



POLICY ON APPOINTMENT OF STATUTORY AUDITORS

MASHREQBANK PSC -INDIA BRANCH

POLICY ON APPOINTMENT OF STATUTORY AUDITORS

Approved by MANCO Members, MBIN:

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POLICY ON APPOINTMENT OF STATUTORY AUDITORS

1. Background, Purpose and Objective of this policy:

RBI has issued new guidelines on appointment of Statutory Central Auditors (SCAs) / Statutory Auditors (SA) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs) dated April 27, 2021. The Guidelines provides necessary instructions for appointment of SCAs / SAs, the number of auditors, eligibility criteria, tenure and rotation as well as norms for ensuring the independence of auditors.

2. Appointment of statutory auditors:

Appointment of statutory auditors would be approved by MANCO every year as per the RBI guidelines and this Policy.

As per RBI guidelines, the banks with asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms.

As the Bank's asset size is less than ₹15,000 crore, the statutory audit will be conducted under audit of single audit firms from FY 2021-22 and onwards. Given the size and spread of assets, accounting and administrative structure, complexity of transactions, level of computerization, audit inputs and controls around financial reporting, single audit firms are considered adequate for the audit of the bank. This would be subject to RBI guidelines on minimum number of audit firms as applicable from time to time.

3. Eligibility criteria of auditors:

Below are eligibility criteria for appointment of an audit firm as statutory auditors:

- Minimum 2 full time partners (exclusive association) associated with firm for minimum 3 years (of which minimum 1 partners required to be Fellow Chartered accountants and at least 2 partners shall have continuous association with the firm for at least 10 years)
- Minimum 1 full time partners or paid CAs with CISA / ISA qualification (with continuous association minimum one year)
- Minimum 6 years of audit experience (as Statutory Auditor / Statutory Central Auditor / Branch Auditor of Commercial Banks)
- Minimum 8 professional staff (with at least one-year's continuous association)

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Additional consideration:

- Audit firm shall demonstrate that income of the fulltime partners from the firm / LLP is adequate for considering them as full-time exclusively associated partners to ensure the capability of the firm for the purpose
- The audit firm is required to be duly qualified for appointment of auditor as per Section 141 of the Companies Act, 2013
- 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
- The appointment of statutory auditors should 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
- The audit firm is required to have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS)
- Above eligibility criteria are as per RBI guidelines and hence, eligibility criteria would be governed by RBI guidelines, as amended from time to time

The audit firm should comply with criteria of maximum number of banks audits (ie it can take up statutory audit of a maximum of four Commercial Banks).

In case any audit firm (after appointment) does not comply with any of the eligibility norms mentioned above, the audit firm is required to promptly approach the Bank with full details and take all necessary steps to become eligible within a reasonable time. Finance Department in consultation with Compliance Department should assess such circumstances for necessary action.

4. Tenure and rotation

Auditors should be appointed for continuous period of three years, subject to the firms satisfying the eligibility norms each year. The Bank can remove the audit firm during the above period only with the prior approval of the RBI (Department of Supervision) 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. A group of audit firms having common partners and / or under the same network, will be considered as one entity / one audit firm.

5. Independence of Auditors

The MANCO will 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 will be flagged to the Senior Supervisory Manager (SSM) of RBI. For the purpose, Finance Department would place annual assessment note to the MANCO (for statutory auditors of FY 2022-23 and onwards) Concurrent auditors of the Bank will not be considered for appointment as statutory auditors of the Bank.

The time gap between any non-audit work (services mentioned under Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the statutory auditor to the Bank or other

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subsidiaries in India should be at least one year, before or after appointment as statutory auditor. However, during the tenure as statutory auditor, the audit firm may provide such services which may not normally result in a conflict of interest, and Authorized Officer (or his delegate) is authorized to approve such assignments (indicative list given below):

A conflict would not normally be created in the case of the following assignments (indicative list):

- (i) Tax 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

If statutory auditors are required to be appointed for any other assignment (other than above list), approval of Chief Executive Officer / Country Head and Chief Financial Officer would be required and the same should be placed in next MANCO meeting. This is also applicable to audit firm under the same network of audit firms or any other audit firm having common partners.

6. Performance review

The MANCO shall review the performance of statutory auditors on an annual basis. Any serious lapses / negligence in audit responsibilities / conduct issues on part of the auditors or any other matter considered as relevant shall be reported to RBI within two months from completion of the annual audit with the approval / recommendation of the MANCO.

For the purpose, Finance Department would place annual assessment note to the MANCO (for statutory audit of FY 2022-23 and onwards).

7. Audit fees:

Chief Financial Officer shall make recommendation to Country Head and Head Office approving authority for fixing the audit fees of the statutory auditors commensurate with the scope and coverage of audit, size and spread of bank's assets, accounting and administrative structure, complexity of transactions, level of computerization, risks and controls around financial reporting. Chief Financial Officer is authorized to finalize the audit fees as per Country Head and Head Office approval.

8. Procedural and Other Matters:

Procedure for appointment of the auditors is outlined in the Annexure. Further, Chief Financial Officer is authorized to deal with appointment procedure including screening of firms, assessing experience, eligibility criteria, making recommendations to MANCO for approval, signing the appointment letters and related documents, finalizing the fees and payment terms, providing management representation to the auditors and do the needful for all related matters.

This Policy (and appended Procedure) would be effective from FY 2022-23 (unless amended by RBI). The Policy would be updated in line with RBI guidelines from time to time.

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Annexure

Procedures for appointment of statutory auditors

1. The Bank shall shortlist minimum of 2 audit firms for every vacancy of Statutory Auditors, 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 Statutory auditors does not get delayed. Name of multiple firms are not requirement for annual reappointment of the auditors
2. Finance Department will do the screening, evaluation of audit firms, assess eligibility criteria and propose the names of select audit firms in consultation with Chief Financial Officer to MANCO.
3. Finance Department will obtain a certificate with requisite information in “Form B” from the audit firms certifying the compliance of all eligibility criteria. Such certificate should be signed by the main partner of the firm along with the firm’s seal
4. Shortlisted firms in order of preference will be placed into the MANCO for approval in the month of May or June every year
5. Post approval of MANCO, Finance Department will send the names to RBI for its approval for appointment of Statutory Auditors, along with certificate in Form C, before 31 July every year.
6. Once RBI approval is received, Finance Department will do the needful to comply with / confirm / check conditions, if any, as per the RBI approval letter and communicate to the concerned audit firm
7. Chief Financial Officer or his delegate will issue appointment letter and other communication to the audit firms and sign / accept Engagement Letter or similar documents
8. Chief Financial Officer or his delegate will also engage with Audit Firms for audit planning, audit fee, audit work allocation etc. and deal with such related matters

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FORM B

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

#Details may be furnished separately for experience as SCAs / SAs and SBAs

Additional Information:

- Copy of Constitution Certificate.
- 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.
- 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.
- Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.

Declaration from the firm

The firm complies with all eligibility norms prescribed by RBI regarding appointment of SA of Commercial Banks. 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 / directors 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 Partner)

Date: