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Policy on Appointment of Statutory Central Auditors (SCAs) and Statutory Branch Auditors (SBAs)



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

1. PREAMBLE

RBI vide letter RBI/2021-22/25 Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated 27.04.2021, Ref CO.DOS.RPD.No.S1028/08-02-003/2021-2022 dated 30.08.2021 and Ref.DOS.ARG.No.2160/08.09.003/2020-21 dated 15.03.2021 has advised revised criteria for selection of Statutory Central Auditors (SCAs) and Statutory Branch Auditors (SBAs) respectively.

RBI has also advised that Bank has to put in place Board approved Policy for Appointment of SCAs and SBAs and display the same on Bank's Website.

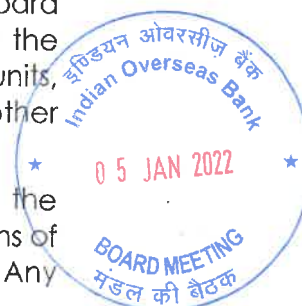
2. (a) SELECTION AND APPOINTMENT OF STATUTORY CENTRAL AUDITORS (SCAs)

General Norms Applicable for selection and appointment of SCAs

- ❖ The Bank is required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SCAs, on an annual basis. For this purpose, Bank should apply to Department of Supervision, RBI before 31st July of the reference year and the Bank (PSBs) shall approach RBI within one month of receipt of list of eligible audit firms from RBI.
- ❖ The number of SCAs is based on the asset size of the Bank as at the end of previous year. For Banks with asset size up to Rs.5,00,000 crore, a minimum of **two (2) SCAs** and a maximum of **four (4) SCAs** may be selected.

The Bank should decide on the number of SCAs based on the Board approved policy 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.

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.

- ❖ 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 ACB of the Bank, under intimation to the concerned SSM/RO of RBI.
- ❖ Concurrent auditors of the Bank should not be considered for appointment as SCAs of the same Bank. However, a firm which has relinquished the concurrent audit assignment of the bank prior to the date of appointment as SCA of the bank for relevant Financial Year, is eligible to be considered for appointment as SCA of the bank for that FY.
- ❖ 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. However, audit firms can continue to undertake statutory audit of other Entities.
- ❖ 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
- ❖ To the extent possible, the Bank will have at least one (1) Audit firm having their Head Office at Chennai. The remaining SCAs will be selected and appointed from other Cities/Towns.
- ❖ In terms of RBI guidelines on 'Norms on eligibility, empanelment and selection of Statutory Branch Auditors in Public Sector Banks (PSBs)', 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.
- ❖ In order to protect the independence of the auditors' /audit firms, Bank will have to 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 RBI (Department of Supervision).

Review of performance of SCAs by Board / ACB

- a) The SCAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- b) The Board/ACB of the 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



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approval/recommendation of the Board/ACB, with the full details of the audit firm.

- c) In the event of lapses in carrying out audit assignments resulting in misstatement of Bank's 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.

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

Norms on eligibility, empanelment, and selection of Statutory Central Auditors in Public Sector Banks with asset size Rs. 15,000 crore and above from the year 2021-22 onwards:

A. BASIC ELIGIBILITY

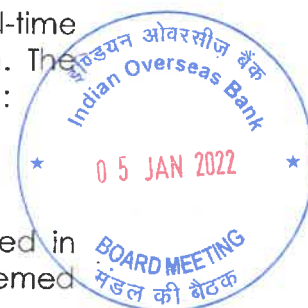
Asset Size of Entity as on 31st March of Previous Year	Minimum No. of Full-Time partners (FTPs) associated with the firm for a period of at least three (3) years (Note 1)	Out of total FTPs, Minimum No. of Fellow Chartered Accountant (FCA) Partners associated with the firm for a period of at least three (3) years	Minimum No. of Full Time Partners/ Paid CAs with CISA/ISA Qualification (Note 2)	Minimum No. of years of Audit Experience of the firm (Note 3)	Minimum No. of Professional staff (Note 4)
Above ₹15,000 crore	5	4	2	15	18

Note 1:

There should be at least one-year continuous association of partners with the firm as on the date of empanelment (for PSBs)/ shortlisting (for other Entities) for considering them as full time partners. Further, for appointment as SCAs of all Commercial Banks with asset size above. Rs.1,000 crore, at least two partners of the firm shall have continuous association with the firm for at least 10 years.

