



## **POLICY ON APPOINTMENT OF STATUTORY CENTRAL AUDITORS**

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## 1. INTRODUCTION

The Board of Directors (the “Board”) of Axis Bank Limited (the “Bank”) have adopted the following policy and procedures with regard to Appointment of Statutory Central Auditors (‘Policy on Appointment of Statutory Central Auditors’), in line with the requirements of extant norms of Reserve Bank of India, Section 30 (1A) of the Banking Regulation Act, 1949 and as per Section 139, 141 and other applicable provisions of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014.

The Board and Audit Committee will review and may amend this policy from time to time.

## 2. OBJECTIVE

The objective of this policy is two fold - to establish proper procedure for appointment of Statutory Central Auditors and to conform with the extant norms of Reserve Bank of India, and applicable provisions of Banking Regulation Act, 1949; and Companies Act, 2013.

## 3. DEFINITIONS

- a) **“Audit Committee”** means the Audit Committee of the Board.
- b) **“Board”** means Board of Directors of the Bank.
- c) **“MD & CEO”** means the Managing Director and Chief Executive Officer of the Bank.
- d) **“CFO”** means the Chief Financial Officer of the Bank.
- d) **“RFP (Request for Proposal) document”** means documents floated to invite expression of interest for the position of the Statutory Central Auditors of the Bank.
- e) **“Statutory Central Auditors (SCAs)”** means the auditors appointed as per the policy with the approval of Reserve Bank of India and Shareholders of the Bank to undertake the Audit of the Corporate Office and all branch offices of the Bank.

## 4. ELIGIBILITY NORMS FOR SCAS

- a) **Eligibility norms per RBI circular no. DoS.CO.ARG/SEC.01/08.91.001/2021-22 of 27<sup>th</sup> April, 2021 read with Frequently Asked Questions (FAQs) issued by RBI on 11<sup>th</sup> June, 2021**
  - i. Minimum 5 full time partners (FTPs) associated with the firm for a period of at least 4 years. Of the FTPs, minimum 4 should be Fellow Chartered Accountant (FCA) associated with the firm for a period of at least 3 years. There should be at least 2 FTP/paid CA with CISA/IA qualification.
  - ii. At least two partners of the firm shall have continuous association with the firm for at least 10 years.

- iii. The minimum number of professional staff (excluding typists, stenographers, computer operators, secretary/ies and sub-ordinate staff etc.), consisting of audit and articled clerks with the knowledge in book-keeping and accountancy and are engaged in outdoor audit should be 18.
- iv. The firm should have minimum statutory central audit experience of 15 years as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs.
- v. One audit firm will be permitted to take up the statutory audit of 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.
- vi. In the case of a group of audit firms having common partners, only one firm will be considered for allotment of statutory audit. Accordingly, a group of firms having common partners will be considered as one entity.
- vii. 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 for the Bank or any audit/non-audit works for its group entities (RBI Regulated Entities in the group) should be at least one year, before or after its appointment as SCAs. However, during the tenure as SCA/SA, an audit firm may provide such services which may not normally result in a conflict of interest, and the Bank may take the decision in this regard, in consultation with the Board/ACB.
- viii. An Audit firm, subject to it fulfilling the prescribed eligibility norms will be allowed to continue as the SCA for the Bank for a period of three years and thereafter the said firm will be compulsorily rested for a period of six years.
- ix. Concurrent auditors of the Bank will not be considered for appointment either as Statutory Central Auditors or Branch Auditors of the same bank.

**b) General eligibility norms for Auditors**

- i. The audit firm, proposed to be appointed as SCAs, 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 to be in line with the ICAI's Code of Ethics/any other such standards adopted and should not give rise to any conflict of interest.
- iv. 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 entities of that entity.
- v. 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.

- vi. 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 Entities where the accounting and business data reside in order to achieve audit objectives.
- vii. The auditors should preferably have the capability and experience in dealing with both debt and equity capital market issuances (domestic and offshore).

