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## POLICY ON APPOINTMENT OF STATUTORY AUDITORS

### A. APPOINTMENT OF STATUTORY CENTRAL AUDITORS

Government of India vide their letter No. F No. 1/14/2004-BOA dated 25/11/2014 issued by Ministry of Finance, Department of Financial Services, informed that the work of selection and appointment of SCAs is delegated to individual PSBs for the year 2014-15 and onwards. The Categorization of various Public Sector Banks (under Category A, B , and C ), selection criteria along with norms on eligibility and empanelment of audit firms are being received from Reserve Bank of India every year, along with the list of Continuing Audit Firms, and Eligible Non-Continuing Firms ( separately for Experienced and New Firms). The cut off for consideration of appointment of Experienced and New Firms by various Category of Banks are as advised by RBI.

#### I The Norms on Eligibility, Empanelment and Selection of Statutory Central Auditors

The Eligibility norms (as advised by Reserve Bank of India ) are as under:

- i. The audit firm shall have a minimum of 7 full time Chartered Accountants, of which at least 5 should be full time partners exclusively associated with the firm. Of these five full time exclusively associated partners\*, one each should have minimum continuous association with the firm at least for 15 years and 10 years, two with a minimum continuous association of 5 years each and one with a minimum continuous association of one year. The remaining two could be either exclusively associated partners or CA employees. There should be at least one year continuous association for both exclusive partners and CA employees. Four of the partners should be FCAs Also, at least two of the partners should have minimum 15 and 10 years experience in practice. (In case the paid Chartered Accountant available with the firm without any break was admitted as a partner of the said firm at a future date, his association with the firm as a partner will be counted from the date of his joining the firm as a paid Chartered accountant).

*\*The definition of 'exclusive association' will be based on the following criteria:*

- (a) *The full time partner should not be a partner in other firm/s*
- (b) *He should not be employed full time/part time elsewhere*
- (c) *He should not be practicing in 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 Chartered Accountants Act, 1949.*
- (d) *The total compensation@ of the partner from the firm should not be below the following limit:*

*In case the Head Office of the firm located in :*

- (i) *Delhi, Mumbai, Chennai, Kolkata, Bangalore, and Hyderabad:*  
ACA partner : Rs. 1.80 lakh in a year (Rs 15000/- per month)  
FCA Partner : Rs. 3.00 lakh in a year ( Rs. 25000/- per month )

(ii) Other Places :

ACA Partner : Rs. 1.20 lakh in a year ( Rs. 10000/- per month)

FCA Partner : Rs. 1.80 lakh in a year ( Rs. 15000/- per month)

(e) A partner whose total compensation @ from the firm is less than the following will not be treated as exclusively associated with the firm:

Firms having more than 14 partner : 1%

Firms having 10 to 14 partners : 3%

Firms having 5 to 9 partners : 5%

Firms having less than 5 partners : 8 %

@Total compensation = Sum total of share of profit, remuneration and interest on capital.

- ii. The number of professional staff (excluding typists, stenographers, computer operators, secretary/ies and sub-ordinate staff etc.), consisting of audit and articled clerks with the knowledge in book-keeping and accountancy and are engaged in outdoor audit should be 18.
- iii. The standing of the firm should be of at least 15 years which would be reckoned from the date of availability of one full time FCA continuously with the firm.
- iv. The firm should have minimum statutory central audit experience of 15 years of Public Sector Banks (before or after nationalization) and/or by way of statutory branch audit thereof or that of statutory audit experience of a private sector bank with Deposits resources of not less than Rs.500 cr.( In case any of the partner of an audit firm is nominated / elected for a period of at least 3 years or more on the Board of any public sector bank then his / her such experience for a maximum period of three years will be considered as bank audit experience, provided such experience has not been earned by him/her concurrently i.e. when his / her firm was assigned statutory audit of any PSB, select all India financial Institutions or RBI.).
- v. The firm should have statutory audit experience of 5 years of the Public Sector Undertakings (either Central or State Government undertaking). (While calculating such experience, more than one assignment given to a firm during a particular year or more than one year's statutory audit (audits in arrears) assigned to the firm will be reckoned, as one year experience only, for the purpose of counting such experience).
- vi. At least two full time partners of the firm or its paid full time Chartered Accountants must possess CISA/ISA qualification.
- vii. In case of merger and demerger of firms, merger effect will be given after 2 years of merger while demerger will be effected immediately.

