

## Annexure I

### Policy Regarding Appointment of Statutory Central Auditors (SCAs) and Statutory Branch Auditors (SBAs) Domestic & Overseas, by the Bank effective for the FYs 2021-2022 and 2022-23 onwards

Division : Finance Division  
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## Policy Governance

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### 1. Policy Overview

All PSBs are required to have a Board approved policy for appointment of Statutory Auditors and the same may be hosted on the Bank's web-site.

### 2. Policy Details

#### 2.1 Policy Definition

As per Department of Financial Services, Ministry of Finance, Government of India letters No. DBS.ARS. No. 16124/08.91.001/2012-13 dated 17/05/2013, & F.No. 1/14/2004-BOA dated 25.11.2014 powers for selection of Statutory Central Auditors (SCAs) and Statutory Branch Auditors (SBAs) had been delegated to the individual Public Sector Banks (PSBs). In this connection, RBI is required to provide the list of existing (continuing) and new (Non- continuing) audit firms along with selection criteria to Public Sector Banks for selecting the SCAs/SBAs from the list every year. The audit firms so selected by the ACB/Board of the Bank are also required to be approved by RBI.

#### 2.2 Policy

Policy regarding Appointment of Statutory Central Auditors (SCAs) and Statutory Branch Auditors (SBAs): Domestic & Overseas by the Bank, effective for the FY 2021-2022 and 2022-23 onwards.



## **A. Appointment of Statutory Central Auditors (SCAs)**

*[As per RBI guidelines vide letter No. Ref.DoS.CO.ARG./ SEC.01/08.91.001/2021-22 Dated 27.04.2021, letter no. CO.DOS.RPD.No.S1028/08-02-003/2021-22 dated 30.08.2021 and frequently asked questions (FAQs) issued by the RBI on the subject. These guidelines supersede all previous guidelines (list enclosed with Circular as **Table-1**) issued by the RBI.]*

### **1. Prior approval of RBI :**

The Bank shall take prior approval of RBI (Department of Supervision) for appointment/ reappointment of SCAs on an annual basis. The Bank shall approach Central Office of RBI (Department of Supervision), within one month of receipt of list of eligible audit firms from RBI.

### **2. Number of SCAs and Branch Coverage :**

- 2.1 The Bank having asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)].
- 2.2 It shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms( as defined in Rule 6(3) of the companies (Audit & Auditors) Rules,2014)
- 2.3 The Bank shall finalize the work allocation among SCAs, before the commencement of the statutory audit, in consultation with their SCAs.
- 2.4 The number of SCAs to be appointed for a financial year shall be decided, *inter alia*, 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.
- 2.5 The actual number of SCAs to be appointed shall be decided by Board subject to the following limits-

<b>S.No</b>	<b>Asset Size of the Bank</b>	<b>Maximum No. of SCAs</b>
1.	Upto Rs.5,00,000 crore	4
2.	Above Rs.5,00,000 crore and upto Rs. 10,00,000 crore	6
3.	Above Rs 10,00,000 crore and upto Rs 20,00,000 crore	8
4.	Above Rs 20,00,000 crore	12



Since the Bank is having Asset size of above Rs.10,00,000.00 crore and upto Rs.20,00,000.00 crore therefore maximum 8 SCAs can be appointed. Presently, the Bank is having 5 (five) Statutory Central Auditors and keeping in view 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. the Bank may continue with 5 SCAs for the FY 2022-23.

- 2.6 The Bank 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.

### 3. Eligibility Criteria of Auditors:

#### A. Basic Eligibility

The Bank's asset size being above Rs.15000 crore as on 31<sup>st</sup> March of previous year, eligibility norms for audit firms to be appointed as SCAs, have been determined as under:

Min No. of Full Time partners (FTPs) associated with the firm for a period of at least three (3) years	Out of FTPs Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3) years	Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional staff
Note 1		Note 2	Note 3	Note 4
7	4	2	20*	25

\* The RBI has stipulated minimum no. of years of audit experience of the firm as 15, yet keeping in size and organizational structure the relevant audit experience shall be as under

- a) Bank/AIFIs audit experience (Statutory Central/Branch Auditor) minimum of 20 years including minimum 3 years as SCA of PSB  
or  
b) PSU Audit experience for minimum 20 years Including Public Sector Banks SCA/SBA experience of minimum 15 years.





*The minimum eligibility criteria as per the RBI guideline issued vide letter dt 27.04.2021 are applicable to the existing SCAs also for their term in the Bank. However, the criteria, wherever increased from minimum required in this policy, would be applicable for shortlisting of new audit firms for FY 2021-22 onwards and after appointment as SCAs these firm(s) must comply with such criteria during their entire term as SCA.*

**Note 1:** There should be at least one-year continuous association of partners with the firm as on the date of empanelment for considering them as full time partners. Further, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

The full-time partner's association with the firm would mean exclusive association. 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) She/He should not be employed full time / part time elsewhere.
- (c) She/He should not be practicing in her/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.
- (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.

**Note 2:** CISA/ISA Qualification:

There should be at least one-year continuous association of Paid CAs with CISA/ISA qualification with the firm as on the date of empanelment for considering them as Paid CAs with CISA/ISA qualification for the purpose.

