



National Housing Bank

Policy for Recommendation of Statutory Auditors (SAs) to RBI

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1. Introduction

1.1 Reserve Bank of India (RBI) vide its letter Reference No. Ref DoS. ARG. No. AS-10/08:15:008 /2021-22 dated October 12, 2021, has informed that in order to bring a general uniformity of approach, it is proposed to broadly align appointment of Statutory Auditor of NHB from AY 2021-22 and onwards in line with the guidelines dated April 27, 2021 for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs).

2. Purpose:

2.1 To define the policy for recommendation of SAs to RBI for appointment in confirmation with the extant norms of RBI; applicable provisions of National Housing Bank Act, 1987, and Companies Act, 2013.

3. Definitions:

- a) "AY" means Accounting Year of the Bank currently July-June.
- b) "Audit Committee" means the Audit Committee of the Board.
- c) "Board" means Board of Directors of the Bank.
- d) "Statutory Auditors (SAs)" mean auditors appointed as per the policy to conduct statutory audit of the Bank.
- e) "RBI circular" means RBI circular RBI/2021-22/25 Ref No. DOS.CO.ARG/ SEC.01/08.91.001/ 2021-22. dated April 27, 2021
- f) Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above. [Note: "AS" means Accounting Standard notified under Companies Act, 2013]
- g) "Promoter" has the same meaning as in the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 and includes a member of the promoter group
- h) Promoter group" includes, inter alia,

- i) a subsidiary or holding company of promoter;
- ii) any-body corporate in which the promoter holds twenty per cent or more of the equity share capital; and/or anybody corporate which holds twenty per cent or more of the equity share capital of the promoter;
- iii) any-body corporate in which a group of individuals or companies or combinations thereof acting in concert, which hold twenty per cent or more of the equity share capital in that body corporate and such group of individuals or companies or combinations thereof also holds twenty per cent or more of the equity share capital of the issuer and are also acting in concert

i) Potential Conflict of Interest –

Potential Conflict of Interest, with reference to a firm that is being considered for appointment as SA, may arise, in any of the following circumstances:

- i) the firm is engaged with audit/non-audit works for a Group Entity of the Bank, which is not regulated by RBI,
- ii) the audit firm was engaged with audit/non-audit works for a Group Entity of the Bank, which is not regulated by RBI, and not more than one year has elapsed since the completion/ relinquishment of such engagement,
- iii) a partner of the firm is a director in any of the Group Entities of the Bank, which are not regulated by RBI.

4. Applicability:

4.1 This policy will be applicable for Accounting Year 2021-22 onwards unless otherwise so directed by RBI.

5. Submission of eligible entities names for Statutory Audit to RBI for appointment:

5.1 The Bank shall submit list of SAs in the order of preference to RBI for appointment of SAs once in every three years. The Bank shall apply to Department of Supervision, RBI, Mumbai, the reference year for such appointment.

6. Number of SAs:

6.1 From AY 2021-22 and onwards, NHB may shortlist two audit firms in order of preference, with the approval of their Board/ACB, for appointment as SA and thereafter approach RBI for appointment of SA.

7. Eligibility Criteria of Auditors:

7.1 (A) The minimum standards and eligibility norms for audit firms to be appointed as SAs shall be, as given below:

Asset size of the Bank as on 31st March of the previous year	Min No. of Full Time partners (FTPs) associated with the firm for a period of at least three (3) years Note 1	Out of 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

Note 1: There should be at least one-year continuous association of such 5 partners with the firm as on the date of shortlisting for considering them as full time partners. Further, at least two partners out of such five partners of the firm shall have continuous association with the firm for at least 10 years.

a) 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:

(i) The full-time partner should not be a partner in other firm/s.

(ii) She / He should not be employed full time / part time elsewhere.

(iii) 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.

(iv) 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 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.

B. Additional Consideration

(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 Financial Reporting 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 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 an RBI Regulated group Entity, the said firm shall not be appointed as SA of the bank. Bank shall, as part of the process for selection of firms for appointment as SAs, obtain appropriate disclosures in this regard, including details of directorships in Group Entities that are not regulated by RBI.

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 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 should be complying with the above norms before commencement of Annual Statutory Audit for Financial Year ending 30th June 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 Bank may approach RBI, to allow the concerned audit firm to complete the audit, as a special case.

8. Independence of Auditors:

8.1 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 and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

8.2 Concurrent auditors of the Bank will not be considered for appointment as SAs. The audit of the Bank and any entity with large exposure (As defined in RBI instructions on 'Large Exposures Framework') to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor.

