

Guidelines for Appointment of Statutory Auditors(SAs)

The following guidelines are issued under requirement of RBI circular DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs.

2. Applicability:

2.1 These guidelines will be applicable for Financial Year 2021-22 and onwards in respect of appointment/reappointment of SAs of the company. However, non-deposit taking NBFCs with asset size (total assets) below ₹1,000 crore have the option to continue with their extant procedure.

2.2 As these guidelines are being implemented for the first time for the company, from FY 2021-22, the company have the flexibility to adopt these guidelines from H2 (second half) of FY 2021-22 in order to ensure that there is no disruption.

3. Prior Approval of RBI:

3.1 The Company do not require to have to take prior approval of RBI for appointment of SAs, however, the company need to inform RBI about the appointment of SAs for each year by way of a certificate in **Form A** within one month of such appointment.

4. Number of SAs and Branch Coverage

4.1 The company should appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit.

If the Company achieves the asset size of ₹15,000 crore and above as at the end of previous year, statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)].

It shall be ensured that joint auditors of the company do not have any common partners and they are not under the same network of audit firms. Further, the company may finalise the work allocation among SAs, before the commencement of the statutory audit, in consultation with their SAs.

4.2 The company should decide on the number of SAs based on a Board Approval and as per the above RBI circular, *inter alia*, 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 company, the actual number of SAs to be appointed shall be decided by the Boards of the company subject to the following limits:

Sl. No.	Asset Size of the Entity	Maximum number of SAs
1.	Upto ₹5,00,000 crore	4
2.	Above ₹ 5,00,000 crore and Upto ₹ 10,00,000 crore	6
3.	Above ₹ 10,00,000 crore and Upto ₹ 20,00,000 crore	8
4.	Above ₹ 20,00,000 crore	12

The above limits have been prescribed to ensure that the number of SAs appointed by the company are adequate, commensurate with the asset size and extent of operations of the company, with a view to ensure that audits are conducted in a timely and effective manner. This will be subject to review in future based on the experience.

4.3 SAs shall visit and audit at least the Top 20 branches/Top 20% of the branches of the Entities (in case of Entities having less than 100 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. In addition, the banking companies and NBFCs shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

5. Eligibility Criteria of Auditors

The Company shall required to appoint audit firm(s) as its SA(s) fulfilling the eligibility norms as prescribed in [Annex I](#).

6. Independence of Auditors

6.1 The Audit Committee of the Board (ACB) of the Company 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 company and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

6.2 In case of any concern with the Management of the company such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SAs shall approach the Board / ACB of the company, under intimation to the concerned SSM/RO of RBI.

6.3 Concurrent auditors of the company should not be considered for appointment as SAs of the company. The audit of the company and any entity with large exposure to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor.

6.4 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 Entities or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SAs. However, during the tenure as SA, an audit firm may provide such services to the company which may not normally result in a conflict of interest, and company may take their own decision in this regard, in consultation with the Board/ACB.

6.5 The restrictions as detailed in para 6.3 and 6.4 above, should 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 SAs

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

7.2 The Board / ACB of the company 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 Board/ACB, with the full details of the audit firm.

7.3 In the event of lapses in carrying out audit assignments resulting in misstatement of company's financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SAs in relation to the company, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

8. Tenure and Rotation

8.1. In order to protect the independence of the auditors/audit firms, the Company will have to appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. The company, removing the SAs before completion of three years tenure shall inform concerned SSM/RO at RBI about it, along with reasons/justification for the same, within a month of such a decision being taken.

8.2 An audit firm would not be eligible for reappointment in the company for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firms can

continue to undertake statutory audit of other companies in the same group.

8.3. 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 specified by the company and within overall ceiling prescribed by any other statutes or rules. For the purpose of this guidelines, 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 SA accordingly. 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.

9. Audit Fees and Expenses

9.1 The audit fees for SAs of the company shall be decided in terms of the relevant statutory/regulatory provisions.

9.2 The audit fees for SAs of the company 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. Statutory Audit Policy and Appointment Procedure

10.1 This policy shall to be hosted on company's official website/public domain post approval of the Board for necessary transparency and objectivity for most key aspects of this important assurance function.

10.2 Guidelines on minimum procedural requirements are given at [Annex II](#).

Eligibility Criteria for Appointment as SA
A. Basic Eligibility

Asset Size of Entity as on 31st March of Previous Year	Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years Note 1	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	Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification Note 2	Minimum No. of years of Audit Experience of the firm Note 3	Minimum No. of Professional staff Note 4
Above ₹15,000 crore	5	4	2	15	18
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Upto ₹1,000 crore	2	1	1*	6	8

* Not mandatory for NBFCs, if the asset size is of upto ₹ 1,000 crore.

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as full-time partners. Further, for appointment as 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.

For all NBFCs with asset size above ₹ 1,000crore, 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 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) In case of PSBs, the income of the partner from the firm/LLP should not be below the threshold limits prescribed by the Office of C&AG for the purpose of consideration as full-time partners for appointment as auditors of Public Sector Undertakings. For other Entities, 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:

For NBFCs with asset size upto ₹ 1,000 crore, there is no minimum requirement in this regard. However, such Entities may give priority to firms with full time partners or full time CAs having 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3: Audit Experience:

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

Note 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 empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as professional staff for the purpose.

B. Additional Consideration

(i) The audit firm, proposed to be appointed as SCAs/SAs for Entities, 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 Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.

(iii) The Entities shall ensure that appointment of SCAs/SAs 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.

(iv) If any partner of a Chartered Accountant firm is a director in any Public Sector Bank (PSB), the said firm shall not be appointed as SCA/SA of any PSB. Further, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SCA/SA of any of the group entities¹³ of that Entity.

(v) The auditors for Entities with asset size above ₹1,000 crore 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 Entities where the accounting and business data reside in order to achieve audit objectives.

(vi) For audit of UCBs, the SA of the firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of the language of the state in which the UCB/branch of the UCB is located.

C. 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 may promptly approach the Entity 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 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.

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.

Procedure for Appointment of SAs

1. The company 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 SAs does not get delayed. However, in case of reappointment of SAs by the company 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 company shall continue to follow the existing procedure followed by them for selection of SAs. They shall place the name of shortlisted audit firms, in order of preference, before their Board / ACB for selection as SAs. Upon selection of SAs by the company in consultation with their Board/ ACB and verifying their compliance with the eligibility norms prescribed by RBI.
3. Empanelment of audit firms eligible for appointment as SAs will continue to be based on the norms prescribed by RBI.
4. The Company shall place the name of shortlisted audit firms, in order of preference, before their Board for selection as SA. Upon selection of SAs in consultation with Board and verifying their compliance with the eligibility norms prescribed by RBI.
5. The Company 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 company 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 company, under the seal of the said audit firm.

FORM A

Information to be submitted by the NBFCs regarding appointment of SA

The company has appointed 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.

2. The company has obtained eligibility certificate from (name and Firm Registration Number of the audit firm) appointed as SCA/SA of the company for FY_ along with relevant information in the format as prescribed by RBI.

3. The firm has no past association/association for _____ years with the company as SCA/SA/SBA.

4. The company has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of NBFCs.

Signature

(Name and Designation)

Date:

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

A. Particulars of the firm:

Asset Size of Entity as on 31 st 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 ₹ 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 / directors¹⁵ 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: