Suryoday Small Finance Bank Limited

Policy on appointment of Statutory Auditor of the Bank

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1. Background

The Reserve Bank of India ("RBI") vide circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, issued guidelines for appointment of Statutory Auditors of Commercial Banks. In accordance with the aforesaid guidelines, the Bank is required to formulate a Board approved Policy to be hosted on the Bank's website and necessary procedure thereunder to be followed for appointment of Statutory Auditors ("SAs"). Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.

2. Applicability

The guidelines issued by RBI for appointment of SAs are applicable to the Bank for the financial year 2021-22 and onwards. This Policy will be applicable in respect of future appointment/reappointment of SAs.

3. Prior approval of RBI

The Bank is required to take prior approval of RBI on an annual basis for appointment/reappointment of Statutory Auditors on or before July 31 of the reference year.

4. Number of Statutory Auditors

The statutory audit will be conducted under joint audit of minimum of two audit firms [Partnership firms / Limited Liability Partnerships (LLPs)] once the asset size touches or goes beyond Rs. 15,000 crores. The Bank shall ensure that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms. The Bank shall finalize the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

The Bank shall decide on the number of SCAs/SAs, 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.

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 Maximum limits:

Sr. No.	Assets 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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5. Coverage of Branch Audit

Statutory Auditors shall visit and audit at least the Top 20 Branches/Top 20% of the 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 Sec 143(8) of the Companies Act, 2013 regarding audit of accounts of all branches.

6. Eligibility criteria for auditors

The Bank shall adhere to the eligibility criteria as prescribed in Annex I for appointment of Statutory Auditors, considering the asset size of the Bank.

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

7.2. In case of any concern 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 the RBI.

7.3. 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.

7.4. The time gap between any non-audit work (services mentioned in 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 the Statutory Auditor, an audit firm can provide such services to the Bank, which may not normally result in a conflict of interest, and the Bank shall take decision in this regard, in consultation with the Board/ACB.

A conflict would not normally be created in the case of the following special assignments (indicative list):

7.4.1 Tax audit, tax representation and advice on taxation matters.
7.4.2 Audit of interim financial statements.
7.4.3 Certificates required to be issued by the Statutory Auditor in compliance with statutory or regulatory requirement.
7.4.4 Reporting on financial information or segments thereof.

7.5. 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.

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8. Professional standards of statutory auditors.

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 the 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 the Bank's financial statements, and any violations/lapses vis-à-vis RBI's directions/guidelines regarding the role and responsibilities of the SAs in relation to the Bank, the SAs 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 shall appoint StatutoryAuditors for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, the Bank can remove an audit firm 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 completionof full or part of one term of the audit tenure.

9.3 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], eight UCBs and eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each entity and within the overall ceiling prescribed by anyother statute or rule. A group of audit firms having common partners and/or under the same network,shall be considered as one entity and accordingly, the allotment shall be considered. Shared/Sub- contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. 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 & subject to approval of shareholders as required under Companies Act, 2013.

10.2 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.

10.3 The Board/ ACB may delegate authority to the MD & CEO and/or the CFO for fixing audit fees of the Statutory Auditors.

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11. Procedure for appointment of statutory auditors

The Bank shall have in place detailed procedural guidelines, in conformity with the instructions under this policy and all relevant statutory/regulatory requirements for appointment of Statutory Auditors. (Annexure II).

12. Review of the policy

The policy shall be reviewed at least once in a year by the Finance & Accounts Department. Changes, if any, shall be updated in the policy and the same shall be placed before the Audit Committee of the Board for recommendation and the Board for approval.

Annexure I – Eligibility Criteria for Appointment as Statutory Auditor

Basic Eligibility

Asset Size of the Bank as on 31st March previous year	Minimum No. of partners (FTPs) associated with the firm for a period of atleast three (3) years Note 1	Out of totalFTPs, Minimum No.of Chartered Accountant (Partners associated with the firm for a period of atleast three (3) Years	Minimum No. of Full Time Partners/ Paid CAs withCISA /ISA Qualification Note 2	Minimum No. of years of Audit Experience ofthe firm Note 3	Minimum No.of Professional staff Note 4
Above ₹15,000 crore	5	4	2	15	18
Above ₹1,000 cror 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 onthe date of shortlisting for considering them as full-time partners. Further, for appointment as SAs of the Bank, at least two partners of the firm shall have continuous association with the firmfor at least 10 years.

Association of a full-time partner with the firm shall 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.

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(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) The Board/ACB 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, 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 the purpose.

Note 3: Audit Experience: Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Banks (excluding RRBs)/ AIFIs. In case of merger and demerger of audit firms, merger effect will be given after 2 years of the merger, while demerger will be effected immediately for this purpose.

Note 4: 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 shortlisting for considering them as professional staff for the purpose.

Additional considerations

(i) 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.

(ii) The audit firm should not be under debarment by any Government Agency, National FinancialReporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.

(iii) The Bank shall ensure that appointment of SAs is in line with the Code of Ethics of the Institute of Chartered Accountants of India and/or any other such standards adopted and does not give rise to any conflict of interest.

(iv) If any partner of a Chartered Accountant firm is a director in any group entities of the Bank, the said firm shall not be appointed as SA of any of the group entities of the Bank.

(v) The auditors should preferably have capability and experience in deploying Computer AssistedAudit 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.

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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. Further, the audit firm shall take all necessary steps to become eligible within a reasonable time and in any case, the audit firm shall comply with the above norms before commencement of Annual Statutory Audit for the 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, the RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

Annexure II: Procedure for Appointment of Statutory Auditors

1. The Bank shall shortlist minimum of 2 audit firms for every vacancy of SAs so that even if the firm at first preference is found to be ineligible/refuses appointment, the firm at the second preference could be appointed and the process of appointment of SAs is completed within timeline. However, in case of reappointment of SAs by the Bank till the 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 for appointment.

2. The Bank shall shortlist audit firms, in order of preference and place before the ACB and the Board for selection as SAs. Upon selection of SAs by the Board and verifying compliance with eligibility norms as prescribed by the RBI, the Bank shall seek prior approval of the RBI for appointment of SAs.

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 SAs to the effect that the audit firm(s) 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 of SAs of the Bank, under the seal of the said audit firm.

4. The Bank shall verify compliance of audit firm(s) with the eligibility norms prescribed by the 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, comply with all eligibility norms prescribed by the RBI for the purpose.

5. While approaching the RBI for its prior approval for appointment of SAs, the Bank shall indicate its total asset size as on March 31st of the previous year (audited figures), forward a copy of the Board/ACB resolution recommending names of audit firms for appointment as SAs in order of preference and also furnish information as per **Form B** and **Form C** as mentioned above, to facilitate expeditious approval of appointment/reappointment of the concerned audit firm.

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FORM B

Eligibility Certificate from (Name and Firm Registration Number of the firm)

A. Particulars of the firm:

Asset Size of the Bank 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 totalFTPs, 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

#Details may be furnished separately for experience as 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 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 SAs of the Bank. 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:

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FORM C

Certificate to be submitted by the Bank regarding eligibility of audit firm proposed to be appointedas SA.

1. The Bank is desirous of appointing M/s___, Chartered Accountants (Firm Registration Number_____) as Statutory Auditor (SA) for the financial year
   i. 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 RBI for appointment of SAs of the Bank.

Signature(Name and Designation)

Date:

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