**NOTE:**

1. If any audit firm empanelled by C&AG with the position as on January 1 undergoes change in its constitution after empanelment date, the audit firm will take all necessary steps to become eligible within a reasonable time and in any case, audit firm should be complying with above norms {para 1 (i) to (vii) } on eligibility, empanelment and selection of Statutory Central Auditors in Public Sector Banks hosted on RBI web site before the following events:

(a) Appointment of the audit firms by the Bank as SCAs. For this, the audit firm while giving consent to the Bank for appointment may ensure that it complies with the norms.

(b) Before commencement of Annual Statutory Audit for Financial Year ending 31<sup>st</sup> March and till the completion of annual audit.

(c) Quarterly Review of Accounts as on June 30, September 30 and December 31 every year till its completion.

In case any audit firm (after appointment) does not comply with any one of the norms ( on account of resignation, death etc. of any partners, employees etc), it may promptly approach the Bank with full details. The Bank in turn will approach RBI.

## **II Number of Audit firms**

As per Reserve Bank of India letter no DBS.ARS.No.3554/08.01.003/2016-17 dated October 28, 2016, our Bank being “A” Category Bank, will not have more than 6 audit firms as SCAs. The actual number of SCAs firms to be appointed can be decided by the Board subject to the prescribed maximum limit of Six. *Accordingly it has been decided to have Four Audit firms as SCAs for the year 2016-17 onwards till further review.*

## **III Procedure for selection and appointment of Statutory Central Auditors**

- a. Our Bank being a ‘A’ category bank, will select the SCAs from **the eligible panel of firms received from RBI**. The selection of firms, depending on the Vacancies . shall be within the cut off advised by the RBI, applicable to our Bank from the following lists received from RBI.
  - i. List of Continuing Firms (i.e. the list of audit firms who have not completed three years of audit )
  - ii. List of eligible, non-continuing audit firms in two parts viz. experienced audit firms and new audit firms.
- b. The appointment of SCAs will be made on an annual basis, subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability.
- c. The allotment of vacancies of SCA's shall be in the ratio of 60:40 between 'Experienced ' and 'New' audit firms. As regards ratio of 60:40, banks will round the number to the nearest round number and choose auditors from the ‘Experienced’ and ‘New’ firm list.

However, the said vacancies to be filled in the ratio of 60:40 among experienced and new audit firms is applicable only for fresh vacancies arising this year and not for continuing auditors. Accordingly if there is only one fresh vacancy in the bank the same will go to an experienced firm only, based on rounding off the ratios to the nearest whole number, as hitherto.

- d. Bank will take into consideration the following points/parameters while shortlisting the audit firms, which are based on RBI Guidelines.

1. As far as possible, at least two audit firms having their Head Office from the same place where the banks' HO/CO is located, to be allocated. As such our Bank will select to the extent possible, at least two audit firms having their head office at Mumbai
  2. Audit firms are not selected if they have last retired from our Bank before going under rest.
  3. The firms whose partner/s are on the Board of our Bank are not appointed as auditors for our Bank
  4. An audit firm is eligible to be appointed as a Central/ Branch auditor of only one PSB during a particular year.
  5. Adequate number of audit firms will be shortlisted to take care of the situation where some firms may not give consent.
- e.** Based on the above parameters, Bank will prepare a list of shortlisted audit firms. Willingness in writing from the above shortlisted audit firm(s) will be obtained to accept the assignment of Statutory Central Audit work of the Bank. At the time of obtaining the willingness letters from such shortlisted audit firms, there will be no commitment on the part of our Bank to allot the Statutory Central Audit work to the auditors and such shortlisted audit firms are free to give similar willingness to multiple PSBs, if approached by other PSBs. The list of shortlisted audit firms will be placed before ACB. ACB will approve adequate number of audit firm(s), in order of preference. The number of audit firms approved should be adequate enough, to take care of the situation, where some firms may not give consent.
- f.** On due approval by the ACB, our Bank will approach the audit firms to obtain their consent in writing strictly in order of preference. The audit firm should give their consent in writing for consideration of appointment in our bank for the particular year and the subsequent continuing years subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability. If the approached audit firm does not give consent, the bank will approach the next audit firm in order of preference for obtaining consent till the time the number of audit firms which have given the consent equals to number of vacancies for the particular year.

The consent letter should clearly state that the selection of the audit firm as Statutory Central Auditor is subject to approval of RBI and any force majeure events and, in such cases, the audit firms will not have any claim against our Bank and RBI. The appointment of SCAs is subject to complying with the stipulated norms on eligibility and empanelment issued by RBI from time to time. The audit firm should declare that consent is given to one PSB only. The consent given by an audit firm will be treated as irrevocable and request, if any, from audit firms for changing the bank, after giving its consent to our bank will not be entertained.

