



Appointment of Statutory Auditors

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1.0 Purpose

This document contains the policy for appointment of statutory auditors in line with new guidelines issued by the Reserve Bank of India in April 2021 specifying the various aspects to be covered while appointing the statutory auditors of the bank.

2.0 Scope

The objective of this policy is to establish proper procedure for appointment of SAs and to conform with the extant norms of Reserve Bank of India, and applicable provisions of Banking Regulation Act, 1949; and Companies Act, 2013 as per of this policy document.

Guidelines issued by RBI circular dated April 27, 2021 will be applicable to the Bank for Financial Year 2021-22 onwards in respect of appointment/ reappointment of SAs.

3.0 General Guidelines

3.1 Prior approval from Reserve Bank of India

1. The Bank is required to obtain prior approval of RBI (Department of Supervision) for appointment/
2. Reappointment of SAs on annual basis. The Bank shall apply to Department of Supervision, RBI,
3. Mumbai before 31st July of the reference year for such approval.

3.2 Number of Auditors and branch coverage

As per the guidelines, for entities with asset size of INR 150 billion as on March 31st of previous year the audit should be conducted under joint audit of a minimum of two audit firms. All other entities should appoint a minimum of one audit firm for conducting the statutory audit. Considering our current asset size, only one SA would be appointed subject to RBI approval.

The SAs is required to visit and audit at least the Top 20% of the branches of the Bank, 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, the Bank is required to ensure adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches.

3.3 Eligibility Criteria for Auditors

QNB India would align the auditor appointment with QNB Group and prefer to appoint same external audit firm that is auditing the Group.

In case the desired auditors are not able to take up the engagement due to regulatory restrictions on tenor and rotation, then Proposals will be roll out to other eligible audit firms.

Due consideration will be given to the history of the firm, past experience with QNB, other banking clients and fees. The minimum standards and eligibility norms for audit firms to be appointed as SAs shall be, as given in appendix.

3.4 Independence of Auditors

The India Executive Committee EXCO 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 India Executive Committee (ExCO) to the concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

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.

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 India ExCo.

A conflict would not normally be created in the case of the following special 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

The restrictions as detailed in para 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.

3.5 Professional Standards of Statutory Auditors

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

The India ExCo 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 EXCO and subsequently to RBI within two months from completion of the annual audit. Such reports shall be sent with the approval / recommendation of the India ExCo, with the full details of the audit firm.

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

3.6 Tenor and Rotation

In order to protect the independence of the auditors/audit firms, Bank shall appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, the Bank can remove the audit firms during the above period only with the prior approval of RBI.

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.

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.

3.7 Audit fees and expenses

The audit fees for SAs shall be decided in terms of the relevant statutory/regulatory provisions

The audit fees for SAs 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.

Proposals received should be clear on the required scope, fees, applicable taxes and other aspects like out of pocket expenses etc

3.8 Annual Renewal / Reappointment

As an audit firm can be appointed for a continuous period of 3 years, first preference of reappointment will be given to existing Auditors, subject to continuous compliance of eligibility norms. The Bank shall obtain the willingness from the existing Auditors for re-appointment. On receipt of the consent, Bank shall take steps for the re-appointment of the audit firm. In case such consent is not received from any of the existing SAs, Bank shall follow the process for appointment of New SA to fill that vacancy.

3.9 Identification of audit firm and RBI approval

QNB India would align the auditor appointment with QNB Group and wish to appoint same external audit firm that is auditing the Group. In case the desired auditors are not able to take up the engagement due to regulatory restrictions on tenor and rotation, then Proposals will be roll out to other eligible audit firms. Due consideration will be given to the history of the firm, past experience with QNB, other banking clients and fees.

An RFP to be rolled out with the scope of work based on RBI guidelines and requirement seeking proposals from eligible audit firms.

Subject to fulfilling the eligibility criteria and based on internal evaluation, audit firms will be shortlisted and necessary approval from local management and Group will be obtained. Bank will obtain the necessary documents, consents and declaration as prescribed by RBI from the firms which are shortlisted. Thereafter, the bank shall seek RBI's approval for appointment/ re-appointment of SAs under Sections 30 (1-A) of the Banking Regulation Act, 1949.

3.10 General

The Bank shall obtain a certificate, along with relevant information as per Form B (Appendix 7.2), from the audit firm(s) proposed to be appointed/ reappointed 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/ reappointment of SAs of the Bank, under the seal of the said audit firm. 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 (Appendix 7.3), 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. The SAs are required to declare the list of their major corporate clients to avoid conflict of interest. In case any of the SAs is auditors of a corporate client who is assisted by the Bank, then files of such corporate client shall be audited by the other SA.

4.0 Review

4.1 Policy Review

India Finance would review / update the policy in line with the Group's standards / changes effected by RBI or more frequently as and when necessary.

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.

4.2 Data Protection

All confidential data that involves processing, accessing, recovering or storing QNB Data must be in accordance with the Data Protection, Information Ownership & Classification Policy and Principles including;

QNB data must be accessed only for specified and lawful purposes and must not be accessed in any manner which is incompatible with the specified and lawful purpose

QNB data must be protected against unauthorised or unlawful processing, accidental loss, destruction or damage through appropriate internal control and organisational measures.