**Note 3:** Audit Experience:

Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs. In case of merger and demerger of audit firms, merger effect will be given after 2 years of merger while demerger will be effected immediately for this purpose.

**Note 4:** Professional Staff

Professional staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audits but excludes typists/stenos/computer operators/ secretaries/subordinate staff, etc. There should be at least one-year continuous association of



professional staff with the firm as on the date of empanelment for considering them as professional staff for the purpose.

## **B. Additional Consideration**

- (i) The audit firm, proposed to be appointed as SCAs, 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 a Chartered Accountant firm is a director in any Public Sector Bank (PSB), the said firm shall not be appointed as SCA of any PSB. Further, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SCA of any of the group entities of that Entity. (*Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.*). The Group Entities refer to the RBI Regulated Entities in the Group, which fulfill the definition of Group Entity. However, if an audit firm is being considered by any of the RBI Regulated Entities in the Group for appointment as SCAs, whose partner is a director in any of the Group Entities (which are not regulated by RBI), the said audit firm shall make appropriate disclosures to the ACB as well as Board.

### (RBI's clarification through FAQ)

*The Group Entities here refer to the RBI Regulated Entities in the Group, which fulfill the definition of Group Entity, as provided in the Circular. Therefore, if any partner of a Chartered Accountant firm is a director in an RBI Regulated Entity in the Group, the said firm shall not be appointed as SCA of any of the RBI Regulated Entities in the Group. However, if an audit firm is being considered by any of the RBI Regulated Entities in the Group for appointment as SCAs, whose partner is a director in any of the Group Entities (which are not regulated by RBI), the said audit firm shall make appropriate disclosures to the ACB as well as Board.*



- (v) The auditors 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 Bank where the accounting and business data reside in order to achieve audit objectives.

### **C. Continued Compliance with basic eligibility criteria**

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. 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 31<sup>st</sup> March and till the completion of annual audit.

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, RBI will have the discretion to allow the concerned audit firm to complete the audit, as a special case.

### **4. Independence of Auditors:**

- 4.1 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. Any Concerns in this regard may be flagged by the ACB to the Board of Directors of the Bank and concerned Senior Supervisory Manager (SSM)/Regional Office (RO) of RBI.
- 4.2 In case of any concern with the Management of the Bank such as non-availability of information/non-cooperation by the Management, which may hamper the audit process, the SCAs shall approach the Board/ACB of the Bank, under intimation to the concerned SSM/RO of RBI.
- 4.3 Concurrent auditors of the Bank should not be considered for appointment as SCAs of the same Bank. The audit of the Bank and any entity with large exposure (*as defined in RBI instructions on large exposure framework*) to the Bank for the same reference year should also be explicitly factored in while assessing independence of the auditor. In this regard, the Board/ACB shall see that there is no conflict of interest and the independence of auditors is ensured.





(RBI's clarification through FAQ)

*The Circular does not prohibit an audit firm from doing audit of any Company/Entity with Large Exposure to the Entity from being appointed as SCA of the Entity. It only stipulates that this aspect should also be explicitly factored while assessing independence of the auditor. In this regard, the Board/ACB shall see that there is no conflict of interest and the independence of auditors is ensured.*

- 4.4 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SCAs for the Bank or any audit/non-audit works for its group entities (*The Group Entities refer to the RBI Regulated Entities in the Group, which fulfill the definition of Group Entity*) should be at least one year, before or after its appointment as SCAs. If an audit firm engaged with audit/non-audit works for the Group Entities (which are not regulated by RBI) is being considered by Bank for appointment as SCAs, Board/ACB shall ensure that there is no conflict of interest and independence of auditors is ensured, and this should be suitably recorded in the minutes of the meetings of Board/ACB. However, during the tenure as SCA, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest, and Bank may take their own decision in this regard, in consultation with the Board/ACB (conflict would not normally be created in the case of the following special assignments (indicative list): -

- (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.
- (iv) Reporting on financial information or segments thereof.

(RBI's clarification through FAQ)

*The Group Entities refer to the RBI Regulated Entities in the Group, which fulfill the definition of Group Entity, as provided in the Circular. However, if an audit firm engaged with audit/non-audit works for the Group Entities (which are not regulated by RBI) is being considered by any of the RBI Regulated Entities in the Group for appointment as SCAs, it would be the responsibility of the Board/ACB of the concerned RBI Regulated Entity to ensure that there is no conflict of interest and independence of auditors is ensured, and this should be suitably recorded in the minutes of the meetings of Board/ACB.*

*Before appointment of an audit firm as SCA of the RBI Regulated Entity, there should be a time gap of minimum one year between this appointment and completion of the assignment of any non-audit works given to the same audit firm in that RBI Regulated Entity or completion of any audit/non-audit works in other RBI Regulated Entities in the Group.*





*This stipulation shall be applicable prospectively, i.e. from FY 2022-23. Therefore, if an audit firm is involved in some non-audit work with the Entity and/or any audit/non-audit work in other RBI Regulated Entities in the Group and completes or relinquishes the said assignment prior to the date of appointment as SCA of the Entity for FY 2021-22, the said audit firm would be eligible for appointment as SCA of the Entity for FY 2021-22.*

*It is reiterated that the time gap between any non-audit works by the SCAs for the Entities or any audit/non-audit works for its Group Entities should be at least one year after completion of the audit assignment as SCA.*

- 4.5 The restrictions as detailed in 4.3 and 4.4 above, should also apply to an audit firm under the same network [as defined in rule 6(3) of the Companies (Audit & Auditors) Rules, 2014] of audit firms or any other audit firm having common partners.
- 4.6 The selected audit firms should not be Statutory Auditor in any of the subsidiary of Punjab National Bank, for last one year.

