



**INDIAN OVERSEAS BANK
BALANCE SHEET MANAGEMENT DEPARTMENT
CENTRAL OFFICE, CHENNAI**

**POLICY FOR APPOINTMENT OF
STATUTORY CENTRAL AUDITORS AND STATUTORY BRANCH AUDITORS**

1. PREAMBLE

Government of India, Ministry of Finance vide its letter F.No.1/14/2004-BOA, dated 25.11.2014, addressed to Reserve Bank of India (RBI) under copy to all Public Sector Banks (PSBs), has advised that the work of selection and appointment of Statutory Central Auditors (SCAs) is delegated to individual PSBs for the year 2014-15 and onwards. Further, it has advised that RBI will provide the selection criteria for selecting SCAs to PSBs, in line with policy parameters in this regard.

RBI vide their recent letter Ref: DBS.ARS.No.9724/08.91.008/2014-15 dated 06.02.2015 has since advised the revised criteria for selection of SCAs, and has stated that Bank has to put in place Board approved Policy for Appointment of Statutory Auditors and display the same on Bank's Website.

2. NORMS FOR EMPANELMENT

Appointment of Statutory Central Auditors (SCAs) and Statutory Branch Auditors (SBAs) is made in terms of various provisions of the Banking Companies (Acquisition and Transfer of Undertaking) Act, 1970/80.

The revised eligibility norms for empanelment of Statutory Auditors as prescribed by RBI in consultation with Ministry of Finance, Government of India have been incorporated in the Policy.

3. NUMBER OF SCAs AND THEIR TENURE

As per extant guidelines in force, for the Balance Sheet size of our bank ie. Category "B" Banks (Medium Banks viz. Indian Overseas Bank, Allahabad Bank, Corporation Bank, Indian Bank, Oriental Bank of Commerce, Syndicate Bank and UCO Bank) shall not have more than five (5) SCAs.

The tenure of SCAs will be for a period of three (3) years or such other period as may be notified by RBI / Govt from time to time. Their appointment 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. (a) SELECTION OF STATUTORY CENTRAL AUDITORS (SCAs)

From the financial year 2014-15 and onwards, the selection of SCAs will be done based on the Norms prescribed by RBI as per Annexure I.

- RBI will advise the list of eligible audit firms viz: Continuing Audit Firms; and Eligible Non-continuing Audit Firms – Experienced and New, and also the vacancy position for SCAs in the Bank arising during the financial year, which needs to be filled up.
- Allotment of audit work from the RBI List of Eligible Auditors in the ratio of 60:40 among experienced and new audit firms for the fresh vacancies excluding continuing SCAs or any other criteria as per RBI guidelines issued from time to time.

General Norms Applicable for SCAs

- a) The audit firms applying for empanelment as SCAs in PSBs will be required to give an undertaking that, in case of selection by PSBs, they would give up the existing assignment, if any, in Private Banks / Foreign Banks / RBI / Financial Institutions such as National Housing Bank, EXIM Bank etc. and they cannot refuse appointment of PSBs once selected.
- b) To the extent possible, at least two audit firms having their Head Office from the same place where the bank's HO / CO is located (i.e. Chennai) to be allocated as SCA.
- c) Audit firms are not selected if they have retired from the same Bank before going under rest.
- d) The firms whose partner/s are on the Boards of PSBs are not appointed as auditors for the same PSB.
- e) An audit firm is eligible to be appointed as Central / Branch auditor of only one PSB during a particular year.
- f) Audit firm(s) selected by the PSBs after obtaining consent in writing from the audit firm will be debarred for a period of three years for selection if the firm refuses to accept the appointment without a reasonable ground, that is ground not to the satisfaction of RBI.
- g) Any change in the norms / guidelines / policy in regard to appointment, either by RBI / GoI or by the Bank will be put up in the Bank's Website.



Procedure to be followed for Appointment of SCAs

On receipt of the list of eligible audit firms for SCAs from RBI, the bank shall do the following:

- a) Short-list the names of the Audit Firms who wish to take-up Statutory Central Audit work from the RBI List of Eligible Auditors in the ratio of 60:40 among experienced and new audit firms for the fresh vacancies excluding continuing SCAs.
- b) Put-up the short-listed names of the audit firms to the committee of General Managers, comprising of senior most General Manager at Central Office, GM (Balance Sheet Management Department), GM(Risk Management Department) and GM(Inspection), for their vetting and recommendation to the Audit Committee of the Board (ACB) for its concurrence. The quorum for the GMs Committee meeting shall be three(3).
- c) Obtain Audit Committee of Board's (ACB) concurrence for appointment of SCAs short-listed by the General Managers' Committee (GMs Committee) and forward the same to the RBI for final approval, before their actual appointment.
- d) Bank shall obtain confirmation from the audit firms regarding the compliance of eligibility norms prescribed by RBI from time to time and also obtain copy of latest certificate on Constitution issued by the ICAI and other relevant documents as required.
- e) Upon obtention of RBI approval, issue formal appointment letter to the audit firms as per statutory requirement.

4. (b) SELECTION OF STATUTORY BRANCH AUDITORS (SBAs)

Selection and Appointment of SBAs

- a) Number of audit firms to be appointed depends on the number of branches to be covered under audit as per Gol / RBI policy in force.
- b) As per the extant RBI norms, branches having advance of Rs.20 crore and above and 1/5th of the remaining branches covering a representative cross section of rural / semi-urban / urban and metropolitan branches are subject to statutory branch audit.

Procedure to be followed for Appointment of SBAs

- a) RBI will forward the final list of all eligible auditors / audit firms to the Bank for selection.



- b) The bank will select the required number of branch auditors / audit firms. Bank will be required to clearly advise the audit firms selected for consideration of appointment that each audit firms 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.
- c) 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.
- d) SBAs will have a maximum tenure of four years. The appointment of SBAs will be made on annual basis, subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability.
- e) While allotting branches, Bank shall select auditors / audit firms which are close proximity to their offices / branches. Banks are 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.
- f) The maximum number of branches allotted to an audit firm shall be restricted to the RBI guidelines stipulated in this regard. At present not more than three (3) branches can be allotted to a Branch Auditor and the bank can allot less than three branches keeping in view the availability of the number of branches.
- g) As regards statutory branch audit to be carried out by SCAs, bank 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.
- h) The appointment of SBAs as per the norms specified will be vetted by a committee of General Managers, comprising of senior most General Manager at Central Office, GM (Balance Sheet Management Department), GM(Risk Management Department) and GM(Inspection), for their vetting and recommendation to the Audit Committee of the Board (ACB) for its concurrence. The quorum for the GMs Committee meeting shall be three (3). Where upon the same will be placed before ACB / Board of Bank for its concurrence before it is forwarded to RBI for final approval.
- i) After the selection of branch auditors, the bank will place list of firms selected for appointment as SBAs before the ACB / Board of Bank for its concurrence.



- j) The Bank shall 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.

5. REMOVAL OF AUDITORS

In order to protect the independence of the auditors / audit firms, Bank will make the appointments of SCAs / Branch auditors for continuous period of three and four years respectively subject to the firms satisfying the eligibility norms each year. Banks cannot remove the audit firms during the above period without prior approval of Reserve Bank of India.

6. REMUNERATION

The remuneration payable to Statutory Central Auditors (SCAs) and Statutory Branch Auditors (SBAs) will be as per guidelines issued by Reserve Bank of India from time to time.

7. OTHERS

General Manager (Balance Sheet Management Department) will dispose of grievances / complaints, if any, with regard to selection of SCAs and SBAs and allotment of branches to them.

The Policy for Appointment of Statutory Auditors shall be in force for three years. Any changes, in future, in the norms for appointment of Statutory Central Auditors / Statutory Branch Auditors, prescribed by Reserve Bank of India / the Government of India, will automatically form part of the above policy and made applicable appropriately / and any significant changes interregnum will be placed before the Board.

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ANNEX I

Norms on eligibility, empanelment and selection of
Statutory Central Auditors in Public Sector Banks

- 1 (i) The audit firm shall have a minimum 7 full time chartered accountants, of which at least 5 should be full time partners exclusively associated with the firm. The remaining 2 could be either exclusive partners or CA employees with a continuous association with the firm for a period of one year. These partners should have minimum continuous association with the firm i.e. one each should have continuous association with the firm at least for 15 years and 10 years, two with a minimum of 5 years each and one with a minimum of one year. 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.)
- (ii) The number of professional staff (excluding typists, stenographers, computer operators, secretary/ies and sub-ordinate staff etc.), consisting of audit and articulated 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 nationalisation) 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 crore. (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.)

