



UNITY SMALL FINANCE BANK LIMITED

POLICY FOR APPOINTMENT OF STATUTORY AUDITOR

Version Control:

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1. Objective

The objective of this Policy is to provide a framework, which will enable Unity Small Finance Bank, hereinafter referred to as the “Bank” in appointment/reappointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs).

2. Scope

This policy will cover the role and responsibilities of the Bank in appointment/reappointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) in line with the RBI guidelines. The policy will cover the number of SCAs / SAs required for branch coverage, eligibility criteria, independence, professional standards of auditors, tenure, audit fees and appointment procedure in detail to ensure that audits are conducted in a timely and effective manner.

3. Regulatory Framework and applicable Regulations

The formulation of this policy is pursuant to RBI Circular on Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) dated April 27, 2021 (“**RBI Circular**”).

i) Applicability

These guidelines are applicable to the Bank in respect of appointment/reappointment of SCAs/SAs.

ii) Prior Approval of RBI:

The Bank will obtain prior approval of RBI (Department of Supervision) for appointment/reappointment of SCAs/SAs, on an annual basis. For this purpose, Bank will apply to Central Office- Department of Supervision, RBI before 31st July of the reference year.

iii) Number of SCAs / SAs and Branch Coverage:

1. As per the RBI Circular, the Bank shall appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit.
2. Taking into account the relevant factors such as the size and spread of assets of the Bank on commencement of business, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc, it is proposed to have only one SCA/ SA for the Bank. This will be reviewed on an annual basis by the Management Committee of the

Bank. The maximum number of SCAs/ SA appointed will be 4.

3. SCAs/SAs 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. In addition, the Bank shall also ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

4. Eligibility Criteria of Auditors

(A) Basic Eligibility

The Bank shall appoint audit firm(s) as its SCA(s)/SA(s) fulfilling the eligibility norms as prescribed below:

Minimum No. of Full- Time partners (FTPs) associated with the firm for a period of at least three (3) years	3
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
Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification	1
Minimum No. of years of Audit Experience of the firm	8
Minimum No. of Professional staff	12

Note 1: There should be at least one-year continuous association of partners with the firm as on the date of shortlisting 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. 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) The Board/ACB/ Management Committee should 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:

The 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 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 shortlisting for considering them as professional staff for the purpose.

Additional Consideration:

- (i) The audit firm, proposed to be appointed as SCAs/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 Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.
- (iii) The appointment of SCAs/SAs shall 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.
- (iv) Further, if any partner of a Chartered Accountant firm is a director in any of the group companies of the Bank, the said firm shall not be appointed as SCA/SA of any of the group entities of the Bank.
- (v) 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 where the accounting and business data resides in order to achieve audit objectives.

Continued Compliance with basic eligibility criteria:

The Bank shall ensure that the audit firm continuously ensure 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.), the Bank shall ensure that the audit firm takes all the 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. Such cases shall be intimated to RBI for seeking approval for dispensation.

5) Independence of Auditors

- a. The Audit Committee of the Board (ACB)/ Executive Committee (EXECOM) 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/ EXECOM to the Board of Directors of the Bank and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- b. In case of any concern with the Management such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SCAs/SAs shall approach the Board/ACB/EXECOM of the Bank, under intimation to the concerned SSM/RO of RBI.
- c. Concurrent auditors should not be considered for appointment as SCAs/SAs of the Bank. The audit of the Bank and any entity with large exposure to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.
- d. The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SCAs/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 SCAs/SAs. However, during the tenure as SCA/SA, an audit firm may provide such services to the Bank which may not normally result in a conflict of interest, and Bank may take its own decision in this regard, in consultation with the Board/ACB/ EXECOM.
- e. The restrictions as detailed in para c and d above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

6) Professional Standards of SCAs/SAs

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

- b. The Board/ACB/ EXECOM of the Bank shall review the performance of SCAs/SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SCAs/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/ EXECOM with the full details of the audit firm.
- c. 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 the RBI's directions/guidelines regarding the role and responsibilities of the SCAs/SAs in relation to the Bank, the SCAs/SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

7) Tenure and Rotation

- a. In order to protect the independence of the auditors/audit firms, 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. Further, Bank can remove the audit firms during the above period only with the prior approval of the Central office of RBI (Department of Supervision).
- b. 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. However, audit firms can continue to undertake statutory audit of other Entities.
- c. 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, NABFID) 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 overall ceiling prescribed by any other statutes or rules. For clarity, the limits prescribed for UCBs exclude audit of other co-operative societies by the same audit firm. For the purpose of this circular, 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 SCA/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.

8) Audit Fees and Expenses

- a. The audit fees for SCAs/SAs of the Bank shall be decided in terms of the relevant statutory/regulatory provisions.

- b. The audit fees for SCAs/SAs 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.
- c. The Board/ACB/ EXECOM shall make recommendation to the competent authority as per the relevant statutory/regulatory instructions for fixing audit fees of SCAs/SAs.

9) Guidelines on minimum procedural requirements for appointment of SCAs /SAs are given below:

- (i) The Bank shall shortlist minimum of 2 audit firms for every vacancy of SCAs/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. However, in case of reappointment of SCAs/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 appointment.
- (ii) The Bank shall place the name of shortlisted audit firms, in order of preference, before their ACB/ EXECOM for selection as SCAs/SAs. Upon selection of SCAs/SAs by the Bank in consultation with the ACB/EXECOM and verifying the compliance with the eligibility norms prescribed by RBI, the bank shall seek RBI's prior approval for appointment of SCAs/SAs.
- (iii) The Bank shall obtain a certificate, along with relevant information as per Form B, from the audit firm(s) proposed to be appointed as SCAs/SAs 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 SCAs/SAs, under the seal of the said audit firm.
- (iv) 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 SCA/SA by them comply with all eligibility norms prescribed by RBI for the purpose.
- (v) While approaching the RBI for its prior approval for appointment of SCAs/SAs, the Bank shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of Board/ACB Resolution recommending names of audit firms for appointment as SCAs/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.

10) Publishing of the Policy

This Policy will be hosted on the Bank's official website as mandated by RBI.

11) Review and Amendments

The Policy will be reviewed periodically by the Board

The Policy shall stand automatically updated in case of any amendments made to the RBI Circular and in case of any new circular issued by RBI.

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

A. Particulars of the firm:

Asset Size of Entity 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 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:

Format of Certificate to be submitted by the Commercial Banks (excluding RRBs) and UCBs regarding eligibility of audit firm proposed to be appointed as SCA/SA

The bank/UCB is desirous of appointing 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 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/UCB has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Central Auditor (SCA)/Statutory Auditor of the bank/UCB 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/UCB as SCA/SA/SBA.

4. The bank/UCB has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs/SAs of Commercial Banks (excluding RRBs)/UCBs.

Signature
(Name and Designation)
Date: