



Policy for appointment of Statutory Central Auditors (SCAs) - FY2023-24 and onwards

The Reserve Bank of India vide their Letter no.: RBI/2021-22 / 25 Ref. No. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27.04.2021 has issued detailed guidelines for appointment of the SCAs in various banks / UCBs / NBFCs etc for the financial year FY2021-22 and onwards. This guidelines of RBI dated 27.04.2021 has superseded all previous guidelines, issued by RBI earlier. After 27.04.2021 guidelines and clarifications provided by way of FAQ circulated by RBI on 11.06.2021, RBI has not issued any further guidelines in this regard till date. In terms of the extant guidelines, our bank has considered the Board approved policy for appointment of Statutory Central Auditors (SCAs) vide Board approval dated 04.08.2023.

2. The brief key highlights of the policy for appointment of Statutory Central Auditor for the year FY2023-24 and onwards are reproduced as under:

- (a) Prior approval of RBI: The Bank will take prior approval of RBI for appointment / reappointment of SCA on annual basis. The Bank shall apply to the Department of Supervision (DOS), RBI, Mumbai for approval, as per RBI guidelines.
- (b) Maximum number of SCAs in our Bank:
From FY 2021-22 onwards, our Bank is having 3 SCAs for the Statutory Audits. As per RBI guidelines dated 27.04.2021, the maximum number of SCAs could have been appointed in our Bank being limited to 6, based on the total asset of our Bank, **we have increased existing number of 3 SCAs to 4 SCAs for FY 2023-24 2nd quarter onwards.**
- (c) No common partners and no network of audit firms: The Bank will obtain due declaration from the prospective and continuing SCAs and shall further ensure that joint SCAs do not have common partners and they do not fall under the same network of audit firms.

- (d) Remuneration to the SCAs: As regards the payment of audit fees to the SCAs, are concerned, our Bank will continue to be guided by relevant RBI instructions / guidelines from time to time. The audit fees for SCAs of our Bank 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 ACB of our Bank may be permitted to approve the audit fees payable to all the SCAs of our Bank on annual basis.
- (e) Minimum number of Full Time Partners (FTPs): As per the RBI Letter dated 27.04.2021, the minimum number of FTPs associated with the firm for at least 3 years, should be 5, in case of the asset size being more than Rs 15,000 crores. As against this stipulation, we propose that the shortlisted firm for SCAs in our Bank shall have a minimum of 7 FTPs continuously associated with the firm. Of these 7 FTPs, at least 2 FTPs should have minimum continuously associated with the firm at least for 15 years. Further, all the Partners, having continuous association with the shortlisted firm, should have 'FCA' status.
- (f) Exclusively association with the audit firm: All the FTPs, should be exclusively associated with the select audit firm.
- (g) Minimum number of professional staff: The number of professional staffs (excluding typists, stenographers, computer operators, secretary/ies and subordinate staff etc.), including the full time paid Chartered Accountants, Articled Clerks with knowledge in book-keeping and accountancy, should be of minimum 18 (as per the RBI guidelines). Further, in addition to the same, we propose that the shortlisted audit firm must have at least 5 full time paid Chartered Accountants, having knowledge of bank audits, taxation etc.
- (h) Minimum number of years of audit experience: The standing of the firm should be of at least 15 years, which would be reckoned from the date of having the Firm Registration with ICAI or from the date of availability of at least one FTP continuously with the firm. Further, the shortlisted audit firm should have minimum bank audit experience of 15 years as Central Auditor or Branch Auditor of commercial banks.