- g.** The list of such selected firms who have given consent for appointment as statutory central auditors in our Bank will be placed before the ACB for their concurrence before it is forwarded to RBI for final approval.
- h.** Audit firm(s) selected by our Bank after obtaining its consent in writing will be debarred for a period of 3 years for selection if the firm refuses to accept the appointment without a reasonable ground that is ground not to the satisfaction of RBI.

- i. A feedback on the quality of audit of SCAs will be given by our Bank to RBI after completion of the annual audit.

#### **IV Other Guidelines:**

1. In order to protect the independence of the auditors/audit firms, Bank will make the appointments of SCAs for a continuous period of three years subject to the firms satisfying the eligibility norms each year. Bank will not remove the audit firms during the above period without the prior approval of the Reserve Bank of India.
2. The audit firms applying for empanelment as SCAs in our Bank are required to give an undertaking that, in case of selection in our bank, they would give up the existing assignment, if any, in private banks/foreign banks, RBI/Financial Institutions such National Housing Banks, Exim Bank, etc., and they cannot refuse appointment of our bank, once selected.

#### **V Undertakings/Declarations to be obtained from firm/firms**

Following declarations /undertakings will be obtained from the firm/firms selected

1. At the time of acceptance of appointment as Statutory Central Auditor of our Bank, the firm(s) has to relinquish any internal assignment allotted to them in our Bank/Subsidiary of our Bank. Their associate firms or sister concerns are also disqualified for inter audit or for any special assignment of our Bank.
2. A suitable undertaking from the firm(s) to the effect that the Audit will be carried out by their own staff and they will not subcontract the audit work.
3. None of the disqualifications under section 141 of the Companies Act, 2013 applies to them and they are qualified for appointment as Statutory Central Auditors of the Bank.
4. There are no adverse remarks/ disciplinary proceedings pending/ initiated against the firm / any of its partners/proprietor on the records of ICAI, which would make them ineligible for appointment as auditors.
5. None of the partners or their spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them or the Firm/ Company in which they are partners/ Directors are not indebted to our Bank. Further, they have not been declared as willful defaulters by any Bank or financial institution.
6. Associate firms or sister concerns of Statutory audit firms are disqualified for internal assignment where the main firm/partners are allotted Statutory Audit in a particular year.

#### **VI Number of Assignment:**

The firm appointed as SCA of the Bank will not be eligible for any Statutory Central Audit assignment in PSBs/Private Banks/Foreign Banks/RBI/Financial Institutions such as National Housing Bank, EXIM Bank etc.

**VII Relinquishment of the internal assignments, if any:**

In the event of acceptance of the appointment as Statutory Central Auditor of the Bank, all the internal assignments of the Auditor in our Bank, if any, will stand withdrawn.

**VII Remuneration**

The Remuneration to the SCAs for Audit, TA/DA and other incidental expenses will be paid as per the guidelines issued by RBI from time to time. Efforts to be made to keep TA/DA and other incidental expenses at minimum possible in line with RBI guidelines.

**IX Removal**

An audit firm appointed as Statutory Central Auditor may be removed during its tenure with the prior approval of the Reserve Bank of India. The Board of Directors of the Bank will be the competent authority to recommend removal of any SCA to RBI.

**B Appointment of Statutory Branch Auditors (SBA)**

**I.** The list of eligible firms for appointment of Statutory Branch Auditors (SBAs) will be forwarded by RBI. However the Bank will be guided by the eligibility norms specified in point A of Annexure A of RBI letter DBS.ARS.No.3554/08.01.003/2016-17 dated 28.10.2016.

**II. Selection of Branches**

- a. From the year 2012-13, Statutory branch audit of PSBs shall be carried out for all branches with advances of Rs.20 crore & above and 1/5th of the remaining branches covering a representative cross section of rural/semi-urban/urban and metropolitan branches, predominantly including branches which are not subjected to concurrent audit, so as to cover 90% of advances of a bank. CPUs/LPUs/and other centralized hubs by whatever nomenclature called would be included in the one fifth of the remaining branches every year.
- b. In respect of branches below the cut-off point, which are subject to concurrent audit by Chartered Accountants, henceforth, LFARs and other certifications done earlier by SBAs will now be submitted by the concurrent auditors to the Chairman of the Bank and such branches may not generally be subject to Statutory Audit.
- c. Going forward, in mutual discussions with GoI and SCAs, based, inter alia, on the operational efficiency and robustness of CBS, system driven identification of NPAs, and integrity of MIS, managements of individual PSBs may decide on the threshold level of advances for the purpose of selecting branches for statutory audit.
- d. Progressively, the threshold level of advances may be increased so that the number of branches to be taken up for statutory audit is phased down over a period of time.

