

SOCIETE GENERALE INDIA

Policy on Appointment/Re-appointment of Statutory Auditors

[C1]

[DFIN CMA]

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Policy on appointment/re-appointment of Statutory Auditors [C1]

1 Introduction:

Statutory Auditor for the purpose of this policy means and includes an auditor or a firm of auditors appointed by the Bank under the requirements of law notably the Companies Act, 2013 and/or the Banking Regulation Act, 1949 or relevant RBI regulations to carry out an audit and provide an opinion by way of an audit report under the said law and regulations; mainly on the Financial Statements of the Bank and matters related thereto (as may be required by law or respective regulations) for the period of appointment.

While appointing statutory auditor/s, the bank should ensure to comply with the laws as per the Banking Regulation Act, 1949 and Companies Act, 2013 and RBI regulations.

RBI has issued guidelines vide circular dated April 2021 (RBI Circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27 April 2021) 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.

1.1 *Statutory requirements to appoint auditor/s:*

As per section 30(1) of the Banking Regulation Act, 1949 the Balance sheet and Profit and Loss account prepared in accordance with section 29 of the Banking Regulation Act, 1949 shall be audited by a person duly qualified under any law for time being in force to be an auditor of companies. In addition, section 30(1A) of the Banking Regulation Act, 1949 requires that every banking company shall, before appointing / re-appointing or removing any auditor/s, obtain the prior approval of the Reserve Bank of India ('RBI').

1.2 *Number of Statutory Auditors (SA):*

As per RBI circular, Entities with asset size less than INR 15,000 Crores can appoint one SA (Partnership Firm or LLP). Accordingly, Societe Generale India may appoint only one SA. APEX may decide to appoint more than one SA depending on 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. However, there is a upper cap of 4 for Entities having Asset size upto INR 5,000,000 Crore.

1.3 *Prior approval of RBI:*

As per RBI circular, Commercial Banks are required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SAs, on an annual basis. For the purpose, they should apply to Department of Supervision, RBI before 31st July of the reference year i.e. for Financial Year 2021-2022, letter seeking RBI approval should be sent to RBI by 31 July 2021. All Commercial Banks in India under Mumbai Region shall approach the Central Office of RBI (Department of Supervision).

1.4 *Eligibility & qualifications for appointment of SA:*

Terms of appointment as prescribed under the Companies Act, 2013 shall apply to the appointment/re-appointment of auditor/s by Societe Generale India, in so far as, they are consistent with the requirements of the Banking Regulation Act, 1949 and the other guidelines prescribed by RBI from time to time. In case of inconsistencies the later shall prevail (i.e. Banking Regulation Act, 1949 to prevail over the Companies Act, 2013)

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Eligibility Criteria for appointment as SA as per extant RBI guidelines-

A. Basic Eligibility 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.

Note 2 - 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 other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3 - For Commercial Banks, audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks / All India Financial Institutions.

Note 4 - 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.

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.

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- (iii) 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.

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 may promptly approach the Entity 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, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

1.5 Pre-conditions for appointment:

As per second proviso of section 139(1) of the Companies Act read with rule 4 the Companies (Audit and Auditors) Rules, 2014 prior written consent should be obtained from the proposed auditor/s. The proposed auditor shall submit a certificate that:

- (a) The individual/firm is eligible for appointment and is not disqualified for appointment under the Act, the Chartered Accountants Act, 1949 and the rules or regulations made there under;
- (b) The proposed appointment is as per the terms provided under the Companies Act, 2013;
- (c) The proposed appointment is within the limits laid down by or under the authority of the Companies Act, 2013;
- (d) The list of proceedings, if any, against the auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

In addition, RBI requires banks to invariably ensure that there are no adverse remarks/disciplinary proceedings pending in respect to professional conduct, etc., on the records of The Institute of Chartered Accountants of India ('ICAI') against the proposed auditor (individual/firm) which would make the auditor ineligible for appointment as auditor.

Generally, the audit firm/association of audit firms appointed by Societe Generale Group on a Global/Regional basis is preferred to be appointed locally, if they have a local counterpart (subject to local regulations) for the purpose of consistency and efficiency in consolidation.

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- a. The audit services should be provided in compliance with the regulations prescribed under the Companies Act, 2013, Banking Regulation Act, 1949, RBI Regulations, Chartered Accountants Act, 1949 and Chartered Accountants Regulations, 1988 including the Professional Code of Conduct ensuring that there is no conflict of interest in the services provided by the auditor/s to the Bank, and that services are not prohibited by law or regulations for them in their capacity as such.
- b. Audit Committee of Bank is required to monitor independence of SA.
- c. In case of any concern with the Management of the Entities such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SAs shall approach the APEX/Audit Committee, under intimation to the concerned Senior Supervisor Manager of RBI.
- d. Concurrent auditors should not be considered for appointment as SAs.
- e. 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 Entities or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SCAs/SAs.

1.7 Professional Standards of SAs:

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

APEX / Audit Committee 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 APEX/Audit Committee, with the full details of the audit firm.

1.8 Tenor and Rotation of SA:**RBI regulations:**

In order to protect the independence of the auditors/audit firms, Entities will have to appoint the SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, Commercial Banks can remove the audit firms during the above period only with the prior approval of the concerned office of RBI (Department of Supervision), as applicable for prior approval for appointment.

An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure.

One audit firm can concurrently take up statutory audit of a maximum of four Commercial Banks.

Internal guidelines:

The Head Office follows the 4 years rotation policy which differs from the local requirements. Since local regulatory guidelines are more stringent, the Bank shall follow local regulatory guidelines for rotation of statutory auditors

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The scope of the statutory audit assignment should be in accordance with Companies Act, 2013, Banking Regulation Act, 1949, pronouncements of RBI and the ICAI.

1.10 *Period of Engagement:*

The statutory auditor/s are appointed for each Financial Year (April to March) and the appointment of the proposed auditor/s shall be valid for issue of Audit Report, Long Form Audit Report (LFAR) and the certificates as required under various laws and regulations.

1.11 *Tentative Timelines:*

Tentative timelines for appointment of auditor/s is given in **Annex I**.

1.12 *Appointment Letter:*

Once the approval is received from RBI and ICAI, an appointment letter is issued to the proposed auditor seeking a written consent from the auditor/s in compliance with second proviso of section 139(1) of the Companies Act read with rule 4 the Companies (Audit and Auditors) Rules, 2014. Upon receiving such consent, the appointment shall be effective.

1.13 *Form and content of Audit Report/Certifications:*

The form and content of audit report and certificates should be in accordance with Companies Act, 2013 and Banking Regulation Act, 1949.

1.14 *Audit Fees / Remuneration of SA:*

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. The remuneration for statutory audit should be mutually discussed and agreed between the Bank and the proposed SA. The annual remuneration or increase in remuneration should be decided in consultation with the regional/local management. The remuneration will be in addition to the out of pocket expensed incurred by the auditor in connection with the audit of the Bank and any remuneration paid to him for any other service rendered by him at the request of the Bank.

1.15 *Delegation and Procedure for appointment of SA:*

CFO is responsible for completing the appointment formalities in compliance with this policy. Procedure given below is to be followed for appointment/re-appointment of SA:

- Obtain prior approval from regional office for appointment of a new external auditor/s. This requirement is not applicable if proposal is to appoint Societe Generale Group selected firms.
- Obtain approval from management to appoint/re-appoint the auditor/s for each financial year.

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- Post approval, send a request letter for appointment of statutory auditor/s to RBI along with all required documents. Declaration on eligibility norms and details in prescribed format (Form B) are taken from most preferred firm. These are to be enclosed with RBI letter. Also, we need to give declaration in prescribed format (Form C) for the most preferred firm. This declaration is also enclosed with RBI letter. Form B and Form C formats are as per referred RBI Circular dated April 2021. Letter to RBI should also mention Asset Size of Bank as of 31st March of previous year (audited numbers).
- Post RBI approval, email is sent to Institute of Chartered Accountants of India (ICAI) to check if there are any adverse remarks / disciplinary proceedings pending in respect of professional conduct, etc. of the selected audit firm or any of its partners which may make them ineligible for appointment as our SA.
- Post clearance from ICAI, appointment letter is issued to Audit firm.
- Specific requirements as per Sourcing policy are to be followed while appointing SA.

Annex I:

Following timelines should be adhered to relating to appointment/re-appointment of auditor/s:

- Approval from local/ regional management – Before July 31.
- Request letter to RBI – Before July 31.
- Request letter to ICAI – Immediately after receiving the approval from RBI.
- Appointment letter to auditor/s – immediately after approval from ICAI.

Annex II: RBI Circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27 April 2021



Guidelines -
Appointment of SCA f