## **5. Professional Standards of SCAs:**

- 5.1 The SCAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 5.2 The ACB of Bank shall review the performance of SCAs on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the SCAs 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 ACB, with the full details of the audit firm.
- 5.3 In the event of lapses in carrying out audit assignments resulting in misstatement of financial statements, and any violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the SCAs in relation to Bank, the SCAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

## **6. Tenure and Rotation**

- 6.1 In order to protect the independence of the auditors/audit firms, Bank shall appoint the SCAs for a continuous period of three years, subject to the firms satisfying the eligibility norms each year. Further, the Bank can remove the audit firms during the above period only with the prior approval of the concerned office of RBI (Department of Supervision), as applicable for prior approval for appointment.



- 6.2 An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure. In case an audit firm has conducted audit of any Entity for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the same Entity for six years from completion of part-tenure. However, audit firms can continue to undertake statutory audit of other Entities.
- 6.3 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 for each Bank and within overall ceiling prescribed by any other statutes or rules. For the purpose of these guidelines, 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.

(RBI's clarification through FAQ)

*The existing SCAs of the Entity can continue (including as Joint Auditors) only if they fulfill the eligibility criteria and have not completed the stipulated tenure of three years as SCAs of the Entity.*

## **7. Audit Fees and Expenses**

The audit fees for SCAs shall be decided in terms of the relevant statutory/regulatory provisions and guided by relevant RBI instructions in the matter.

The Remuneration to the statutory central auditors and statutory branch auditors shall be paid in terms of RBI's Circular no. DBS. ARS.No.BC.08/08.2.001/2012-13 dated 25.06.2013. Besides, certificates as prescribed by the RBI, at the bank's request some other certification work is also done by statutory auditors for submission to the SEBI, Ministry of Finance, other authorities etc. for which an appropriate fees to the statutory central auditors may be approved by the competent authority/Committee, as per power chart of the Bank and paid by the concerned Division of the Bank.



## **8. Procedure for Appointment of SCAs**

- 8.1 RBI will provide a single list of eligible audit firms. The firms in said list would not be ranked in any order and all firms would be eligible for selection by the Bank.
- 8.2 Bank shall shortlist audit firms from the said list of eligible audit firms as received from RBI, based on certain objective criteria (like number of full time partners, number of professional staff, number of CISA/ISA qualified partners/paid CAs, number of FCAs, etc.)
- 8.3 The Selection Committee consisting of Bank's senior officials will be formed with the approval by Executive Director for shortlisting and selection of audit firms from list of eligible audit firms for appointment as Statutory Central Auditors of the Bank to fill up the requisite number of vacancies.
- 8.4 The Selection Committee will ensure compliance of following RBI guidelines while shortlisting Audit Firms:
  - 1) The Bank shall shortlist 2 audit firms for every vacancy of SCAs so that even if firm at first preference is found to be ineligible/refuses appointment, the firm having preference subsequent to first preference (second) can be considered and the process of appointment of SCAs does not get delayed. The list in order of preference shall be placed before the ACB for approval of two audit firms for every vacancy, shall be recommended to RBI.
  - 2) In case of reappointment of SCAs by Bank till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.
  - 3) The shortlisting shall be done by the Committee, based on certain objective criteria as prescribed by Bank i.e. number of full time partners, number of professional staff, number of CISA/ISA qualified partners/paid CAs, number of FCAs, audit experience and any other criteria which may be necessary in shortlisting the requisite number of audit firms for vacancies identified for the Bank, out of the list of audit firms received from the RBI.
  - 4) The selection Committee shall primarily focus on selection of suitable audit firm(s) for the Bank as per the stipulated eligibility criteria. The selection Committee may also stipulate the eligibility criteria of audit firms over and above the minimum basic eligibility as mentioned by Bank in the policy, to shortlist audit firms as per Bank's requirement.





The stipulation in shortlisting the audit firms may be based on -

- a) Relevant experience
- b) Infrastructure,
- c) Location and
- d) Any other criteria based on Bank's specific requirements etc.

- 8.5 After shortlisting the names of Audit firms by the Committee as mentioned above, the Bank will obtain the willingness in writing from the shortlisted audit firms to accept the assignment of Statutory Central Audit work.
- 8.6 The list in order of preference shall be placed before the ACB for approval of two audit firms for every vacancy, shall be recommended to RBI.
- 8.7 The Bank shall also obtain a certificate, along with relevant information as per **Form B**, from the audit firm(s) proposed to be appointed as SCAs to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment under the seal of the said audit firm.
- 8.8 The Bank shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI for the purpose and after being satisfied of their eligibility, recommend the names along with a certificate, in the format as per **Form C**, stating that the audit firm(s) proposed to be appointed as SCA by them comply with all eligibility norms prescribed by RBI.
- 8.9 The Bank shall indicate its total asset size as on March 31st of the previous year (audited figures), forward a copy of Board/ACB Resolution recommending names of audit firms (two audit firms for every vacancy) for appointment as SCAs in the order of preference and information as per **Form B** and **Form C** as mentioned above at the time of approaching the RBI for the prior approval of appointment as SCAs.
- 8.10 Thereafter, the Bank will approach the audit firms approved by RBI, to obtain their consent in writing strictly in the order of preference, in case of approval of 2 audit firms for every vacancy by the RBI. The audit firm(s) so approved should give their consent in writing for consideration of appointment in the Bank for the particular year and the subsequent continuing years. If the approached audit firm does not give consent, the Bank will approach the next audit firm in order of preference for obtaining consent.
- 8.11 The consent letter will clearly state that this selection of the audit firms 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 the Bank and RBI. The consent letter should mention that appointment is subject to complying with the stipulated norms on eligibility and empanelment issued by RBI from time to time. In the consent letter, the audit firm should declare that consent is given to one PSB only.

- 8.12 The actual appointment of the said firm(s) as SCA/s will be done for that particular year on receipt of approval from RBI. The said firms will conduct quarterly reviews for the FY for which appointment is done and also for the quarters of the succeeding FYs as per the guidelines received from RBI from time to time.
- 8.13 Officer of the rank of Chief Manager & above, posted at Finance Division with approval of the Chief Financial Officer, is authorized to obtain consent of audit firm(s) shortlisted for appointment and to facilitate allocation of review/audit work/branches to the Statutory Central Auditors

## **9. Reporting to National Financial Reporting Authority (NFRA) –**

- 9.1 In terms of National Financial Reporting Authority Rules 2018, as amended by NFRA (Amendment) Rules 2019, Banks are required to inform the details of appointment/ change of their Auditors to the Authority in Form NFRA-1 within fifteen days of appointment/ change of Auditors.
- 9.2 A new user registration is required, for which certain information of Authorized official and Company's/ Body Corporate's information is required. An authorized official can be any of the Whole-time Director/CEO/CFO/Manager/Company Secretary of the Bank (Manager" means an individual who, subject to the superintendence, control and direction of the Board of Directors, has the management of the whole, or substantially the whole, of the affairs of a company).
- 9.3 Company Secretary of the Bank is authorized for uploading the form NFRA-1 and in the absence of Company Secretary, the Chief Financial Officer of the Bank is authorized for uploading the form NFRA-1.



**B. Appointment of Statutory Branch Auditors (SBAs) – For Domestic Branches**  
(In terms of latest RBI guidelines vide their letter no.DoS.CO.ARG.No.S3955/08.91.001/2021-22 dated 17.03.2022)

1. Norms for selection of branches of the Bank for Statutory Audit

The norms for selection of branches of PSBs for Statutory audit from the FY 2021-22 and 2022-23 onwards will be based on the following guidelines:

- i) Coverage of Audit: "Statutory branch audit of PSBs shall be carried out so as to cover 80% of all funded and 80% of all non-funded credit exposures of a bank. The selection of branches for statutory audit shall include a representative cross section of rural/semi-urban/urban and metropolitan branches, predominantly including branches which are not subjected to concurrent audit. CPUs/LPUs/and other centralised hubs, by whatever nomenclature called, would be included for branch audit every year. The banks may consult their Statutory Central Auditor/s (SCA/s) in deciding the principles to be followed in coverage of branches within the overall coverage of 80% of business (80% of all funded and 80% of all non-funded credit exposures of the bank)."

*Note: Credit exposure: The sanctioned limits or outstandings, whichever are higher, shall be reckoned for arriving at the exposure limit. However, in the case of fully drawn term loans, where there is no scope for re-drawal of any portion of the sanctioned limit, banks may reckon the outstanding as the exposure.*

- ii) In respect of those branches, which are subject to concurrent audit by chartered accountants and not selected for branch audit, LFARs and other certifications done by concurrent auditors will be submitted to the Managing Director & CEO of the bank. The Bank in turn will consolidate/compile all such LFARs and other certifications submitted by the Concurrent Auditors and submit to Statutory Central Auditor/s as an internal document of the bank.
- iii) Any other Branch/es may be required to be taken up for audit for any special reasons like fraud embezzlement of funds etc., or where transactions of suspicious nature were observed.
- iv) Number of Auditors: The total number of auditors/audit firms to be appointed as statutory branch auditors of the bank for the concerned year may be decided on the basis of the number of branches/offices to be audited and keeping in view that not more than three branches/offices (irrespective of the size) may be allotted to one auditor. Further, to cover the rejection/ deletion of names of some auditors by RBI at the time of final approval and/or non-acceptance of audit by some of the auditors after final appointment, names of about 5% more audit firms will be selected.





