

FINANCE DEPARTMENT, HEAD OFFICE

Policy for Appointment of Statutory Central Auditors (SCAs) of Bank of India

(Excerpted from the “Policy for Appointment of SCA of Bank of India”, approved by the Board on 21.06.2021)

The “Policy for Appointment of SCA”, displayed in this website is taken out of the Policy approved by the Bank’s Board on 21.06.2021. The Policy, in this regard, is framed based on the latest RBI Circular Letter dated 27.04.2021 and corresponding FAQs dated 11.06.2021, circulated by RBI. The policy parameters for appointment of SCAs in Bank of India are as under:

- (a) Prior approval of RBI: The Bank will take prior approval of RBI for appointment / reappointment of SCA, existing and new, on an annual basis. The Bank shall apply to the Department of Supervision (DOS), RBI, Mumbai before 31st July of the reference year for such approval, as per the recent RBI guidelines, after obtaining the list of eligible Audit Firms from RBI.
- (b) Maximum number of SCAs in the Bank: Now, looking to the present 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, Bank of India proposes to consider 3 SCAs for the Statutory Audits of the Bank for the period of FY2021-22.
- (c) No common partners and no network of audit firms: The Bank will obtain due declaration from the prospective and continuing SCAs as per the format prescribed by RBI in their Circular dated 27.04.2021. The joint SCAs appointed in Bank of India, do not have common partners and they do not fall under the same network of audit firms.
- (d) Independence of SCAs: For the Bank, the Audit Committee of the Board (ACB) shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. In case of any concern with the Management of the banks, such as non-availability of information / non-

cooperation by the Management, which may hamper the audit process, the SCAs shall approach the ACB, under intimation to the concerned SSM / RO of RBI.

(e) Remuneration to the SCAs: As regards the payment of audit fees to the SCAs, are concerned, the Bank will continue to be guided by relevant RBI instructions / guidelines from time to time. The audit fees for SCAs of the 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 the Bank shall make recommendation to the competent authority (i.e Board) as per the relevant statutory / regulatory instructions for fixing audit fees of SCAs on annual basis.

(f) Minimum number of Full Time Partners (FTPs): As per the RBI Circular 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, the bank proposes that the shortlisted firm for SCAs in the 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 as per the RBI guidelines and at least 5 Partners, having continuous association with the shortlisted firm, must have 'FCA' status.

(g) Exclusively association with the audit firm: All the FTPs, should be exclusively associated with the select audit firm. The definition of 'exclusive association' should be based on criteria, including – (a) The full time partners should not be a partner in other firm/s, (b) The person should not be employed full time / part time elsewhere, (c) The person 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 the Chartered Accountants Act, 1949, and (d) the income of the partner from the firm/LLP should not be below the threshold limits prescribed by the Office of C&AG, for the purpose of consideration as full-time partners for appointment as auditors of Public Sector Undertakings.

(h) Minimum number of professional staff: The number of professional staffs (excluding typists, stenographers, computer operators, secretary/ies and sub-ordinate 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,

out of the 18 professional staff members, there should be at least 5 full time paid Chartered Accountants, having knowledge of bank audits, taxation etc, associated with the shortlisted audit firm.

(i) Minimum number of years of audit experience: The standing of the firm should be of at least 25 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.

(j) 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, preferably, at least one full time partner or paid assistant (having CA qualification) of the firm must possess an accredited Forensic Audit qualifications from ICAI.

(k) Headquarter of the shortlisted firm: It is stipulated that the shortlisted Audit Firm should have their Head Office or Branch office in Mumbai, as the Head Office of the bank is situated at Mumbai.

(l) 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.

(m) 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. Accordingly, the assignments mentioned in points (i) to (iv) will not be considered as conflict of interest, as per the policy document, as approved by the Board. However, as per the RBI direction, if the audit firm is involved in the assignment of Large Exposure Framework in a reference year, then the ACB needs to assess explicitly on the independence of the shortlisted firm

and shall ensure that there is no conflict of interest and independence of auditors are maintained.

(n) 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 RBI, DOS and will be put up to ACB for information. 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 five 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.

(o) 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.

(p) 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:

- (1) 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.
- (2) 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.

- (3) The banks 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.
- (4) The concurrent auditors of the bank should not be considered for appointment as SCAs of the same bank.
- (5) 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.
- (6) 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.
- (7) 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 the bank.
- (8) 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.
- (9) 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.
- (10) 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.

- (11) 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.
- (12) 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.