For all Commercial Banks with asset size above Rs.1,000 crore, the full-time partners' 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.
She/he should not be employed full time / part time elsewhere.
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) In case of PSBs, 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 PSBs)/ shortlisting (for other Entities) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3: Audit Experience:

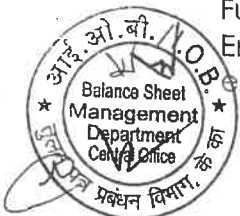
For auditing PSB minimum 15 years' Experience is required. For Commercial Banks (excluding RRBs), audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs. In case of merger and demerger of audit firms, merger effect will be given after two (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 PSBs)/ shortlisting (for other Entities) for considering them as professional staff for the purpose.

B. ADDITIONAL CONSIDERATION

- (i) The audit firm, proposed to be appointed as SCAs for Entities, 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 will 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.



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(* The Group Entities here refer to the RBI Regulated Entities in the Group, which fulfil the definition of Group Entity. 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 proposed auditors of the Bank should have preferably capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATs) 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 31st 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.

Procedure to be followed for Appointment of SCAs

On receipt of the list of eligible audit firms for selection and appointment of SCAs from RBI, the Bank shall do the following:

- BSMD will process the request of the Audit firms for appointment of SCAs who submit their profile (by email or hard-copy) on or after the date of receipt of RBI communication in this regard and before **05:00 pm one day prior to the date of conduct of GMs committee** meeting.
- Put-up the short-listed names of the audit firms who have submitted their profiles, before the stipulated date as specified in point (a) above, 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 based on the matrix 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 along with Form B and Form C 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.

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

Norms for Selection of Branches of PSBs for Statutory Audit

- 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, Statutory branch audit of PSBs should be carried out so as to cover 90% of all funded and 90% 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 selection of branches shall be finalised by each PSB with the consent of their Statutory Central Auditor/s.
- c. 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 banks 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.

Procedure to be followed for Appointment of SBAs

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



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- a) 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 process of selection and appointment of SBAs will be system driven. 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.

- b) 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.
- c) 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.
- d) The concept of compulsory rest for two years for audit firms located in the specified centres, after completion of four years of continuous branch audit, followed till FY 2019-20 has been done away with. Instead, the branch auditors across all the centres of the country, on completion of four years of continuous branch audit, will be subjected to the policy of rotation i.e. they may be considered for appointment as SBAs of any other PSB. However, the audit firms will not be eligible to be re-appointed as SBAs, in the same bank where they completed their audit assignment prior to rest/rotation, at least for one cycle of four years.
- 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. Banks are advised to allot branches, to the extent possible, to the audit firms taking into consideration their category and audit experience in such a way that specialized and larger branches are audited by bigger/experienced audit firms.
- 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 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 firms whose partner/s are on the Boards of PSBs are not to be appointed as auditors of the same PSB.



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- j) The audit firms retiring as Statutory Central Auditors from a PSB shall not be eligible to be appointed as SBAs of the same PSB during the prescribed cooling period for SCAs from that particular PSB.
- k) 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).
- l) 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.
- m) 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.
- n) Appointment letters shall be issued to the audit firms/auditors after getting approval of RBI.
- o) 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.

3. 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. Any changes to the fee structure advised by RBI in due course will automatically form part of the policy.

4. GRIEVANCE REDRESAL

A Committee of General Managers consisting of GM (Balance Sheet Management Department), GM (Inspection Department), GM (Risk Management Department) and GM (Corporate Credit Department) will dispose of grievances / complaints, if any, with regard to selection appointment of SCAs and SBAs and allotment of branches to them.

5. OTHERS

Policy for Appointment of Statutory Central Auditors and Statutory Branch Auditors shall be in force for three years. New / revised guidelines issued by



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RBI/Other Regulatory authorities during the currency of the said policy, such revised guidelines shall automatically form part of the policy.

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