- (i) Minimum number of FTPs with CISA / DISA qualification: At least two full time partners or paid assistant (having CA qualification) of the firm must possess CISA / DISA qualification. Again, at least one full time partners or paid assistant (having CA qualification) of the firm must possess accredited Forensic Audit qualifications.
- (j) Headquarter of the shortlisted firm: Although there is no specific stipulation in the recent RBI direction, but as a matter of convenience and immediate response on the need of our Bank, the shortlisted firm should have a working office in Mumbai.
- (k) Time gap of audit / non-audit assignments: There should be a time gap of at least one year, in case the shortlisted audit firm has undertaken any non-audit works of the bank or audit / non-audit assignments of other Group Entities of the Bank. The non-audit assignments, are those assignments, mentioned in the Section 144 of Companies Act, 2013, and internal assignments, special assignments, etc.
- (l) Assignments indicating 'conflict of interest': During the tenure as SCA, the audit firm may provide such services to the concerned bank which may not normally result in a conflict of interest. As per the RBI Letter dated 27.04.2021, certain assignments will not result in conflict of interest. Such indicative lists include -
 - (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, and (iv) reporting on financial information or segments thereof.
- (m) Tenure and Rotation: In order to protect the independence of the audit firms, the Bank will have to appoint the SCAs for a continuous period of three years, subject to the firm satisfying the eligibility norms each year. Further, the removal of the audit firm, before expiry of three years, can be initiated only upon obtaining permission from the ACB, and then with the prior approval of the concerned office of RBI, Department of Supervision. An audit firm would not be eligible for reappointment in the same Bank for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other banks. One audit firm 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, subject to compliance with required eligibility criteria and other conditions, as mentioned in RBI guidelines. As a matter of clarity, an audit firm is eligible to be appointed as a Central or Branch auditor of only one Public Sector Banks during a particular year.

- (n) Branch coverage: The selected SCAs must finalise the work allocation, among themselves, before the commencement of the statutory audit and the same also should be informed to RBI. In terms of RBI guidelines, PSBs shall allot the Top 20 branches (to be selected strictly in order of the level of outstanding advances) to SCAs in such a manner as to cover a minimum of 15% of total gross advances of the bank by SCAs.
- (o) General considerations before appointing an audit firm as SCA: The RBI direction on 27.04.2021 and subsequent clarification by way of FAQ circulated on 11.06.2021, also stipulates certain additional requirements before considering any audit firms as SCAs, as under:
- (i) The audit firm, proposed to be appointed as SCAs for banks, 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 Bank shall ensure that appointment of SCAs 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.
 - (iv) If any partner of the shortlisted audit firm, is a director in any Public Sector Bank (PSB), the said firm shall not be appointed as SCA of any PSB.
 - (v) Further, if any partner of the shortlisted firm is a director in any bank, the said firm shall not be appointed as SCA of any of the group entities of that bank.

- (vi) If any partner of the audit firm, is a director in any group entities of the bank, the said firm shall not be appointed as SCA of our Bank.
- (vii) The shortlisted audit firm of the bank 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. Accordingly, we have proposed that at least two full time partners or paid assistant (having CA qualification) of the firm must possess CISA / DISA qualification.
- (viii) A group of audit firms, having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of SCA accordingly. 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.
- (ix) 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 bank with full details.
- (x) 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.
- (xi) 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 seek the permission from RBI, DOS, allowing the concerned audit firm to complete the audit, as a special case.

Procedure for appointment of SCAs:

A committee of senior officials comprising CGMs / GMs would be empowered to shortlist the names of SCAs forwarded by RBI for selection. The same would be put up to the ACB before forwarded to the RBI for appointment.

2. For PSBs, including our Bank, empanelment of audit firms eligible for appointment as SCAs, will be available from RBI. RBI will forward a single list, shortlisting audit firms, based on certain objective criteria. Further, the Bank shall place the list of shortlisted firms, in order of preference, before the ACB for selection of SCAs in a transparent manner. The criteria of such shortlisting shall be tested as and when vacancy of SCA will arise.

3. The Bank shall shortlist minimum of 2 audit firms for every vacancy of SCAs, so that even if, a firm at first preference is found to be ineligible / refuses for appointment, the firm at second preference, can be appointed and the process of appointment of SCAs does not get delayed.

(Approved by the Board dated 04.08.2023)