Where there is a potential or confirmed breach of data through loss, theft, unauthorised access or accidental destruction, the Data Protection Team must be informed immediately via dpo@qnb.com (<mailto:DPO@qnb.com>)

QNB Data includes personal data (customer, employee or third party), proprietary data including financial documents, contracts and data classified as Confidential or Internal by the Information Owner.

5.0 Appendices

Preventing money laundering and terrorist financing has three objectives:

Objective	Description
Legal and Regulatory	To comply with anti-money laundering and terrorist financing legislation that imposes specific obligations on financial sector companies and their employees.
Professional Reputation	To ensure that the Bank is not involved in: Handling criminal proceeds. Assisting the laundering of criminal proceeds. Furthering the aims of terrorists. These activities would call into question our reputation, integrity and, if fraud is involved, our solvency
Ethical	Failure to prevent the laundering of the proceeds of crime permits criminals to benefit from their actions. This makes crime a more attractive proposition. The acts of terrorism committed worldwide have increased the international efforts to locate and cut off funding for terrorists and their organisations

Increased vigilance by management and staff will protect QNB from the following risks:

1. Adverse publicity, loss of public confidence and loss of business caused by inadvertent association with criminals and terrorists;
2. Losses arising from inadvertent business relationships with criminals who may defraud the bank or undermine the integrity of the Bank's employees;
3. Inadvertently accepting the proceeds of crime, which later become confiscated by the courts.
4. Criminal prosecution and severe penalties

The objective of the risk based approach is to balance the compliance / cost burden with a realistic assessment of the threat to the Branch from being used for money laundering or terrorist financing. The Branch has put in place a risk-based approach to manage those risks related to money laundering and terrorist financing by studying vulnerabilities that the branch may be exposed to and ensure proper controls are available to mitigate AML / CTF risks. The strategy aims to keep these risks controlled and conduct assessments under periodic reviews.

For Risk Management, Risk Evaluation shall have a risk based approach which includes the following.

1. Customers shall be categorized as low, medium and high risk category, based on the assessment and risk perspective of the Bank.
2. Risk categorization shall be undertaken based on parameters such as customer's identity, social/financial status, nature of business activity, and information about the clients' business and their location etc. While considering customer's identity, the ability to confirm identity documents through online or other services offered by issuing authorities may also be factored in.

3. Provided that various other information collected from different categories of customers relating to the perceived risk, is non-intrusive and the same is specified in the KYC policy.

The risk-based approach will classify the customers according to their risk profile which is assessed based on the below components:

1. Customer Risk – identifying the source of income or the activity type
2. Geographic Risk - risks of involvement in ML, TF and other illicit activities posed by different jurisdictions with which the customers are associated or may become associated
3. Product Risk - Types of designated product and services provided
4. Delivery Channel Risk - How the designated services are delivered

According to the customers' risk classification, an appropriate due diligence methodology shall be applied considering the above mentioned risk components.

Enhanced due diligence will be applicable to high-risk customer segments. However, other customers will be subject to on-going monitoring irrespective of the risk score. Based on the Risk Based Approach Methodology, there is an independent approach for certain High Risk customers' category such as PEPs, NPOs and others who are categorised as High Risk.

Key Indicators of Regulatory and Legal Weakness (see Appendix 2) are mentioned in Appendix 2.

5.1 Eligibility Criteria for auditors as per RBI

Asset Size of Entity as on 31st March of Previous Year	Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years Note 1	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	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
Above ₹ 1,000 crore and Up to ₹15,000 crore	3	2	1	8	12
Upto ₹1,000 crore	2	1	1	6	8

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

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:

1. The full-time partner should not be a partner in other firm/s.
2. She / He should not be employed full time / part time elsewhere.
3. 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.
4. India Executive Committee (ExCO) 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

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/stenographers/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.

Additional Consideration:

1. The audit firm, proposed to be appointed as SCAs/SAs for Entities, should be duly qualified for appointment as auditor of a company in terms of Section 141 of the Companies Act, 2013.
2. 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.
3. The Entities shall ensure that 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.
4. If any partner of a Chartered Accountant firm is a director in any Public Sector Bank (PSB), the said firm shall not be appointed as SCA/SA of any PSB. Further, 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.
5. The auditors for Entities with asset size above ₹1,000 crore 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.
6. For audit of UCBs, the SA of the firm should have a fair knowledge of the functioning of the cooperative sector and shall preferably have working knowledge of the language of the state in which the UCB/branch of the UCB is located.

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 31st March 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.

5.2 Form B - Eligibility Certificate to be obtained from audit firms (RBI Format)

Details of the firm

Asset Size of Entity as on 31st 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
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*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

Additional information

1. Copy of Constitution Certificate.
2. 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.
3. 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.
4. Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
5. 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 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 willful 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:

5.3 Form C - format of certificate to be submitted by the bank to RBI (RBI format)

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.

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.

The firm has no past association/association for _____ years with the bank/UCB as SCA/SA/SBA.

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:

