



POLICY FOR APPOINTMENT OF STATUTORY CENTRAL AUDITORS

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1. Objective

The objective of the policy is to lay down the criteria to be considered by the Bank before appointment of Statutory Central Auditors(SCAs)/Statutory Auditors (SAs). This policy is framed in accordance with the Reserve Bank of India's (RBI) circular Ref. Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 and other provisions of Banking Regulation Act, 1949 and Companies Act, 2013 applicable for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs), as may be amended or modified, replaced, or substituted from time to time, read with the FAQs issued on June 11, 2021 ("the RBI Guidelines") for Appointment of Statutory Auditors (SAs) of commercial banks.

2. Definitions

- a) "ACB" means the Audit Committee of the Board.
- b) "AGM" means Annual General Meeting.
- c) "Bank" means The South Indian Bank Ltd.
- d) "Board" means Board of Directors of the Bank.
- e) "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].
- f) "Large Exposure" means large exposure as defined in the RBI instruction on "Large Exposure Framework", as amended from time to time.
- g) "Statutory Auditors(SAs)"/" Statutory Central Auditor (SCAs)" means auditors appointed as per the policy to conduct statutory audit of the Bank.

3. Applicability

This policy will be applicable for the audit/limited review for the period beginning from 01.07.2021 of Financial Year 2021-22.

4. Procedure for Appointment/ Reappointment of Statutory Central Auditors

- 4.1** The Bank shall shortlist a minimum of two (2) audit firms for every vacancy of SCAs as per the RBI guidelines as amended from time to time.

- 4.2** The Bank shall place the name of shortlisted audit firms, in order of preference, before the ACB for selection as SCAs, which shall consider the same and make its recommendation to the Board. Thereafter, upon confirmation of the shortlisted SCAs by the Board and after verifying their compliance with the eligibility norms prescribed by RBI and other relevant regulations, the Bank shall seek RBI's prior approval for appointment of SCAs, for which purpose, the Bank shall submit to RBI, the names of the shortlisted SCAs in order of preference. However, during the tenor of continuous term of 3 years of the SCA for reappointment such detailed procedure of shortlisting, reporting names of multiple audit firms in the order of priority for selection etc is not required while seeking RBI approval for such reappointment.
- 4.3** The Bank shall obtain a certificate in the prescribed format on eligibility norms, along with relevant information from the audit firms proposed to be appointed/ reappointed as SCAs of the Bank in compliance with RBI and other regulatory norms.
- 4.4** The Bank shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI and other statutory authorities and recommend to RBI, the names along with a certificate, in the prescribed format.
- 4.5** The Bank shall seek prior approval of RBI (Department of Supervision) for appointment/ reappointment of SCAs, on an annual basis in terms of the statutory provisions before July 31st of the reference year.
- 4.6** While approaching the RBI for its prior approval for appointment of SCAs, Bank shall submit details such as total asset size as on March 31st of the previous year (audited figures) of the Bank, a copy of the resolution of the ACB and/ or Board resolution recommending names of audit firms for appointment as SCAs in the order of preference along with other statutory information.
- 4.7** The appointment of SCAs shall be approved by the shareholders at the Annual General Meeting.

5. Number of SCAs and Branch Coverage

- 5.1** In line with existing RBI Guidelines, for banks with asset size of ₹15,000 Crore and above as at the end of previous year, the statutory audit shall be conducted as a joint audit with a minimum of two (2) audit firms. 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 (as defined in Rule 6 (3) of the Companies (Audit & Auditors) Rules, 2014). The Bank shall finalise the work allocation among SCAs, before the commencement of the statutory audit, in consultation with their SCAs.

5.2 The number of SCAs to be appointed for a financial year shall be decided, 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. The actual number of SCAs to be appointed shall be decided by Board subject to the limit on maximum number of SCAs prescribed by RBI from time to time.

5.3 The SCAs of the Bank 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, Bank shall ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

6. Eligibility Criteria of Auditors

The statutory auditors should fulfil the eligibility norms as prescribed in the RBI guidelines, Companies Act, ICAI guidelines or any other statutory/regulatory guidelines issued from time to time.

7. Independence of Auditors

7.1 The Audit Committee will monitor and assess the independence of the statutory auditors and ensure that there is no conflict of interest while appointing as SCA in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard will be flagged to the Board and concerned Senior Supervisory Manager (SSM) of RBI.

7.2 The concurrent auditors of the Bank will not be considered for appointment as statutory auditors. The audit of the Bank and any entities with large exposure to the Bank for the same reference year should also be explicitly factored in while assessing the independence of the auditors.

7.3 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SCAs 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. However, during the tenure as SCAs, an audit firm may provide such services to the Bank and its group entities which may not normally result in a conflict of interest. A conflict will not normally be created in the case of the following assignments which may be considered as an indicative list:

- a) Tax audit, tax representation and advice on taxation matters
- b) Audit of interim financial statements.

- c) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
- d) Reporting on financial information or segments thereof.

These restrictions will also apply to an audit firm under the same network of audit firms (as defined in rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) or any other audit firm having common partners.

8. Performance Review of Auditors

- 8.1** The ACB of the Bank will review the performance of the statutory auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on the part of the SCAs or any other matter considered as relevant will be reported to RBI within two months of completion of annual audit after recommendation of ACB and approval from the Board with full details of the audit firm.
- 8.2** 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 in relation to Bank, the SCAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

9. Tenure and Rotation

- 9.1** As per RBI guidelines, Bank shall appoint the SCAs for a continuous period of three (3) years based on the approval of RBI and the Shareholders of the Bank, subject to the firms satisfying the eligibility norms each year.
- 9.2** Subject to the provisions of the applicable law, including the Companies Act, 2013, the Bank can remove an audit firm during their tenure with the prior approval of RBI, and with the approval of the shareholders.
- 9.3** 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 such part-tenure.)

10. Audit Fees and expenses

The audit fees for SCAs shall be as per applicable regulatory provisions and shall be reasonable and commensurate with their respective 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. Further, Board with recommendation from ACB, will recommend for approval on the quantum of remuneration payable to each joint SCAs as appointed by the Bank, depending upon their respective scope of work. The remuneration to SCAs shall be approved in the Annual General Meeting of the Bank.

The Board, upon the recommendation of Audit Committee is permitted to alter and vary the remuneration in such manner and to such extent as may be mutually agreed with the Statutory Central Auditors, as Authorized by the Shareholders in the Annual General meeting.

11. Conflict in Policy

Notwithstanding anything contained in this policy, if there is any conflict between the provisions of this policy with that any of the provisions of any statutory Law/RBI circulars/guidelines for the time being in force, the provisions of the applicable law and regulations will prevail.

12. Amendments/Modifications

To the extent any change/ amendment is required in terms of any applicable law or change in regulations, the regulations would prevail over this Policy and the provisions in this Policy would be modified in due course to make it consistent with law. However, notwithstanding such non-modification or pending such modification, the applicable law and regulations as amended shall prevail over this Policy, and the Policy shall be read accordingly. Such amended Policy shall be placed before the ACB and the Board for information and necessary approval.

13. Review of Policy

This Policy shall be reviewed by the Board as and when any changes are to be incorporated in the Policy due to change in applicable law or regulation, or at least once in a year and updated accordingly.

14. Disclosure of Policy

The Board approved Policy will be hosted in Bank's official website