

Policy on Appointment of Statutory Auditor

Mizuho Bank, Ltd- India

MIZUHO


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1. Background

RBI is the regulatory body for banks in India. Banks need to take prior approval of RBI (Department of Supervision) for appointment/re-appointment of Statutory Auditors on annual basis. RBI, on the basis of eligibility criteria stipulated for Chartered Accountant firms, accords approval for appointment of Statutory Auditors to the banks.

RBI, in its guidelines dated April 27, 2021 on “appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)” has mentioned that “Each Entity shall formulate a Board/Local management Committee approved Policy to be hosted on its official website/public domain and formulate necessary procedure there under to be followed for appointment of SCAs/SAs”.

In light of the above, banks are required to frame the policy/procedure for appointment of statutory auditors in the bank. This Policy document is created with this background. The Policy is applicable to Mizuho Bank, Ltd-India in respect of appointment/reappointment of Statutory Auditors.

2. Appointment Norms & Eligibility Criteria of Statutory Auditors

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 Department of Supervision, Central Office, RBI, Mumbai before 31st July of the reference year. Statutory auditor to be appointed for a financial year shall be decided 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.

Considering Bank asset size in India is of ₹15,000 crores and above at the end of previous year, the statutory audit is required to be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)] as per the asset size criteria stipulated under the RBI guidelines. Joint auditors appointed by the Bank shall not be under the same network of audit firms and not have any common partners.

The statutory auditors shall fulfil the eligibility norms as prescribed in the RBI guidelines and the Companies Act, including, number of full-time partners, number of Fellow Chartered Accountants (FCAs), number of full time partners/paid CAs with CISA/ISA qualification, number of years of audit. experience of the firm, minimum number of professional staff and eligibility in terms of Section 141 of the Companies Act, 2013. 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.

3. Independence of Auditors

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 shall be flagged by the Executive Committee to the concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.

The following aspects shall be specifically considered while assessing independence of Statutory Auditors (SAs):

- a) Concurrent auditors of the Bank will not be considered for appointment as SAs.
- b) The existing audit engagements of the firm considered for appointment as SAs with any entity on which the bank has large exposure (As defined in RBI instructions on 'Large Exposures Framework') should also be explicitly factored in while assessing independence of the auditor.
- 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 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 SAs, an audit firm may provide such services to the Bank which may not normally result in a conflict of interest and Bank may take their own decision in this regard, in consultation with the Executive Committee.

4. Professional Standards

The Executive 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 Executive Committee, with the full details of the audit firm.

In the event of lapses in carrying out audit assignments resulting in misstatement of a Mizuho bank's 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 Mizuho bank, the SAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

5. Tenure & Rotation

The Bank shall appoint SAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year (as confirmed by SAs in the form prescribed by RBI). If an audit firm is to be removed, for justifiable reasons, prior to completing their term of three years then prior approval will be sought from RBI (Department of Supervision).

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

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