



Utkarsh Small Finance Bank

Policy on Appointment of Statutory Auditors

(Version 5.0)



Utkarsh Small Finance Bank Limited

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Background:

The Reserve Bank of India vide their Circular Ref: DOS.CO.ARG/SEC.01/08.91.001/ 2021-22 dated April 27, 2021 has issued Guidelines for appointment of Statutory Auditors (SA) applicable to Commercial Banks. The guidelines are applicable to the Commercial Banks for the financial year 2021-22 and onwards in respect of appointment of the SA.

The guidelines are issued under Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955; and under provisions of Chapter IIIB of RBI Act, 1934 for NBFCs. These guidelines supersede all previous guidelines issued on the subject.

Objective:

This policy document on appointment of statutory auditors covers all aspects applicable to the Bank as per the above referred guidelines issued by the Reserve Bank of India and is framed basis these RBI guidelines as the guiding principles and hence is subject to change if and when any of the applicable provisions of these RBI guidelines undergo change.

A. Prior Approval of RBI

The Bank is required to obtain prior approval of RBI (Department of Supervision, Central Office) for appointment/reappointment of SA on an annual basis. For this purpose, the Bank is required to apply to Department of Supervision, RBI, CO by July 31 of the reference year.

B. Number of SAs and Branch Coverage

On reaching asset size of ₹15,000 crore (Balance Sheet Size) as at the end of previous year, the statutory audit is required to be conducted as a joint audit by a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)]. The Bank shall ensure that such joint auditors do not have any common partners and they are not under the same network of audit firms. Further, the Bank shall finalise the work allocation among joint auditors before the commencement of the statutory audit, in consultation with such joint auditors.

The Board will recommend from time to time the number of joint auditors 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.



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Till such time, the Bank is required to appoint a minimum of one audit firm (Partnership firm/LLPs) for conducting statutory audit.

In terms of Branch coverage, SAs shall visit and audit at least the Top 20 branches 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 ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches as applicable¹.

C. Eligibility Criteria

The Bank shall follow the following eligibility norms for selection of Statutory Auditors:

Asset Size of the Bank as on 31st March of Previous Year	Asset Size upto ₹15000 Crore	Asset Size above ₹15000 Crore
Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years ²	3	5
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	4
Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification ³	1	2
Minimum No. of years of Audit Experience of the firm ⁴	8	15
Minimum No. of Professional staff ⁵	12	18

The following additional factors to be considered for appointment of Statutory Auditors:

¹ 143 (8) Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed:

² For appointment as SAs, at least two partners of the firm shall have continuous full time & exclusive association with the firm for at least 10 years.

³ 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.

⁴ Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks/ 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.

⁵ 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.



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- (a) The audit firm, proposed to be appointed, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013 (Refer Annexure A for further detailing).
- (b) 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.
- (c) The appointment of SCAs/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.
- (d) If any partner of a Chartered Accountant firm is a director in the Bank, the said firm shall not be appointed as SA of any of the group entities of the Bank.
- (e) 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 Bank where the accounting and business data reside in order to achieve audit objectives.

Continued Compliance with basic eligibility criteria

The audit firm is expected to comply with eligibility norms at all the time. Therefore, in case if the audit firm does not comply with any of the eligibility norms, it should promptly approach the Bank with full details and shall take necessary steps to become eligible within reasonable time and in any case, should comply with the eligibility norms before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of the annual audit.

Extra-ordinary circumstances which makes the firm ineligible should be referred to RBI for their consideration to continue the audit firm as the statutory auditors of the Bank.

D. Independence of Auditors

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.
2. Existing Concurrent auditors of the Bank should not be considered for appointment as SAs.
3. The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013 (Refer Annexure A), Internal assignments, special assignments, etc.) by the SAs or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SCAs/SAs.
4. 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 shall take decision in this regard, in consultation with the Audit Committee of the Board (ACB).



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E. Professional Standards of SCAs/SAs

The ACB shall review the performance of SAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the 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, with the full details of the audit firm.

F. Tenure and Rotation

- a. The Bank shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. 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.
- b. The Bank shall ensure that the audit of the Bank will be within the ceiling prescribed by RBI or by other statutes / Rules. The confirmation to this effect should be obtained from the Audit Firm.

G. The Audit Fees and Expenses

The ACB will evaluate the audit fees for SAs which 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 ACB shall make recommendation to the Board for fixing audit fees of SAs.

H. Procedure for Appointment of Statutory Auditors

The Bank shall follow the following laid down procedure for appointment of statutory Auditors.

1. The Bank shall shortlist minimum of 2 audit firms for every vacancy of SAs so that even if the 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.
2. 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 approval of appointment.
3. The shortlisted firms would be asked to give their willingness in writing to accept the assignment of SAs work without any commitment on the part of the Bank as regards their appointment.
4. The Bank shall place the names of shortlisted audit firms, in order of preference, before the ACB and the Board for selection as SAs. Upon selection of SAs by the Bank in consultation with ACB and the Board and after verifying their compliance with the



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eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of SAs.

5. The Bank shall obtain a certificate, along with relevant information as per [Form B](#) prescribed by RBI, from the audit firm(s) proposed to be appointed as 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 of the Entities, under the seal of the said audit firm.
6. 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](#) prescribed by RBI, stating that the audit firm(s) proposed to be appointed as SA by them comply with all eligibility norms prescribed by RBI for the purpose
7. While approaching the RBI for its prior approval for appointment of SAs, the Bank shall indicate their total asset size as on March 31st of the previous year (audited figures), forward a copy of the Board/ACB Resolution recommending names of audit firms for appointment as SAs in the order of preference and also furnish information as per [Form B](#) and [Form C](#) as mentioned above.
8. The appointment would be formalised only on receiving RBI approval.

I. Hosting and Review of Policy

1. Board Approved Policy shall be hosted by the Bank on its official website/public domain.
2. This Policy is subject to annual review by the Board of the Bank through Audit Committee of the Board. However, if there are any changes in the RBI guidelines with respect to appointment of Statutory Auditors, then the review should be carried out at the earliest thereafter.



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“Annexure A”

Relevant provisions of the Companies Act, 2013:

141. Eligibility, qualifications and disqualifications of auditors

(1) A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant:

Provided that a firm whereof majority of partners practising in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.

(2) Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.

(3) The following persons shall not be eligible for appointment as an auditor of a company, namely:—

(a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;

(b) an officer or employee of the company;

(c) a person who is a partner, or who is in the employment, of an officer or employee of the company;

(d) a person who, or his relative or partner—

(i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company: Provided that the relative may hold security or interest in the company of face value not exceeding one thousand rupees or such sum as may be prescribed; (ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed; or

(iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for such amount as may be prescribed;

(e) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;

(f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;

(g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;



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- (h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
- (i) any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144.

(4) Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

144. Auditor not to render certain services

An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company, namely:—

- (a) accounting and book keeping services;
- (b) internal audit;
- (c) design and implementation of any financial information system;
- (d) actuarial services;
- (e) investment advisory services;
- (f) investment banking services;
- (g) rendering of outsourced financial services;
- (h) management services; and
- (i) any other kind of services as may be prescribed:

Provided that an auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this section before the closure of the first financial year after the date of such commencement. *Explanation.*—For the purposes of this sub-section, the term “directly or indirectly” shall include rendering of services by the auditor,—

- (i) in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual;
- (ii) in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners.



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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 31st March of Previous Year	Number of Full-Time partners (FTP)s 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:

- 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.

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:



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FORM C

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: