

**STATUTORY CENTRAL AUDITORS APPOINTMENT POLICY**

**FY 2021-22**



Karur Vysya Bank Ltd.

Finance & Control Department

Central Office, Erode Road, Karur

## **1. Statutory guidelines / regulations**

In terms of the provisions of Section 30 (1A) of the Banking Regulation (BR) Act, 1949, prior permission has to be obtained from the Reserve Bank of India (RBI) for appointing Statutory Central Auditors (SCA) the Bank every year. Appointment / re-appointment of SCAs by the Bank will be undertaken on the basis of guidelines issued by RBI from time to time.

Guidelines given by Securities and Exchange Board of India (SEBI) with respect to the statutory auditors will apply to the extent the same are not in contravention of Banking Regulation (BR) Act, 1949 and Companies Act, 2013.

## **2. Appointment, re-appointment and removal**

The appointment, re-appointment and removal of the SCAs for undertaking the annual audit of the Bank and review of quarterly financial results are within the powers of the shareholders acting at the Annual General Meeting (AGM).

The Board of Directors shall submit to the shareholders, at the AGM, the proposal for appointment / re-appointment / removal of SCA pursuant to the provisions of this policy and applicable provisions of the Companies Act, 2013 and BR Act, 1949 which complies with the prevailing regulatory and statutory requirements.

## **3. Term and number of SCAs**

Statutory audit will be conducted under joint audit of a minimum of two audit firms (Partnership firms/Limited Liability Partnerships (LLPs)). Joint auditors of the Bank should not have any common partners and they are not under the same network of audit firms. The term of SCAs will be for a period of three years commencing from the date of AGM in which their appointment is approved by the shareholders till the conclusion of the next AGM.

The tenure of appointment of SCAs will be for a period upto three years, subject to annual approval by RBI and the shareholders at the AGM.

## **4. Eligibility criteria**

Eligibility criteria to be fulfilled by audit firms for appointment as SCAs of the Bank will comprise of –

- (a) Basic Eligibility and
- (b) Additional Consideration.

The details of the same, is as under:



## A. Basic Eligibility

Minimum no. of full time partners associated with the firm for a period of at least three years <sup>1</sup>	Out of 'A', minimum no. of Fellow Chartered Accountant (FCA) partners associated with the firm for a period of at least three years	Minimum no. of full time partners/ paid CAs with CISA/ISA qualification <sup>2</sup>	Minimum no. of years of audit experience of the firm <sup>3</sup>	Minimum no. of professional staff <sup>4</sup>
A	B	C	D	E
5	4	2	15	18

### Notes –

#### 1 – Full time partners associated with the firm:

There should be at least one year continuous association of partners with the firm as on the date of application for empanelment for considering them as full time partners. At least two partners of the firm shall have continuous association with the firm for at least 10 years.

Further, the 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 any 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.
- (d) Board / Audit Committee of the Board shall examine and ensure that the income of the partner from the firm/LLP is adequate for considering them as full-time exclusively associated partners.

#### 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 application for empanelment for considering them as paid CAs with CISA/ISA qualification for the purpose.

#### 3 - Audit Experience

Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs. In case of merger and demerger of audit firms, merger effect will be given after two years of merger while demerger will be effected immediately for this purpose.



#### 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 of application for empanelment for considering them as professional staff for the purpose.

The above norms are subject to extant guidelines issued by RBI.

#### **B. Additional Consideration**

(a) The audit firm, at the time of submission of application for empanelment as SCAs should be duly qualified for appointment as auditor of the Bank in terms of Section 141 of the Companies Act, 2013.

(b) 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.

(c) The appointment of SCAs must be in line with the ICAI's Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.

(d) If any partner of a Chartered Accountant firm is a director in the Bank, the said firm cannot be appointed as SCA of any of the group entities of the Bank.

(e) The applicant firm should 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, in order to achieve audit objectives.

(f) Concurrent auditors of the bank will not be considered for appointment as SCAs.

(g) The audit firm empanelled for appointment as SCAs must not undertake audit of any entity (borrower) with large exposure to the bank for the period during which the firm is proposed to be appointed as SCAs, so as to ensure independence of the auditor/audit firm.

(h) The time gap between any non-audit works (services mentioned in Section 144 of Companies Act, 2013, internal assignments, special assignments etc.) by the SCAs of the bank should be at least one year, before or after appointment as SCAs.



(i) 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 must 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 31<sup>st</sup> March and till the completion of annual audit.

## **5. Procedure of selection**

(a) Bank will empanel the requisite number of audit firms found eligible for appointment of SCAs. Audit firm desirous of getting themselves empanelled must submit the requisite application cum eligibility form along with their profile. A draft of the same is given in the annexure hereto. Bank reserves its right to call for additional information, over and above that specified therein. The application must be signed by the main partner/s of the audit firm under the seal of the said audit firm.

(b) Reappointment of SCAs until completion of tenure of continuous term of three years will be subject to fulfilling the terms of appointment as specified in the policy.

(c) Audit Committee of the Board (ACB) will assess the details of the eligible audit firms on various parameters, including inter-alia, audit experience of other banks, location, nature of clientele etc. Details of the firm as stated in item 'a' above as well as compliance of eligibility norms will be called for to determine their eligibility for selection as SCA.

(d) Based on selection of the audit firms for empanelment as SCAs and approval thereof by ACB, a shortlist of audit firms based on the number of vacancies will be placed before the Board of Directors for approval.

(e) Bank will seek RBI's prior approval for appointment of SCAs. Bank will also provide the details of the firm(s) to ICAI seeking confirmation whether any adverse remarks / disciplinary action is pending against the said firm(s), whereby the firm(s) become ineligible for appointment as SCAs of the Bank.

## **6. Procedure for appointment / re-appointment**

Upon receipt of approval from RBI for the appointment or re-appointment of the firm(s) as SCAs of the Bank, a resolution will be placed before the shareholders at the AGM to approve the appointment of the selected(s) firm as SCAs of the Bank for a period of one year (commencing from the date of AGM and upto the



conclusion of the next AGM), which has to be approved by majority of the shareholders present and voting, either directly or through proxy.

Once resolution is approved by the shareholders, an appointment order is issued to the firm, indicating their role and responsibilities along with the remuneration payable for the assignment. The firm will submit their acceptance to the offer of appointment and also submit necessary documents viz., declaration of eligibility, certificate of non-indebtedness etc. as per extant RBI, SEBI and other statutory / regulatory guidelines.

## **7. Review of performance**

Re-appointment of audit firm(s) as SCAs for their subsequent term of second and third year, as the case may be, will be undertaken by the ACB / Board, who will review their performance on annual basis and subject to their fulfilment of eligibility criteria as well as appointment terms, and recommend their re-appointment as SCAs for subsequent year. Thereafter, the procedure outlined under item '6' above will be followed.

At the time of annual review the performance of SCAs by the ACB/Board, any serious lapses/negligence in audit responsibilities or conduct issues on part of the SCAs or any other matter considered as relevant, will be reported to RBI within two months from completion of the annual audit, based on the approval/recommendation of the ACB/Board, with the full details of the audit firm.

## **8. Fees payable**

The remuneration payable to the SCAs shall be approved in the AGM. Alternatively, the shareholders may delegate the power to the Board of Directors (based on the recommendation of the ACB) for approving the remuneration to statutory auditors by means of a resolution.

## **9. Resignation**

Resignation of SCA will be subject to the extant RBI guidelines as well as SEBI guidelines with regard to listed entities as under –

- a. If the SCA resigns within 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter.
- b. If the SCA resigns after 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter as well as the next quarter.



c. Notwithstanding the above, if the SCA has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year.

d. Further, the SCA when submitting their resignation must also comply with the following, as per extant SEBI guidelines, which includes, inter-alia, reporting of concerns with respect to the Bank to the ACB:

- a. 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 auditor shall approach the Chairman of the ACB, and the ACB shall receive such concern directly and immediately without specifically waiting for the quarterly ACB meetings.
- b. In case the SCAs propose to resign, all concerns with respect to the proposed resignation, along with relevant documents shall be brought to the notice of the ACB. In cases where the proposed resignation is due to non-receipt of information/ explanation from the Bank, the auditor shall inform the ACB of the details of information/ explanation sought for and not provided by the management, as applicable.
- c. On receipt of such information from the SCAs relating to the proposal to resign as mentioned above, the ACB / Board of Directors, as the case may be, shall deliberate on the matter and communicate its views to the management and the auditor.

## **10. Scope of audit**

Scope of statutory central audit of the Bank will be strictly as per RBI guidelines. The audit firm will be required to conduct limited review of quarterly financial results as required under Clause 49 of the listing agreement, subject to RBI guidelines. The audit assignment also includes issue of certificates mandated by RBI as part of the annual audit process. The details of certification to be undertaken by the SCAs and other areas of annual audit are reviewed by RBI on annual basis and necessary instructions are issued to the Bank which will be communicated to the SCA separately.

In terms of RBI guidelines SCAs 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.

Bank will finalise the work allocation among SCAs, before the commencement of the statutory audit, in consultation with their SCAs.



