Bank or any

audit/non-audit works for its group entities should be at least one year, before or after its appointment as statutory auditors. (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.

- e. The restrictions as detailed in para 6c and 6d above, shall also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

7. PROFESSIONAL STANDARDS OF STATUTORY AUDITOR

- a. The statutory auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- b. The Board of Director/Audit Committee of the Bank 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 RBI within two months from completion of the annual audit. Such reports shall be sent with the approval/recommendation of the Board/Audit Committee of the Bank with the full details of the audit firm.
- c. 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 statutory in relation to the Bank, the statutory auditors would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

8. TENURE AND ROTATION

- a. In order to protect the independence of the auditor/audit firms, the Bank will appoint the statutory auditors 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.
- b. An audit firm would 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.

9. AUDIT FEES AND EXPENSES

- a. The audit fees for statutory auditors of the Bank shall be decided in terms of the relevant statutory/regulatory provisions.
- b. The audit fees for statutory auditors of the Bank 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. The Board/Audit Committee of the Bank shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions, for fixing audit fees of statutory auditors.

10. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS

- a. The Bank has prescribed the detailed procedural guidelines as per Annexure-A, in conformity with the instructions under this Policy and all relevant statutory/regulatory requirements for appointment/reappointment of Statutory Auditors.

11. REVIEW OF THE POLICY

The Policy shall be reviewed and approved by the Audit Committee and the Board of Directors of the Bank on annual basis and as when required. It shall also be hosted on the website of the Bank at www.ujjivansfb.in.

Annexure-A

Procedure for Appointment of Statutory Auditors

1. The Bank shall shortlist minimum of 2 (Two) audit firms for every vacancy of statutory auditors 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 statutory auditors does not get delayed. However, in case of reappointment of statutory auditors by the Bank 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 Bank shall continue to follow the existing procedure followed for selection of statutory auditors. It shall place the name of shortlisted audit firms, in order of preference, before the Audit Committee of the Bank for selection as statutory auditors. Upon selection of statutory auditors by the Bank in consultation with the Audit Committee and verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of statutory auditors.
3. The Bank shall obtain a certificate, along with relevant information as per Form-B, from the audit firm(s) proposed to be appointed as statutory auditors 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 statutory auditor of the of the Bank, under the seal of the said audit firm.
4. The Bank 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 statutory auditor 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 statutory auditors, the Bank shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board of Directors/Audit Committee Resolution recommending names of audit firms for appointment as statutory auditors 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.

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 of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than Rs. 1,000 Crore*

#Details may be furnished separately for experience as SCAs/SAs and SBAs

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.

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* have been declared as willful 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:

**For the purpose of this declaration, the credit facilities availed by companies where the partner of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.*

Form-C

Certificate to be submitted by the Bank regarding eligibility of audit firm proposed to be appointed as statutory auditors

The Bank is desirous of appointing M/s _____, Chartered Accountants (Firm Registration Number _____) as Statutory Central Auditor (SCA)/ 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.

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 Central Auditor (SCA)/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 SCA/SA/SBA.

4. The Bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of Commercial Banks (excluding RRBs)/UCBs.

Signature

(Name and Designation)

Date: