

Bank of China Limited

Appointment of Statutory Auditors Policy India Branch

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Approval Note

Document Name	Appointment of Statutory Auditors Policy		
Department	Financial Management	Reference No	None
Drafted by	-	Reviewed by	Li Chen, Vinit Shah,
HO documents referred, if any	-		
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Remarks	-		
Head of Branch Signature		Branch Seal	

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Internal Documents

Confidential

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1. Background

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. Prior Approval of RBI

The Bank is required to take prior approval of RBI (Department of Supervision) for appointment/ reappointment of Statutory Auditors, on an annual basis. For the purpose, the Bank is required to apply to The Department of Supervision, Central Office, RBI, Mumbai before 31st July of the reference year.

3. Eligibility Criteria

Eligibility criteria for appointment as SA as per the above referred circular:

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.

(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.

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

a. In case of any concern with the management of the Bank such as non-availability of information/non-cooperation by the management, which may hamper the audit process, the SAs shall approach the EXCO and any concerns may be intimated to the concerned Senior Supervisor Manager of RBI.

b. Concurrent auditors should not be considered for appointment as SAs.

c. 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.

6. Performance Review

The EXCO 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 EXCO.

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

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. Finance department along with senior management of the Bank shall be authorized to finalise the audit fees.

8. Procedural and other matters

Procedure for appointment of the auditors is outlined in the Annexure. Finance Department is authorized to deal with appointment procedure including screening of firms, assessing experience, eligibility criteria, making recommendations to EXCO for approval, signing the appointment letters and related documents (including procurement document), 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) provided the current statutory auditors of the Bank shall continue their appointment

till expiry of the current tenure. The Policy would be updated in line with RBI guidelines from time to time.

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 to EXCO.
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 partner of the firm along with the firm's seal. The Bank will also be required to give declaration in Form C for most preferred firm. The format of Form C should be as per RBI Circular.
4. Shortlisted firms in order of preference will be placed into the EXCO for approval in the month of June or July every year. Alternatively, shortlisted firms can be circulated over an email to all EXCO members for approval.
5. Post approval of EXCO, 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. Finance Department will issue appointment letter and other communication to the audit firms and sign / accept Engagement Letter or similar documents.
8. Finance Department will also engage with audit firm for audit planning, audit fee, audit work allocation etc. and deal with such related matters.