Suggested format for application by audit firms for empanelment as Statutory  
Central Auditors of the Bank

*(To be furnished on the letter head of the audit firm)*

To  
The Board of Directors  
The Karur Vysya Bank Limited  
Karur

Dear Sirs,

**Sub: Appointment as Statutory Central Auditor (SCAs) of the Bank**

We wish to submit the profile of the firm along with the requisite eligibility criteria to consider the appointment of our firm as SCAs of Karur Vysya Bank Limited. We consent to being appointed as SCAs of the Bank.

We confirm that our firm fulfills the requirements of the Companies Act, 2013, the Companies (Audit and Auditors) Rules, 2014, as well as extant RBI and SEBI guidelines. Accordingly, we certify that:

(1) We are eligible for appointment under section 139 of the Companies Act, 2013 and meet the criteria for appointment specified in Section 141 of the Act;

(2) We are not disqualified from being appointed as auditors under the Companies Act, the Chartered Accountant Act, 1949 and the rules or regulations made thereunder as also the extant SEBI guidelines with regard to appointment of Statutory Central Auditors by commercial banks as well as the Statutory Auditor Appointment Policy of the Bank; our appointment as SCAs will be in line with the Institute of Chartered Accountants of India (ICAI) Code of Ethics/any other such standards adopted and does not give rise to any conflict of interest.

(3) Our firm is not a member of any network of audit firms nor is any partner of the firm a partner in any other audit firm. *(If appointed, the details thereof may be reported separately).*

(4) The firm complies with all eligibility norms prescribed by RBI regarding appointment of SCAs of Commercial Banks. 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 have been declared as wilful defaulter by any bank / financial institution. No partner of our firm is a director in your Bank nor has the firm or any of its partner has been appointed as a concurrent auditor by the Bank.





(5) We confirm that the firm has not been debarred from taking up audit assignments by any regulator / Government agency i.e. we are not under debarment by any Government Agency, National Financial Reporting Authority (NFRA), (ICAI), RBI or Other Financial Regulators. *(Details of earlier disciplinary proceedings, debarment, etc. if any, by any financial regulator / Government agency – both closed and pending - may be provided separately)*

(6) There are no pending proceedings against the firm or any of its partners with respect to professional matters of conduct under the Chartered Accountants Act, 1949 and the rules and regulations made thereunder.

(7) Our firm has not been associated with your Bank as SCAs in the past / our last engagement with your bank as SCAs was during the financial year \_\_\_\_\_ *(strike out whichever is not applicable).*

(8) Our firm has not provided any audit or services to your Bank in the past / our last engagement with your bank was during the financial year \_\_\_\_\_ as \_\_\_\_\_ *(strike out whichever is not applicable).*

(9) Our firm has not been appointed as SCAs by any other commercial bank and / or All India Financial Institution (AIFI) / RBI / NBFC / UCB in the present financial year. *(If appointed, the details thereof may be reported separately).*

(10) Our firm is not providing any audit or any service to any client who are covered under the Large Exposure Framework (LEF) of RBI / The list of entities covered under LEF of RBI, to whom we provide services are enclosed herewith *(strike out whichever is not applicable)*

(11) Certificate of indebtedness as per prescribed proforma is enclosed herewith.

In case our 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.), we will promptly approach the Bank with full details. Further, we will take all necessary steps to become eligible within a reasonable time and in any case, will be comply with all the norms before commencement of annual statutory audit for financial year ending 31<sup>st</sup> March and till the completion of annual audit.

It is confirmed that the information provided above is true and correct.

Signature of the Main Partner  
(Name of the Partner)



### Fulfillment of eligibility criteria

Number of full time partners associated with the firm for a period of at least three years <sup>1</sup>	Out of 'A', number of Fellow Chartered Accountant partners associated with the firm for a period of at least three years	Number of full time partners / paid CAs with CISA/ISA qualification <sup>2</sup>	Number of years of bank audit experience of the firm <sup>3</sup>	Number of professional staff <sup>4</sup>
<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
Status of applicant firm with regard to the above -				

Criteria in respect of (1) Full time partners associated with the firm, (2) CISA/ISA Qualification (3) Audit Experience and (4) Professional Staff is given under item 4.A of the Policy.

### Details of additional criteria

(1) Details regarding capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS) by the firm which will be utilized to audit the CBS environment of the Bank, in order to achieve audit objectives.

(2) Detailed audit profile – including statutory central or branch audits of Banks, concurrent audit of Banks

(3) ICAI firm registration certificate stating firm registration number, year of establishment, address etc. RBI Unique Code Number (UCN) may be reported therein.

