



## **IDFC FIRST Bank Limited**

### **POLICY FOR APPOINTMENT OF STATUTORY AUDITORS OF THE BANK**

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## POLICY FOR APPOINTMENT OF STATUTORY AUDITORS OF THE BANK

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## **POLICY FOR APPOINTMENT OF STATUTORY AUDITORS OF THE BANK**

### **1. PURPOSE**

As per Reserve Bank of India ('RBI') circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 ('RBI Circular'), the Bank is required to formulate a Board Approved Policy and formulate necessary procedure thereunder to be followed for appointment of Statutory Auditor (SA).

### **2. APPLICABILITY**

This Policy is applicable to the Bank from Financial Year 2021-22 onwards in respect of appointment/reappointment of Statutory Auditors.

### **3. PRIOR APPROVAL OF THE RBI**

The Bank is required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of Statutory Auditors, on an annual basis. For this purpose, the Bank is required to apply to The Department of Supervision, Central Office, RBI, Mumbai before 31<sup>st</sup> July of the reference year.

### **4. NUMBER OF STATUTORY AUDITORS**

- 4.1. The Bank shall decide on the number of SAs 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.
- 4.2. Since the asset size of Bank is more than ₹ 15,000 crore, 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 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 them.
- 4.3. Considering the above factors and the other requirements of the Bank, the actual number of Joint Statutory Auditors to be appointed, shall be subject to the following limits:

<b>Sl.No.</b>	<b>Assets Size</b>	<b>Maximum Number of Statutory Auditors</b>
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

## **5. COVERAGE OF AUDIT**

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.

## **6. MINIMUM ELIGIBILITY CRITERIA OF AUDITORS**

The Bank shall adhere to the minimum eligibility criteria as mentioned in the RBI Circular for appointment of the Statutory Auditors considering the asset size of the Bank.

## **7. INDEPENDENCE OF AUDITORS**

- 7.1. 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 may 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 Statutory Auditors shall approach the Board/ ACB of the Bank, under intimation to the concerned SSM/RO of RBI.
- 7.3. Concurrent auditors of the Bank should 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.
- 7.4. The time gap between any non-audit work (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. 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 the Bank may take its own decision in this regard, in consultation with the Board/ ACB.
- 7.5. As per the clarifications from the RBI dated June 11, 2021 in the form of FAQs, it has been clarified that the Group entity refers to the RBI Regulated Entities only. Hence, if an audit firm engaged with audit/non-audit work for the Group Entities (which are not regulated by RBI) is being considered by the Bank for appointment as Statutory Auditors, it shall be the responsibility of the Board/ Audit Committee to ensure that there is no conflict of interest and independence of auditors is ensured. Further, this will need to be suitably recorded in the minutes of the respective meetings as well.
- 7.6. The restrictions as detailed in para 7.3 and 7.4 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**

The Statutory Auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

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

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 Statutory Auditors in relation to Entities, the Statutory Auditors 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 of the auditors/audit firms, the Bank will have to appoint the Statutory Auditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, Bank can remove the audit firms during the above period only with the prior approval of the RBI.
- 9.2. 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.
- 9.3. The Audit firm can concurrently take up statutory audit as per the restrictions mentioned under RBI Circular. 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.

## **10. AUDIT FEES AND EXPENSES**

- 10.1. The audit fees for Statutory Auditors shall be decided in terms of the relevant statutory/regulatory provisions.
- 10.2. The ACB of the Bank shall make recommendation to the Board of Directors as per the relevant statutory/regulatory instructions for fixing audit fees of Statutory Auditors.
- 10.3. The audit fees for Statutory Auditors for 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.

## **11. OTHER FACTORS TO BE CONSIDERED FOR THE PURPOSE OF APPOINTMENT OF SA**

11.1. The audit firm, proposed to be appointed as Statutory Auditors, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.

11.2. 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. The Bank to ensure that appointment of auditors 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. If any partner of a Chartered Accountant firm is a director in Bank, the said firm shall not be appointed as Statutory Auditors of any of the group entities of the Bank.

11.3. 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 Bank where the accounting and business data reside in order to achieve audit objectives.

11.4. Concurrent auditors of the Bank should not be considered for appointment as SAs

## **12. 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 shall promptly approach the Bank with full details.

## **13. PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS**

The Board Approved Policy will be hosted on the website of the Bank / public domain, and necessary procedures in the form of SOP (Standard Operating Procedure) are formulated thereunder to be followed for appointment of Statutory Auditors.

### Process for re-appointment of existing Auditors

- First preference will be given to existing SAs for their re-appointment subject to compliance of eligibility norms in terms of the Companies Act, 2013, as amended from time to time, the RBI Circular and Guidelines issued from time to time. The Bank shall obtain the eligibility certificate along with other required documents for their re-appointment as Statutory Auditors.

### Process for appointment of new firm as Statutory Auditors of the Bank

- The appointment of Statutory Auditors will be made subject to fulfilling the eligibility norms prescribed by RBI and applicable provisions of Companies Act, 2013.
- Bank shall obtain written consent of the auditor to such appointment and certificate that the appointment, if made, shall be in accordance with the conditions stipulated under the RBI Guidelines and other statutory provisions.
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- Post screening of applications received, the shortlisted proposed names of Statutory Auditors will be recommended to ACB and Board of the Bank for approval. A minimum of 2 audit firms for every vacancy of Statutory Auditors will be shortlisted so that even if firm at first preference is found to be ineligible/refuses appointment, the firm at second preference can be appointed.
- Once the approval is given by the Board (pursuant to recommendation of the ACB), the Bank will submit the application for appointment of Statutory Auditors with necessary enclosures to the Reserve Bank of India for approval and confirming to the effect that the audit firm proposed to be appointed as Statutory Auditors comply with all the prescribed eligibility norms. This confirmation will be provided based on back-to-back certifications from the firms that are proposed to be appointed and independent enquiry by the Bank to the extent feasible.
- The appointment of the Statutory Auditors will be subject to the approval of Shareholders at the Annual General Meeting. The approval of the shareholders will be sought for an engagement period of 3 years; being the maximum period permissible under the RBI guidelines.
- Though the tenure of the SCAs will be for 3 years, the appointment will be subject to approval of the Reserve Bank of India for each year.

#### **14. REVIEW OF THE POLICY**

- 14.1. The policy shall be reviewed by the ACB at least once in a year and recommended to the Board.
- 14.2. In case of any amendment, clarification, circular etc. issued under any applicable law/Regulations which is not consistent with any of the provisions of this policy, then such amendment, clarification, circular, shall prevail upon the provisions mentioned above and this policy shall be deemed to be amended accordingly from the effective date as laid down under such amendment, clarification, circular etc.
- 14.3. In the event of a conflict between this Policy and the extant regulations or laws (as may be amended, replaced, restated, from time to time), the regulations and laws shall prevail.