

Appointment of Statutory Auditor Policy

Industrial and Commercial Bank of China Limited Mumbai Branch

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For any comments on this document please contact Team- Financial & Accounting.

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1 Introduction

Reserve Bank of India has issued guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) 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 will be applicable to the Commercial Banks (excluding RRBs), UCBs and NBFCs including HFCs.

Based on the above guidelines, bank has prepared its policy for appointment of **Statutory Auditors (SA)** for Annual Statutory Audit and related activities.

2 Approval from RBI

1. The Bank required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SAs, on an annual basis in terms of the statutory provisions.
2. The Bank should apply to Department of Supervision, RBI before 31st July of the reference year or as per latest timelines given by RBI.
3. For the purpose, The Bank shall approach the Central Office of RBI (Department of Supervision).

3 Criteria for Number of Audit firm appointment

1. 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

Accordingly, the Bank will appoint One audit firm (Partnership firm/LLPs) until assets size will reach of ₹15,000 crore in any previous year.

2. Once the assets size will reach of of ₹15,000 crore in any previous year the bank will take 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 for deciding number of SAs to be appointed from 2-4. The number of SAs will be approved by Local Management Committee (LMC).

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4 Eligibility Criteria for Appointment as SA

Based on **Annex I** of guidelines and bank asset size (more than ₹ 1,000 crore but upto ₹ 15,000 crore) following eligibility criteria for appointment is decided for any SA firm –

1. Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years – **3 (Three) Partners**

Note: For appointment as SCAs/SAs of all Commercial Banks (excluding RRBs), and other Entities with asset size above ₹ 1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

2. 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 – **2 (Two) Partners.**
3. Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification – **1 (One) Person**

Note: There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of short listing for considering them as Paid CAs with CISA/ISA qualification for the purpose.

4. Minimum No. of years of Audit Experience of the firm – **8 (Eight) years**

Note: For Commercial Banks (excluding RRBs), audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs.

5. Minimum No. of Professional staff – **12 (Twelve) staff**

Note: 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 short listing for considering them as professional staff for the purpose

6. 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 Entity with full details.
7. 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.

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8. 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. The firm needs to provide such approval from RBI.

5 Procedure for Appointment of SAs

1. For every new appointment, the bank shall 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 SCAs/SAs does not get delayed.
2. In case of reappointment of SAs by 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 reappointment.
3. The Bank shall place the name of shortlisted audit firms, in order of preference, before its LMC for selection as SAs.
4. Upon selection of SAs by the bank in consultation with their LMC and verifying their compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SAs.
5. The Bank shall 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 Entities, under the seal of the said audit firm.
6. 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 SA by the bank comply with all eligibility norms prescribed by RBI for the purpose.
7. While approaching the RBI for its prior approval for appointment of SAs, Bank shall indicate its total asset size as on March 31st of the previous year (audited figures) with 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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6 Independence of Auditors

1. For the Bank, LMC shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices.
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 LMC of the bank, under intimation to the concerned SSM/RO of RBI.
3. Concurrent auditors of the Entity should not be considered for appointment as SCAs/SAs of the same Entity.
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 should be at least one year, before or after its appointment as SAs.

Note: 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

7 Professional Standards of SAs

1. The SAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence
2. The LMC of the bank 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 LMC, with the full details of the audit firm.

8 Tenure and Rotation

1. Bank will have to appoint the SCAs/SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.
2. 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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4. An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure.
5. 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].

9 Audit Fees and Expenses

1. The audit fees for SAs of bank shall be decided in terms of the relevant statutory/regulatory provisions.
2. The audit fees for SAs of the bank shall be decided after considering 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.
3. The LMC of the bank shall make recommendation as per the relevant statutory/regulatory instructions for fixing audit fees of SAs

10 Annexures

1. Form B (SA details and declaration)
2. Form C (Certificate by Bank to RBI)