

ANNEXURE-A

**Policy for Appointment of Statutory Central Auditors (SCAs)**

The Bank shall comply with the guidelines issued by the Ministry of Finance, Government of India / Reserve Bank of India from time to time for the Appointment of Statutory Central Auditors.

**1. Number of Audit firms**

Our Bank being a "C" category Bank is eligible to appoint 4 SCAs. Accordingly Bank shall appoint 4 Statutory Central Auditors with the approval of Board of Directors of the Bank and after obtaining prior approval of Reserve Bank of India (RBI).

**2. Eligibility Criteria**

A firm in order to be eligible to be appointed as SCA of the Bank shall fulfill the following criteria. Bank shall obtain the names of such eligible Audit firms directly from the RBI as per the norms stipulated by RBI /C&AG from time to time.

**As on 1<sup>st</sup> January of relevant year, the firm should have :**

- (i) The audit firm shall have a minimum of 7 full time Chartered Accountants, of which at least 5 should be full time partners exclusively associated\* with the firm.
- (ii) Of these five full time exclusively associated\* partners, one each should have minimum continuous association with the firm at least for 15 years and 10 years,
- (iii) two with a minimum continuous association of 5 years each and one with a minimum continuous association of one year. The remaining two could be either exclusively associated\* partners or CA employees.
- (iv) There should be at least one year continuous association for both exclusive partners and CA employees. 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.)

\*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) He should not be employed full time / part time elsewhere
- (c) He should not be practicing in his own name or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under Section 2 (2) of the Chartered Accountants Act, 1949.
- (d) The total compensation @ of the partner from the firm should not be below the following limit.

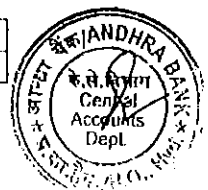
(i) In case the Head Office of the firms located in

Delhi, Mumbai, Chennai, Kolkata, Bangalore and Hyderabad

ACA Partner	1.80 lakh in a year (Rs.15000/- per month)
FCA Partner	3.00 lakh in a year (Rs.25000/- per month)

(i) Other Places

ACA Partner	1.20 lakh in a year (Rs.10000/- per month)
FCA Partner	1.80 lakh in a year (Rs.15000 per month)



(e) A partner whose total compensation from the firm is less than the following will not be treated as exclusively associated with the firm :

Firms having more than 14 Partners	1%
Firms having 10 to 14 Partners	3%
Firms having 5 to 9 Partners	5%
Firms having less than 5 Partners	8%

@Total compensation=Sum total of share of profit, remuneration and interest on capital

- (ii) The number of professional staff (excluding typists, stenographers, computer operators, secretary/ies and sub-ordinate staff etc.), consisting of audit and articled clerks with the knowledge in book-keeping and accountancy and are engaged in outdoor audit should be at least 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 nationalization) 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 Public Sector Bank, select all India Financial Institutions or Reserve Bank of India.)
- (v) The firm should have statutory audit experience of 5 years of the public sector undertakings (either Central or State Government undertaking).

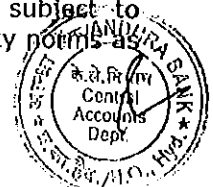
(While calculating such experience, more than one assignment given to a firm during a particular year or more than one year's statutory audit (audits in arrears) assigned to the firm will be reckoned, as one year experience only, for the purpose of counting such experience.)

- (vi) At least two partners of the firm or its paid Chartered Accountants must possess CISA / ISA qualification.
- (vii) The firm should subject itself to the peer review process of The Institute of Chartered Accountants of India (ICAI) and hold, a valid certificate issued by the Peer review Board of ICAI.
- (viii) In case of merger and demerger of firms, merger effect will be given after 2 years of merger while demerger will be effected immediately.
- (ix) **Note:** A full time partner does not include a person who is:
  - A partner in other firms.
  - 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.