**III Procedure for selection of Audit firms for Branch Audit:**

The Bank will select the names of the audit firms for Branch Audit from the final list of eligible audit firms provided by RBI. While selecting the names of Audit firms,

following criteria will be considered

- i. The audit firms having office in and around the branches to be audited will be preferred so as to keep close liaison & keep the expenditure on TA/DA at minimum. In case local auditors are not available, auditors from the nearby districts/states (as far as practicable) may be considered.
- ii. The selection of Audit firms will be done taking in to consideration their category, location and size of the branches selected for Audit to the extent possible.
- iii. The appointment will be made on annual basis subject to the firms fulfilling the eligibility norms prescribed by RBI from time to time and subject to their performance and suitability. The appointment will be made with prior approval of RBI.
- iii. One audit firm can take up assignment in one Public Sector Bank only.
- iv. The list of firms selected for appointment as statutory branch auditors will be recommended to RBI for seeking its prior approval before their actual appointment as per statutory requirement.
- v. Any other criteria stipulated by RBI.

#### **IV Irrevocable consent:**

Irrevocable consent will be obtained from the Audit firm in writing for consideration of appointment in our Bank for the particular year and for the subsequent continuing years.

#### **V Tenure**

Statutory Branch Audit firms will have a tenure of 4 (four) years. The appointment will be made on annual basis subject to the firms fulfilling the eligibility norms prescribed by RBI from time to time and subject to their performance and suitability. The appointment will be made with prior approval of RBI.

#### **VI Undertakings to be obtained**

- a. The Audit firms will have to give irrevocable consent in writing for consideration of appointment in our bank for the current year and for subsequent continuing years.
- b. A suitable undertaking from the firm(s) to the effect that the Audit will be carried out by their own staff and they will not subcontract the audit work.
- c. None of the disqualifications under section 141 of the Companies Act, 2013 applies to them and they are qualified for appointment as Statutory Central Auditors of the Bank.
- d. None of the partners or their spouse, dependent children and wholly or mainly

dependent parents, brothers, sisters or any of them or the Firm/ Company in which they are partners/ Directors are not indebted to our Bank. Further, they have not been declared as willful defaulters by any Bank or financial institution.

- e. In the event of acceptance of the appointment as a statutory branch auditor of the Bank, the audit firm will have to relinquish all the internal assignments in our Bank.
- f. There are no adverse remarks/disciplinary proceedings pending/initiated against the firm/any of its partners/proprietor on the records of ICAI, which would make them ineligible for appointment as auditors.
- g. Associate firms or sister concerns of statutory audit firm are disqualified for any internal assignment where the main firm/partners are allotted Statutory Audit in a particular year.

**VII Allocation of Branches:** While allocating the branches

- a. No distinction will be made between continuing auditors and fresh auditors.
- b. To the extent possible, the branches will be allotted to the auditors in order of their category in such a way that larger branches are allotted to bigger/experienced audit firms.
- c. Local auditors will be preferred. In case of need and suitability auditors from near by districts with in the state/adjoining states/other states will be considered.
- d. Assignment will be given to all the auditors approved/considered for appointment.
- e. Not more than three (3) branches (irrespective of size) will be allotted to each audit firm.

**VII Remuneration :**

The remuneration to the SBAs for audit, TA/DA and other incidental expenses will be paid as per the guidelines issued by RBI from time to time.

Efforts to be made to keep TA/DA and other incidental expenses at minimum possible in line with RBI guidelines.

**IX Removal/Discontinuation**

An audit firm appointed as Statutory Branch Auditor can be removed during its tenure with the prior approval of Reserve bank of India. The Board of Directors of the Bank will be the competent authority to recommend removal of any SBA to Reserve Bank of India.



**C. Redressal of grievances**

General Manager (Accounts) will dispose off grievances/ complaints (if any) with regard to the selection of Statutory Central Auditors or Statutory Branch Auditors and allotment of Branches to them.

The modification/changes, if any, made by RBI in norms/criteria/procedure from time to time shall construe to be part of our policy.

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