- v) Tenure of Auditors: SBAs will have a maximum tenure of four years in a particular bank. 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. Bank will not remove audit firms without prior approval from RBI.
- vi) The firms whose partner/s are on the Board of the Bank, will not be appointed as auditors of the Bank.
- vii) As far as possible, while allotting branches, Bank will select SBAs which are in close proximity to their office/branches. Bank will have a suitable mix of various categories SBAs keeping in view the size of the branches to be audited.
- viii) 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. The audit firms retiring as Statutory Central Auditors from Bank shall not be eligible to be appointed as SBAs of the same Bank during the prescribed cooling period for SCA from that particular Bank.
- ix) Procedure for selection/appointment of SBAs
  - (1) The process for approval for appointment of SBA has to be done with the help of web based software application, Auditor Allocation System (AAS) (URL: <https://aasdos.rbi.org.in>) developed and described by RBI out of the list of eligible audit firms sent by RBI.
  - (2) The List of audit firms which are continuing as statutory branch auditors is to be downloaded from the AAS application. Bank will consider all the audit firms whose names appear in the list of continuing auditors for audit assignments during the concerned financial year.
  - (3) For the remaining vacancies, if any, the Bank will select the audit firms from the list of non-continuing firms, which is also available for download from AAS application.
  - (4) A Selection Committee consisting of Senior Officials at HO Finance Division level will be constituted by the order of General Manager, Finance Division for selection of Statutory Branch Auditors from the Non Continuing list of Statutory Branch Auditors and allotment of branches for audit to both continuing & fresh branch auditors selected
  - (5) The Selection Committee at Finance Division, Head Office will select the non-continuing auditors/audit firms through a software either provided by Institute of Chartered Accountants of India (ICAI) or any other software developed in-house in such a manner to fill up the vacancies for required number of branch auditors to carry out the statutory audit of branches during the relevant year. However, to avoid any delay in submission of



list of statutory branch audit firms selected by the Bank to RBI, the above said software shall be run maximum 3 times and thereafter to fill the gap, if any, arisen due to rejections/non-selection of SBAs, the selection of remaining number of SBAs may be done manually based on criteria/guidelines issued by RBI. However in emergent cases like non-availability / glitches in the software due to technical reasons, the General Manager – Finance may decide on selection of SBAs manually without using the software keeping in mind the limited time available for completion of exercise of selection of SBAs based on merits and criteria decided by the selection committee.

- (6) In the list provided by RBI, the category of audit firms/auditors is indicated against their names. The bank may select the audit firms, to the extent possible, taking into consideration their category and the size of the branches selected for audit, in such a way that there is a proper mix of audit firms from all the categories.
- (7) The category of the branches as per advance size will be decided by the Bank before the annual audit every year. The allotment of branches/offices to the audit firms will be as per their category. In case the numbers of audit firms remain less than the required number in any category, the branches in that category will be allotted to other category auditors. Further in case of refusal of appointment by the branch auditors, the branches allotted to them may be allotted to other category auditors also, as the audit process has to be completed within a short time.
- (8) The selection Committee after looking into related aspects and taking care of guidelines to consider all the audit firms whose names appear in the list of continuing auditors for audit assignment during the year and to maintain average number of branches per auditor with minimum variation of fee range under a particular category of auditors, may further select required number of branch auditors from the recommended list of Non Continuing branch auditors provided by RBI keeping in mind that since RBI has done due diligence and vetting of the firms of Statutory Auditors, it will be considered that all the audit firms of statutory branch auditors in a particular category are equally capable for being considered as branch auditors of the Bank.
- (9) The adequate number of fresh branch auditors, category- wise may be inducted to enable equitable distribution to each audit firm and also to take care of any eventuality on account of refusal or any other event, if any.
- (10) The bank will then obtain consent / undertaking from the shortlisted auditors / audit firms for accepting the assignment for that particular year. One senior level officer, i.e. Chief Manager & above, at Finance Division



will be assigned the job of accepting such consent / undertakings from the auditors / audit firms. The consent / undertaking given by the audit firm will be irrevocable and requests if any for any change will not be entertained.

- (11) The final list of continuing and non-continuing auditors / audit firms selected will be forwarded to RBI for final approval after obtaining approval of the ACB. The appointment letter to both continuing and non-continuing branch auditors will be issued after final approval by the RBI.
  - (12) In case RBI rejects name of some auditors in final approval for any reason, the selection committee constituted for the purpose, will select the deficit number of auditors, if any from the non -continuing list of audit firms, if required, within the overall limit of audit firms approved by the ACB and the names of new audit firms, after ACB's approval, will be forwarded to RBI for their final approval after getting their acceptance.
  - (13) Before appointment of the Statutory branch auditors, the bank will ensure that in addition to the requirement of Section 141(3)(d) of the Companies Act 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/proprietors of the firm or the firm/company in which they are partners/directors are not indebted to the bank. Further a declaration should also be obtained to the effect that 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 them, or the firm/company in which they are partners/directors have been declared as willful defaulters by any bank/financial institution. The Chartered Accountants nominated as non - executive directors in their professional capacity and having no financial interest in companies are exempted from the above. If any auditor/audit firm refuses to give such declaration, audit assignment should not be allotted to them.
  - (14) The word "Proprietary" indicated against the category of the auditors denotes that they are sole proprietary concerns. A declaration to the effect that they are full-time practicing Chartered Accountants, are not employed elsewhere and they do not have any other business interest, may be obtained from the proprietors before allowing them to take up audit assignments. The declaration should indicate the nature of other business interest of the sole proprietor, if any.
- x) Allotment of Branches: The allotment of branches for conducting statutory audit by SBAs is centralized at HO level and will be looked after by the Committee set up for appointment of SBAs. The endeavor will be to allot branches to auditors within their Circles/States as far as possible. However, in case the required branch auditors are not available in the Circle/ State, the branches may be allotted to auditors of nearby Circle/State as far as possible. Further, the cutoff limit, as aforementioned will not be applicable in case of appointment of alternate auditors