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- (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 partners of the firm or its paid Chartered Accountants must possess CISA / ISA qualification.

Note- C&AG will empanel the Audit Firms based on the above parameters as on January 1 of the relevant year and send the panel to RBI.



**PROCEDURE FOR APPOINTMENT OF
STATUTORY AUDITORS IN PUBLIC SECTOR BANKS**

Statutory Central Auditors (SCAs)

1. The number of SCAs to be appointed in PSB will be as under:

i) **Category "A" Banks (Large Banks** viz. Bank of Baroda, Bank of India, Canara Bank, Punjab National Bank, Central Bank of India and Union Bank of India) shall not have more than 6 SCAs. However, in case of SBI the number of SCAs shall not be more than 14.

ii) **Category "B" Banks (Medium Banks** viz. Allahabad Bank, Corporation Bank, Indian Bank, Indian Overseas Bank, Oriental Bank of Commerce, Syndicate Bank and UCO Bank) shall not have more than 5 SCAs, and;

iii) **Category "C" Banks (Small Banks** viz. Andhra Bank, Bank of Maharashtra, Dena Bank, Punjab & Sind Bank, United Bank of India, Vijaya Bank, State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore) shall not have more than 4 SCAs.

Actual numbers of SCAs to be appointed can be decided by respective boards subject to the above limit.

2. The cooling off period after completing the term of three years as SCA will be of three years.

3. 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.

4. The Government has decided that from the financial year 2014-15, selection and appointment of SCAs is delegated to individual Public Sector Banks.

5. The procedure that will be followed for selection of SCAs by the PSBs is as under :

- a) The eligible list of firms furnished by C&AG every year will be examined by RBI.
- b) RBI will verify that the firm has minimum bank audit experience of 15 years from its records.
- c) RBI will prepare separate list of rested, continuing and non continuing eligible audit firms after excluding the name of firms who have been denied audit by RBI/C&AG and the firms who have declined the offer of appointment given by



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Public Sector Banks. The list of non continuing eligible audit firms will be further split up into list of experienced audit firms and new audit firms. Reserve bank will be giving Public Sector Banks i) List of Continuing Firms (i.e. the list of audit Firms who have not completed three years of audit ii) List of firms who are undergoing rest/cooling iii) List of eligible, non continuing audit firms in two parts viz. experienced audit firms and new audit firms.

d) The audit firms applying for empanelment as SCAs in PSBs will be required to give an undertaking that, in case of selection in PSBs, they would give up the existing assignment, if any, in Private Banks/Foreign Banks/RBI/Financial Institutions such as National Housing Bank, EXIM Bank etc. and they cannot refuse appointment of PSBs once selected.

e) 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. For this purpose, an 'Experienced' firm is one which has a Statutory Central Audit experience of any of the Public Sector Banks and 'New Firm' is one who does not have such experience.

f) While making final selection, the PSBs will take into consideration the following points:-

- i) To the extent possible, at least two audit firms having their Head Office from the same place where the banks' HO/CO is located, to be allocated.
- ii) Audit firms are not selected if they have retired from the same bank before going under rest.
- iii) The firms whose partner/s are on the Boards of PSBs are not appointed as auditors for the same PSB.
- iv) In case of SBI, only experienced audit firms are considered as SCAs.
- v) An audit firm is eligible to be appointed as a Central/ Branch auditor of only one PSB during a particular year.



6. Audit firm(s) selected by the PSBs after obtaining consent in writing from the audit firm 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.
7. The above norms will be implemented during the selection process of SCAs for the year 2014-15 and onwards.
8. After selection, as per the statutory requirement, banks, in turn, are required to forward the names of the selected SCAs to RBI for its prior approval before their actual appointment.
9. A feedback on the quality of audit of SCAs may be given by PSBs to RBI after the annual audit of banks.
10. **Other guidelines**

i) In order to protect the independence of the auditors/audit firms, banks will have to make the appointments of SCA for a continuous period of three years subject to the firms satisfying the eligibility norms each year. Banks cannot remove the audit firms during the above period without the prior approval of the Reserve Bank of India.

ii) 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. Banks are also required to ensure that 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 central auditors may be placed before the ACB for its concurrence before it is forwarded to RBI for final approval.

Note : A full time partner does not include a person who is:

- (1) A partner in other firms.
- (2) Employed full time/part time elsewhere, practicing in 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



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