

## **Policy for Appointment of Statutory Branch Auditors [SBAs] for the year 2017-18**

### **1. The norms for selection of branches for statutory audit for the year 2017-18 will be based on the following:**

- i. Statutory branch audit may be carried out for all branches with advances of ₹ 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.
- ii. 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. The banks in turn will consolidate/compile all such LFARs and other certifications submitted by the Concurrent Auditors and submit to Statutory Central Auditor as an internal document of the bank.
- iii. 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.
- iv. 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.

### **2. The following procedure will be followed for appointment of Statutory Branch Auditors (SBAs) in Public Sector Banks (PSBs):**

- i. The list of eligible auditors/audit firms will be prepared by the Institute of Chartered Accountants of India (ICAI) as per the norms prescribed by RBI.
- ii. The above list will be subjected to scrutiny by RBI for identifying the continuing and rested firms and excluding audit firms against whom adverse remarks /disciplinary proceedings are pending or who have been denied audit.
- iii. RBI will, thereafter, forward the final list of all eligible auditors/audit firms to PSBs for selection.
- iv. The PSBs will select the required number of branch auditors/audit firms. Banks will be required to clearly advise the audit firms selected for consideration of appointment that each audit firm can take up audit assignment (branch audit) in one PSB only. The audit firm should give their consent in writing for consideration of appointment in the bank concerned for the particular year and the subsequent continuing years.

- v. 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 the bank concerned will not be entertained.
  - vi. After the selection of branch auditors, PSBs will be required to recommend the names of both continuing and selected branch auditors to RBI for seeking its prior approval before their actual appointment, as per statutory requirement.
3. SBAs will have a maximum tenure of four years. The appointment of SBAs 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.
4. While allotting branches, bank is required to select auditors/audit firms which are in close proximity to their offices/branches. Bank is also required to have a suitable mix of various categories of auditors / audit firms while selecting the branch auditors keeping in view the size of the branches to be audited.
5. As regards statutory branch audit to be carried out by SCAs, banks will allot the top 20 branches(to be selected strictly in order of the level of outstanding advances) in such a manner as to cover a minimum of 15% of total gross advances of the bank by SCAs.

#### **6. Other guidelines**

- i. Board approved policy for appointment of statutory auditors may be hosted on the bank's web-site. The policy framed by the Board in the matter of selection of auditors/audit firms for appointment of auditors is strictly adhered to. Further, the list of firms selected for appointment as statutory branch auditors may be placed before the ACB/Board of bank before for its concurrence before it is forwarded to RBI for final approval.
- ii. The policy of one audit firm for one PSB will be continued. Accordingly an audit firm will be eligible to be appointed as a central/branch auditor of only one PSB during a particular year.
- iii. In order to protect the independence of the auditors/audit firms, bank will have to make the appointments of branch auditors for a continuous period of four years subject to the firms satisfying the eligibility norms each year. Bank cannot remove the audit firms during the above period without the prior approval of the Reserve Bank of India.
- iv. The firms whose partner/s are on the Boards of PSBs are not to be appointed as auditors of the same PSB.
- v. The audit must be carried out by the firm's own staff and they should not sub-contract work in any manner whatsoever. A suitable undertaking shall be submitted by the audit firm to that effect.
- vi. A declaration shall be submitted by the auditors/ audit firm that
  - a) None of the disqualifications stipulated in Section 141 of the Companies Act 2013 or under any other law for the time being in force applies to them and they are qualified for appointment as statutory auditors of the Bank

- b) 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
  - c) In regard to indebtedness, the spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them, of any of the partners / proprietor of the firm or the firm / company in which their partners/ directors are not indebted to the Bank
  - d) None of the partners / proprietor of the audit firm or their spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of the partners / proprietors of the firm or the firm/ company in which their partners / directors have been declared as wilful defaulters by any bank / financial institutions
- (vii) Audit firms should not undertake statutory audit assignments while they are associated with internal assignments in the bank during the same year. In case the firms are associated with internal assignments, they should relinquish the internal assignments before accepting the statutory audit assignment during the year.
- (viii) Associate firms or sister concerns of statutory audit firm are disqualified for internal audit or for any special assignment when the main firm / partners are allotted Statutory Audit in a particular year

**7. Methodology for selection of Statutory Branch Auditors:**

- i. A Committee of General Managers called as "Selection Committee for appointment of auditors" consisting of following members would select a panel of audit firms to fill the vacancies arising for the relevant year
  - 1. General Manager-Financial Management Division- **Chairman of the Committee**
  - 2. General Manager- Risk Management Division - **Member**
  - 3. General Manager- Inspection & Audit Division - **Member**
  - 4. General Manager- Credit Division - **Member**
  - 5. General Manager- Credit-Priority and SME - **Member**
- ii. In the absence of any member of the Committee due to leave or otherwise, the Alternate General Manager in charge shall be the member of the Committee. The quorum for the meeting is FOUR.
- iii. From the list of eligible statutory branch audit firms provided by RBI/ C&AG short listing would be done by selecting the audit firms in the following manner.
- iv. Local auditors would be preferred for branch audit. In case local auditors are not available, auditors from nearby districts with the state/ adjoining states/ other states would be considered for selection. The Bank shall have the option to allot the Branches for audit to various categories of audit firms as per its requirements.
- v. To the extent possible, the audit firms will be selected taking into consideration their category in such a way that larger branches are audited by bigger/ reputed audit firms.
- vi. The said panel of audit firms would be placed before the Managing Director & CEO for approval and upon his approval the same will be placed before the Audit Committee of Board for final approval. The names of the audit firm/s approved by the ACB would thereafter be recommended to the RBI after obtaining the consent in

writing from the audit firm/s for their approval before final appointment. This would be placed before the Board of Directors for information.