in the event of refusal/non acceptance by any selected auditors, as the audit process has to be completed within time-frame.

- xi) Fees/TA DA : Fee payable to SBAs will depend upon the figure of advances which gets reflected in the final Balance sheet of the bank i.e post MOC advances for the concerned period. The Audit fee and TA Bills will be paid by the Circles in whose jurisdiction the branch audit fall as per RBI guidelines.
- xii) Feedback: Annual feedback on the quality of audit of SBAs will be submitted by the Bank to RBI after annual audit of the Bank

### **C. Statutory Branch Auditors (SBAs) - For Overseas Branches**

In terms of RBI guidelines vide letter no. DBOD.No.1361/08/91/003/93 dated June 15, 1993, Circular no. DBS. ARS. No. BC.17/08.91.001/2002-03 dated June 5, 2003 and DBS.ARS.No.16380/08:91.003/2010-11 dated 24.05.2011, public sector banks are required to obtain prior approval of Reserve Bank of India for appointment of auditors for their overseas branches and also for the remuneration payable to them for the purpose.

Policy for selection/appointment of statutory auditors for overseas branches based on guidelines of RBI is as under:

1. Every overseas Branch will be subject to annual statutory audit and 1/3<sup>rd</sup> of overseas branches are subject to quarterly review.
2. Auditors will be appointed every year for conducting statutory audit of overseas branches including quarterly review. Audit firms operating in the countries where such branches are functioning, will be selected/appointed for audit.
3. Countries where audit firms are listed/ registered with local regulator, names of at least 3 audit firms will be selected from such list by the branch manager of overseas main branch which will be sent to IBD at Head Office alongwith quotation. GM-IBD will scrutinize the list & send the name of audit firm finally selected to Finance Division at Head Office. Finance Division will recommend the name of such audit firm to ACB/Board for their approval and thereafter will send to RBI for its final approval.

However, where there is no system of listing/registering of audit firms with the local Regulator, Branch Manager of concerned overseas Branch will identify at least 3 audit firms having requisite knowledge and experience from the certified public accountant firms of the respective country along with quotation of their fee and send the details of such audit firms to IBD at Head Office.



4. The details of audit firms, their experience, standing etc may be indicated in the cases where the appointment is not subject to the approval of the overseas regulators.
5. The maximum tenure of overseas auditor will be decided by law of the land. If no law of land exists then tenure prescribed by RBI will prevail i.e. 5 years at present.
6. Bank may advise the Branch Manager of overseas branch in overseas countries to hold dialogue with in-charge of other Indian banks for reasonableness of fee before formulating the proposals. Bank may consider the name of only reputed firms in the audit profession acceptable to the Monetary/Central Banking Authorities of host country.
7. Bank shall submit the proposal for approval of appointment of SBAs for overseas branches to RBI with full particulars in the prescribed format.
8. Procedure of selection/appointment:
  - a) Finance Division, HO will decide and inform IBD, HO about the quarterly/annual audit of the overseas branches for obtaining quotations and for recommending the name of audit firms.
  - b) Branches at foreign countries being the only representative of our Bank at the overseas countries, the Branch Head of that host country, after holding dialogue with in-charge of other Indian banks, will approach to the Audit firms who are well versed with the local regulators norms and also with the Audit procedure and requirements as per RBI guidelines and also have background, capacity, expertise and audit experience of audit of the Indian based banks along with willingness to do the Statutory Audit.
  - c) The Audit firm must be listed/ registered with local regulator of that country. In case there is no system of listing/registering such audit firms with the local regulator, the audit firm should be a certified public accountant firm in the respective country.
  - d) The Branch Head will obtain accurate quotations of audit remuneration from the proposed auditors giving full detail of the work to be done for annual/quarterly audit.
  - e) After getting and scrutinizing quotations/applications (minimum 3 quotes) of audit firms with full detail i.e. their experience, standing, name of the partners etc. the same may be forwarded to IBD, HO. Wherever the approval of the overseas regulator is required, the same may be indicated in the application.
  - f) Branch Head will send these quotations to IBD, HO, New Delhi along with the annexed format and their recommendation.
  - g) The quotations/applications obtained from overseas branches will be scrutinized and recommended by General Manager, IBD, HO New Delhi and submitted to Finance Division, HO New Delhi.
  - h) Finance Division, HO, New Delhi will place the matter to ACB and Board of Directors of the Bank for getting their approval.