8.3 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 Bank 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 Bank which may not normally result in a conflict of interest, and the Bank will take a decision in this regard, in consultation with the ACB. A conflict would not normally be created in the case of the following special assignments (indicative list): -

- (i) Tax audit, GST Audit, tax representation and advice on taxation matters,
- (ii) Audit of interim financial statements.
- (iii) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
- (iv) Reporting on financial information or segments thereof

However, if an audit firm is involved in any non-audit work with the Bank and/or any audit/non-audit work in other RBI Regulated Group Entities and completes or relinquishes the said assignment prior to the date of appointment as SA of the Bank for FY 2021-22, the said audit firm would be eligible for appointment as SA of the Bank for FY 2021-22.

8.4 The restrictions as detailed in para 8.2 and 8.3 above, will also apply to an audit firm under the same network (As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms or any other audit firm having common partners.

9. Professional Standards of SAs

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

9.2 The ACB shall review the performance of SA on an annual basis. Any serious lapses/negligence in audit responsibilities on conduct issues on part of the SA or any other matter considered as relevant shall be reported to RBI within two months from completion of the annual audit. Such reports shall be sent with the approval/recommendation of the ACB, with the full details of the Audit firm.

9.3 In the event of lapses in carrying out audit assignments resulting in misstatement of 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 Bank, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

10. Tenure and Rotation

10.1 To protect the independence of the auditors/audit firms, Bank shall recommend the SAs for appointment to RBI for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.

10.2 An audit firm would not be eligible for reappointment for six years (two tenures) after completion of full or part of one term of the audit tenure. In case an audit firm has conducted audit of the Bank for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the Bank for six years from completion of part-tenure.

10.3 An audit firm proposed to be appointed as SA of the Bank, 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, A group of audit firms having common partners and/or under the same network, will be considered as one entity.

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.

11. Statutory Auditor - Appointment Procedure

11.1 Process for reappointment of existing Auditors during the tenure of 3 years:

Every year, the Bank shall obtain the willingness from the existing SA for re-appointment by obtaining declaration on compliance of eligibility norms from SA and recommend to RBI. In case such consent is not received from any of the existing SA, Bank shall follow the selection process for onward submission to RBI for appointment of New SA.

11.2 Process for appointment of firm of Chartered Accountants as SA:

11.2.1 The C&AG's all-India panel of audit firms eligible for consideration for appointment as SCAs of PSBs for respective year (after removing the names of denied firms) would be shared by RBI with NHB.

11.2.2 EOI will be invited from the Audit firms / past auditors of the Bank / firms associated with Bank in past and firms having their Head Office in New Delhi/NCR, subject to fulfilling the eligibility criteria as per para 7 above. A window of maximum of 2 weeks will be announced with prior approval from MD, for the firms to apply for expression of interest (EOI) for appointment of Statutory Auditors. The link for expression of Interest (EOI) will be published on Banks website and an advertisement in two local newspapers will be given regarding the window for EOI.

11.2.3 The shortlisting of firms from applications received for EOI, will be done by an Evaluation Committee. The composition of Evaluation Committee will be finalized by MD. An Evaluation Committee will shortlist the firms by evaluating audit firms on the parameters as per eligibility requirements and willingness received from the firms, for

making presentation to the ACB. The Evaluation Committee will shortlist 03 number of audit firms that do not have a potential conflict of interest. Such short-listed audit firms will be asked to make a presentation to ACB, which shall include all aspects of compliance with RBI guidelines.

11.2.4 ACB will select the firms for adequate number (twice the number of vacancies from the shortlisted firms) of audit firm(s) in order of preference indicating their names against the vacancy. ACB shall select minimum of 2 audit firms for vacancy of SA 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 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 appointment.

11.2.5 Thereafter, Bank will recommend the list of SAs in the order of preference to RBI for appointment.

11.2.6 Bank will continue to utilize the services of existing Statutory Auditors as appointed by Reserve Bank of India for statutory Audit/Limited Review in the subsequent quarters/ Financial Year until the appointment procedure of SAs is completed.

12. Audit Fees and Expenses

The audit fees for SA shall be as decided by RBI.

13. Review of the policy:

The Audit Committee of the Board and Board of the Bank may review the policy as **and when required/ need based**.

In case there are any regulatory changes requiring modifications to the Policy, the Policy shall be reviewed and amended at the next possible opportunity.

14. The Board approved Policy will be hosted on Banks official website.