## **5. PROCEDURE FOR APPOINTMENT OF SCAs**

- i. The appointment of SCAs will be made subject to their fulfilling the eligibility norms prescribed by RBI and applicable provisions of Companies Act, 2013, and subject to their suitability.
- ii. Post screening of applications received, the shortlisted proposed names of SCAs will be recommended to ACB and Board of the Bank for approval. A minimum of 2 audit firms for every vacancy of SCAs 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.
- iii. Once the approval is given by the Board (pursuant to recommendation of the ACB), the Bank will submit the application for appointment of SCAs 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 SCAs 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.
- iv. The consent letter/certificate obtained from the SCAs should be signed by the main partner/s of the audit firm proposed for appointment under the seal of the said audit firm and shall be dated prior to the date of the application referred in (iii) above.
- v. The appointment of the SCA 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.
- vi. Though the tenure of the SCA will be for 3 years, the appointment will be subject to approval of the Reserve Bank of India each year.
- vii. The matters related to fees / remuneration etc. payable to the SCAs will be decided by the ACB subject to approval of the shareholders of the Bank. The fees 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. The fees related to permissible non audit work, including certifications will be decided by the Bank's management and reported to the Audit Committee.
- viii. The preference will be to appoint two SCA's as this improves accountability and also provides a cross functional view to the SCA, though the Bank can appoint more than 2 SCA's subject to cap under the extant regulations on such appointment. Sharing of work between joint auditors will be decided once the requisite approvals are received i.e. based on individual firm's capability & expertise. The work allocation will be linked to each side of the Balance

Sheet (Assets and Liabilities) and allocation of specific areas, where specialized skill sets are required, like ITGC, Treasury, etc. based on skills & expertise of each firm. The SCA's will present an audit plan to the ACB upon completion of formalities of their appointment, setting out respective areas of work and coverage.

## **6. PROCESS FOR SELECTION AND APPOINTMENT OF SCAs**

- i. The ACB shall oversee the appoint process of the Statutory Central Auditors. The CFO shall be vested with the responsibility of preparing and floating RFP, and receiving the proposals from auditors, analysing and placing recommendatory note to the Audit Committee of the Board for approval. Only when the RFP parameters have to be tweaked and in variation from the Board approved policy, then the same shall be incorporated after obtaining ACB approval.
- ii. Proposals received from the auditors, complete in all respects and within the prescribed time as per the RFP floated in this connection, will be scrutinized on the basis of the basic eligibility criteria as given in Para 4 above by the ACB.
- iii. The Finance & Accounts team of the Bank in consultation with the CFO shall evaluate the applications received considering various parameters including but not limited to expertise, experience, qualifications, reputation, availability of qualified CAs, sufficient trained personnel with the firm and such other factors as the Bank may deem fit for its requirements.
- iv. Post scrutiny of the said applications and concurrence of the MD & CEO, the CFO shall submit summary of the applications received; together with comments/views and final recommendation for consideration to the ACB.
- v. Based on recommendations made by the management, the ACB is empowered to decide on the number of SCAs to be engaged 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. The minimum and maximum number of SCAs will be in line with the guidelines prescribed by the RBI from time to time.
- vi. The final selection of the SCAs will be approved by the Board on the recommendation of Audit Committee of the Board.
- vii. The Bank also reserves the right to make query with the firm or any other agency, ask for additional information, particulars, and submission of one or more undertakings from any firm, at any point of time. None of such act shall be deemed as an offer of engagement as Central Auditor by the Bank to the firm unless and until the Bank intimates in writing to the firm regarding appointment as SCAs of the Bank.

## **7. REVIEW OF THE POLICY**

- i. The ACB will review the policy and recommend the same to the Board annually or earlier as and when it deems necessary.
- ii. In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity. However, the amended regulatory requirements will supersede the Policy till the time Policy is suitably amended.
- iii. Pursuant to the review and recommendation of the Audit Committee of Board of the Bank, the Policy has been approved at the meeting of the Board held on 14<sup>th</sup> June, 2021 and shall be effective from 14<sup>th</sup> June, 2021.

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