- i) After getting approval from the Board, Finance Division will send recommendation along with copy of Board Resolution to RBI for Approval.
- j) After receiving approval from RBI, Finance Division will inform IBD, HO for further necessary action at their end.

**D. Remuneration payable to Statutory Central & Branch Auditors of Public Sector Banks:**

Remuneration/ Audit Fee/Travelling Allowance/ Halting Allowance etc. shall be payable to SCAs/SBAs as per RBI guidelines conveyed to the Bank from time to time. At present as per RBI Circular No. DBS.ARS.No.BC. 08/ 08.92.001/ 2012-13 dated 25.06.2013 read with RBI circular ref DBS.ARS.No BC.3/08.92.001/2007-08 dated 25.07.2007 and DBS.ARS.No.BC.07/08.92.001/2007-08 dated 20.12.2007. Further, Goods & Service Tax( GST) plus cess as per the applicable rate, is also payable to the SCAs as per extant provisions in this regard.

**E. Redressal of grievances :**

A Committee constituted with the approval of Chief Financial Officer headed by the General Manager (Finance Division) 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.

**F. Subsequent statutory/ regulatory guidelines/ directives :**

Any subsequent statutory/ regulatory guidelines/directives issued from time to time, regarding selection/appointment of SCAs and SBAs shall form part of the Policy after approval from MD & CEO and shall be placed before Audit Committee of Board and Board of Directors, for ratification.

**G. IBA's advise on PSBs meeting CVC on 20.11.2020:**

The IBA had vide letter no. HR&IR/GMB/CVC/9489 dated 31.12.2020, sent the deliberations to PSBs with a request to take note of the same for taking appropriate action at their level, wherever required. The action points *inter-alia* included "*There have been instances of undue influences by a few statutory auditors. Such instances should be reported to RBI and CVC.*"

As per extant system, the Bank is required to report performance of Statutory Central Auditors (SCAs) and Statutory Branch Auditors (SBAs) every year in the prescribed format to RBI, after completion of statutory audit.

Keeping in view the IBA's suggestions under reference, the Branches/Offices be instructed specific reporting of such cases in the para "*Any other matter*" of the





SCAs/SBAs performance for submission of compiled information to Bank's Vigilance Division, for onward submission to CVC.

### **2.3 EXCLUSIONS**

Not Applicable

### **3.Appendix**

#### **3.1 List Of Acronyms**

- a. SCAs: Statutory Central Auditors
- b. SBAs: statutory Branch Auditors
- c. RBI: Reserve Bank of India
- d. DFS: Department of Financial Services, Ministry of Finance

#### **List of references including related policies/forms, RBI circulars etc.**

Following are the brief guidelines/ requirements of the regulators/ authorities for appointment of Statutory Central Auditors(SCAs) and Statutory Branch Auditors (SBAs) –Domestic / Overseas

- RBI vide their letter no. CO.DOS.RPD.No.S1028/08-02-003/2021-22 dated 30.08.2021.
- RBI letter No. Ref DoS. ARG./ SEC.01/08.91.001/2021-22 Dated 27.04.2021
- RBI notification Dated 07.01.2020 (Norms on eligibility, empanelment and appointment of Statutory Branch Auditors in Public Sector Banks from the year 2020-21 and onwards
- RBI guidelines letter no. DBOD.No. 1361/08/91/003/93 dated June 15,1993, (Appointment of Statutory auditors for overseas Branches)
- Circular No. DBS.ARS.No. BC.17/08.91.001/2002-03 dated June 5, 2003 (HY/QTLY review of accounts of PSBs)
- RBI Circular No. DBS.ARS.No.BC. 08/ 08.92.001/ 2012-13 dated 25.06.2013 (Remuneration payable to Statutory Central & Branch Auditors of Public Sector Banks)
- Banking Regulation ACT, 1949(Section 15(1) (2) and Section 17).
- Other Guidelines issued by Government of India.

#### **Frequently asked questions:**

NA



FORM B

**Eligibility Certificate from (Name and Firm Registration Number of the firm)**

**A. Particulars of the firm:**

Asset Size of Entity as on 31 <sup>st</sup> March of Previous Year	Number of Full-Time partners (FTP)s associated* with the firm for a period of three (3) years	Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years	Number of Full Time Partners/ Paid CA s with CISA/ISA Qualification	Number of Years of Audit Experience#	Number of Professional staff

\*Exclusively associated in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than ₹ 1,000 crore

#Details may be furnished separately for experience as SCAs/SAs and SBAs

**A. Additional Information:**

- Copy of Constitution Certificate.
- Whether the firm is a member of any network of audit firms or any partner of the firm is a partner in any other audit firm? If yes, details thereof.
- Whether the firm has been appointed as SCA/SA by any other Commercial Bank (excluding RRBs) and/or All India Financial Institution (AIFI)/RBI/NBFC/UCB in the present financial year? If yes, details thereof.
- Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.