**3.0 General norms applicable for SCAs:**

- 3.1 The audit must be carried out by the firm's own staff and they should not subcontract work in any manner whatsoever. A suitable undertaking shall be submitted by the audit firm to that effect.
- 3.2 A declaration should be submitted by the auditors/audit firms that:**
- 3.2.1 None of the disqualification under section 141 sub-section 3 of the Companies Act, 2013, applies to them and they are qualified for appointment as statutory auditors of the bank.
- 3.2.2 There are no adverse remarks/disciplinary proceedings pending/initiated against the firm/any of its partners/proprietor on the records of ICAI, which would make them ineligible for appointment as auditors.
- 3.2.3 In addition to the requirements of Section 141 (3)(d) of the Companies Act 2013, in regard to indebtedness, the spouse, dependent children and wholly or mainly dependant parents, brothers, sisters or any of the 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.
- 3.2.4 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, of any of the partners/proprietors of the firm or the firm/company in which they are partners/directors have been declared as willful defaulters by any bank/financial institutions.
- 3.3 Audit firms cannot undertake statutory audit assignment while they are associated with internal assignment in the bank during the same year. In case the firms are associated with internal assignments, they should relinquish the internal assignments before accepting the statutory audit assignment during the year.
- 3.4 Associate firms or sister concerns of statutory audit firm are disqualified for internal audit or for any special assignment when the main firm/partners are allotted Statutory Audit in a particular year.
- 3.5 The concept of one audit firm for one Public Sector Bank will continue. One audit firm will take up audit assignment in one Public Sector Bank only.
- 3.6 The audit firms appointed as SCAs in the Bank will be required to give an undertaking that, in case of selection in the Bank, 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 the Bank once selected. This stipulation however, will not be applicable for the auditors of the Banks with no presence in India.
- 3.7 Audit firms will not be selected if they have retired from the Bank (after completing the full term) before going under rest.
- 3.8 The firms whose partner/s are on the Board of the Bank will not be appointed as Statutory Central Auditor of the Bank.
- 3.9 Audit firm(s) selected by the Bank 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, i.e. ground not to the satisfaction of RBI.
- 3.10 The Statutory Central Auditors will be appointed on annual basis subject to maximum tenure of three years depending upon their fulfilling the eligibility norms as prescribed by RBI from time to time and also subject to their suitability.



3.11 With regard to the removal of the Auditor before the completion of the tenure of three years, prior permission of Reserve Bank of India will be obtained.

3.12 In case any audit firm (after appointment) does not comply with any one of the norms (on account of resignation, death etc. of any of the partners, employees etc.), it may promptly approach the Bank with full details. The Bank in turn will approach Reserve Bank of India.

3.13 The Chartered Accountant firm/s, whose partner/s are serving on the Board of any Nationalised banks / PSB as Part Time Non-Official Director/s under CA Director category, are not to be appointed as Statutory Central Auditor in any PSB.

The eligibility criteria and general norms listed herein above are in line with RBI guidelines.

#### 4 Process of selection of Statutory Central Auditors:

4.1A Committee of General Managers consisting of the following members called as "**Statutory Auditors Selection Committee**":

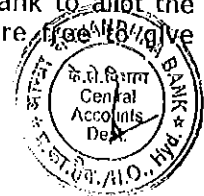
- (a) General manager (Inspection and Audit Department)
- (b) General Manager (Credit Monitoring & Review Department)
- (c) General manager (Central Accounts Department)
- (d) General Manager (Recovery Management Division)
- (e) General Manager (Large Corp Department)

Convener: Dy General Manager / Asst General Manager (Central Accounts Dept)

- will shortlist the names of the Chartered Accountants firms from out of the list received from RBI. The committee, in the process of short listing, shall amongst other factors, duly consider the following parameters and other eligibility norms as per this policy viz., 3.7, 3.8, 3.13 and others.
- (I) The allotment of vacancies of SCAs shall be in the ratio of 60:40 between 'Experienced' and 'New Audit firms. As regards ratio of 60:40, the Bank shall 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. Allotment of audit work in the ratio of 60:40 among experienced and new audit firms is only for fresh vacancy arising the year and not for continuing auditors. Accordingly, if there is only one fresh vacancy in the bank the same will go to an experienced firm only, based on rounding off the ratios to the nearest whole number.
- (II) As far as possible, the Bank should have at least two audit firms having their Head Office at the same place where the Bank's HO/CO is located, is located. This condition is applicable for the combined pool of continuing and fresh auditors
- (III) geographic location of the Audit Firms
- (iv) their past experience
- (v) their past association with our bank (if any)
- (vi) strength of the firm
- (vii) Sufficient Man Power available with the firm to carry out the audit at more than one place at a time etc.