**B. Declaration from the firm**

The firm complies with all eligibility norms prescribed by RBI regarding appointment of SCAs/SAs of Commercial Banks (excluding RRBs)/UCBs/NBFCs (as applicable). It is certified that neither I nor any of our partners / members of my / their families (family will include besides spouse, only children, parents, brothers, sisters or any of them who are wholly or mainly dependent on the Chartered Accountants) or the firm / company in which I am / they are partners / directors<sup>15</sup> have been declared as wilful defaulter by any bank / financial institution.

It is confirmed that the information provided above is true and correct.

Signature of the Partner  
(Name of the Partner)

Date:





**FORM C**

**Certificate to be submitted by the Bank regarding eligibility of audit firm proposed to be appointed as SCA**

The bank is desirous of appointing M/s \_\_\_\_\_, Chartered Accountants (Firm Registration Number \_\_\_\_\_) as Statutory Central Auditor (SCA) for the financial year \_\_\_\_\_ for their 1<sup>st</sup>/2<sup>nd</sup>/3<sup>rd</sup> term and therefore has sought the prior approval of RBI as per the section 30(1A) of the Banking Regulation Act, 1949/ Section 10 (1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980/ Section 41(1) of SBI Act, 1955.

1. The Bank has obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Central Auditor of the Bank for FY \_\_\_\_\_ along with relevant information (copy enclosed), in the format as prescribed by RBI.
2. The firm has no past association for \_\_\_\_\_ years with the Bank as SCA/SBA.
3. The bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs of the Bank.

Signature

( Name and Designation)

Date



**FORMAT FOR RECOMMENDING THE NAME OF THE BRANCH AUDITOR FOR OVERSEAS BRANCH**

1. Name of the Country & Branch :
2. Name of the Proposed Auditors:
3. Fees quoted by the Proposed Auditor:

Audit	Taxation Work	Qtly Review per Qtr	LFAR	Others (Pl. Specify)	OPE	Vat	Total

4. Name of the last year's auditors –

5. Fees paid to the last year's auditors:

Audit	Taxation Work	LFAR	Others (Pl. Specify)	OPE	Vat	Total

6. Past association of the proposed auditors: if any

7. Quotations obtained from other auditors:

Name	Audit	Qtly Review per Qtr	LFAR	Other (Pl. Specify) Out of Pocket expenses	Ore	Vat	Total

8. Position regarding Deposits, Advances & Profit/ Loss

Figures for the Last 2 Years ( Aggregate of Both Branches )		
Deposits		
Advances		
Profit/Loss		

9. Branch's recommendations :

(Please indicate here specifically as to whether appointment is subject to approval of Monetary/Central Banking Authorities. If yes, whether it is obtained or not)



**Table 1 – List of Circulars/Instructions superseded by this Circular**

Sl. No.	Circular/Instruction No.	Date	Subject
1	DBOD.No.App.BC.57/C.452(K)-83	July 07, 1983	Appointment of Statutory Auditors as Internal Auditors of Banks
2	DBOD.No.APP.BC.101/C.452(K)-83	December 15, 1983	Statutory Audit by External Auditors
3	DBOD.No.App.BC.107/C.452(K)-84	November 13, 1984	Appointment of Statutory Auditors as Internal Auditors of Banks
4	DBOD.No.App.BC.28/C.452(K)-85	March 12, 1985	Appointment of Statutory Auditors as Internal Auditors of Banks
5	DOS.No.BC.9/08.91.001/94	August 17, 1994	Section 30(1A) of The Banking Regulation Act, 1949 - Appointment of Statutory Auditors
6	DOS.No.BC.10/08.91.002/94	August 17, 1994	Section 30(1A) of The Banking Regulation Act, 1949 - Appointment of Statutory Auditors
7	DBS.No.ARS.BC.8/08.91.001/2000-2001	January 30, 2001	Appointment of Statutory Central Auditors for Indian Private Sector Banks
8	DBS.No.ARS.BC.12/08.91.001/2000-2001	May 8, 2001	Appointment of Statutory Central Auditors for Indian Private Sector Banks
9	DBS.ARS.No.BC.08/08:91:001/2003-04	March 26, 2004	Assessment of Performance of Statutory Auditors
10	DBS.ARS.No.B.C.15/08.91.001/2004-05	January 6, 2005	Appointment of Statutory Auditors - Obtention of Declaration of Indebtedness
11	DBS.ARS.No.BC.7/08.91.001/2006-07	April 24, 2007	Special Assignments other than Statutory Audit to Audit Firms by Banks





12	DBS.ARS.No.BC.02/08.91.001/2 008-09	December 31, 2008	Internal Assignments in Banks by Statutory Auditors
13	DBS. ARS. BC No. 02 / 08:91:001 /2014-15	September 11, 2014	Appointment of Auditors
14	DBS. ARS. BC No. 03 / 08.91.001 /2014-15	September 11, 2014	Appointment of Auditors
15	DBS.ARS.BC.04/08.91.001/2017 -18	July 27, 2017	Appointment of Statutory Central Auditors (SCAs) - Modification of Rest Period
16	Not Applicable	Not Applicable	Norms on eligibility, empanelment and selection of Statutory Central Auditors in Public Sector Banks from the year 2018-19 and onwards