Committee shall make discreet enquiries about the credentials of the audit firms and take into consideration such other factors as it may deem fit.

4.2 Bank shall seek the willingness in writing from shortlisted audit firm(s) to accept the assignment of Statutory Central Audit work. In the willingness letter, it shall be clearly mentioned that there is no commitment on the part of the Bank to allot the Statutory Central Audit work to the auditors and the audit firms are free to give similar willingness to multiple PSBs, if approached by other PSBs.



- 4.3 Bank shall take a declaration from the Experienced Audit Firms considered by them to the effect that they have previous experience of Statutory Central Audit of Public Sector Banks. Further, Bank shall take declaration from New Firms considered by them to the effect that they do not have previous experience of Statutory Central Audit of PSBs.
- 4.4 After the finalization of the list by the Committee, the same will be placed before Managing Director & CEO/Executive Director of the Bank for their opinion.
- 4.5 The list of shortlisted audit firms will be placed before the Audit Committee of the Board to approve adequate number of audit firm (s) in order of preference. The number of audit firms approved should be adequate enough to take care of the situation where the firms may not give consent.
- 4.6 Bank shall seek the Irrevocable consent of the selected firms of Chartered Accountants strictly in order of preference approved by the Audit Committee of the Board for appointment as Statutory Central Auditors of the Bank.

Irrevocable consent will be obtained from the Audit firm in writing for consideration of appointment as SCA for the particular year and for the subsequent continuing years (total three years) subject to their fulfilling the eligibility norms prescribed by RBI from time to time. The consent given by an audit firm will be treated as irrevocable and request, if any, from Audit Firms for changing the Bank, after having given its consent is not to be entertained.

If the approached audit firm does not give consent, the bank will approach the next audit firm in order of preference for obtaining the consent till the number of audit firms who have given the consent equals to number of vacancies for the particular year.

The consent letter may clearly state that this selection of the audit firm 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. It may also be clearly mentioned in the consent letter 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 Public Sector Bank only.

It may also be incorporated in the consent letter that the consent given by the audit firm will be treated as Irrevocable and request, if any, from the audit firm for changing the bank, after giving consent to the Bank concerned will not be entertained.

- 4.7 The Bank will make reasonable efforts to ensure that the proposed firm of Chartered Accountants is taking up the audit assignment with one bank only.
- 4.8 Having obtained the consent letters from the Firms of Chartered Accountants, the list of such Audit Firms will be placed before the Audit Committee of the Board for its concurrence and recommendation to Reserve Bank of India seeking approval.
- 4.9 After the approval of the names of the firms of Chartered Accountants from the Reserve Bank of India the same will be put up to the Board for the final appointment.
- 5 Tenure:** A SCA firm will have maximum tenure of 3 years and each year the appointment of the firm will be subject to the approval of Board of Directors of the Bank and Reserve Bank of India.
- 6 Feedback to Reserve Bank of India:** A Feedback on the quality of audit of SCAs will be given by the Bank to Reserve Bank of India after the annual audit of the Bank.
- 7 Deviations:** Any deviations from the Policy shall be duly placed to Audit Committee of the Board for approval.
- The said policy shall be in force till any new guidelines are issued by Reserve Bank of India/ other regulatory authorities.
- 8 Changes in the Policy Guidelines:** Managing Director & CEO or Executive Director in his absence may approve the changes in the approved policy guidelines in line with guidelines issued by Reserve Bank of India from time to time.
- 9 Redressal of Grievances:** Executive Director will dispose of grievances/complaints (If any) with regard to selection of Statutory Central Auditors.

