

Annexure: I

Norms/criteria for categorization of Audit firms as advised by the RBI:

Category	No. of CAs exclusively associated with the firm (Full time)	No. of partners exclusively associated with the firm (full time) (Out of 2)	Professional staff	Bank audit experience	Standing of the audit firm
(1)	(2)	(3)	(4)	(5)	(6)
I.	5	3	8	The firm or at least one of the partners should have a minimum of 8 years experience of branch audit of a nationalised bank and/ or of a private sector bank.	8 years
II.	3	2	6	The firm or at least one of the partners should have preferably conducted branch audit of a nationalised bank or of a private sector bank for at least 5 years.	6 years (for the firm or at least one partner)
III.	2	1	4	The firm or at least one of the CAs should have preferably conducted branch audit of a nationalised bank or of a private sector bank for at least 3 years.	5 years (for the firm or at least one partner)
IV.	2	2	2	Not necessary	3 years
	Even proprietorship concern without bank audit experience may be considered as hitherto. (The proprietary concerns of Chartered Accountants with 1 paid CA, 2 professional staff				



Category	No. of CAs exclusively associated with the firm (Full time)	No. of partners exclusively associated with the firm (full time) (Out of 2)	Professional staff	Bank audit experience	Standing of the audit firm
(1)	(2)	(3)	(4)	(5)	(6)
	and not having any statutory branch audit experience of a nationalised bank or of a private sector bank will be treated at par with the partnership firm after deducting their 3 years seniority from the date of their establishment.				

The norms for selection of branches of PSBs for statutory audit from the year 2018-19 and onwards are based on the following:

- i) Statutory branch audit of PSBs may be carried out for all branches with advances of ₹ 20 crore & above and 1/5th of the remaining branches covering a representative cross section of rural/semi-urban/urban and metropolitan branches, predominantly including branches which are not subjected to concurrent audit, so as to cover 90% of advances of a bank. CPUs/LPUs/and other centralized hubs by whatever nomenclature called would be included in the one fifth of the remaining branches every year.
- ii) In respect of branches below the cut-off point, which are subject to concurrent audit by chartered accountants, henceforth, LFARs and other certifications done earlier by SBAs will now be submitted by the concurrent auditors to the Chairman of the bank and such branches may not generally be subject to statutory audit. The banks in turn will consolidate/compile all such LFARs and other certifications submitted by the Concurrent Auditors and submit to Statutory Central Auditor as an internal document of the bank.



Procedure for selection of Statutory Branch Auditors as advised by the RBI:-

1. The following procedure will be followed for appointment of Statutory Branch Auditors (SBAs) in public sector banks (PSBs):
 - i) The list of eligible auditors/audit firms will be prepared by the Institute of Chartered Accountants of India (ICAI) as per the norms prescribed by the RBI.
 - ii) The above list will be subjected to scrutiny by RBI for identifying the continuing and rested firms and excluding audit firms against whom adverse remarks/disciplinary proceedings are pending or who have been denied audit.
 - iii) RBI will, thereafter, forward the final list of all eligible auditors/ audit firms to PSBs for selection.
 - iv) The PSBs will select the required number of branch auditors/ audit firms. Banks will be required to clearly advise the audit firms selected for consideration of appointment that each audit firm can take up audit assignment (branch audit) in one PSB only. The audit firm should give their consent in writing for consideration of appointment in the bank concerned for the particular year and the subsequent continuing years.
 - v) The consent given by an audit firm will be treated as irrevocable and request, if any, from audit firms for changing the bank, after giving its consent to the bank concerned will not be entertained.
 - vi) After the selection of branch auditors, PSBs will be required to recommend the names of both continuing and selected branch auditors to RBI for seeking its prior approval before their actual appointment, as per statutory requirement.
2. SBAs will have a maximum tenure of four years. The appointment of SBAs will be made on an annual basis, subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability.
3. The number of eligible auditors / audit firms is more than the number of branches to be audited at the following 33 centers (viz. Mumbai, Kolhapur, Pune, Solapur, Thane, Kolkata, Chennai, Coimbatore, Delhi/ New Delhi, Ajmer, Bikaner, Jaipur, Kota, Udaipur, Ahmedabad, Vadodara, Surat, Hyderabad, Chandigarh, Raipur, Faridabad, Gurgaon, Panchkula, Panipat, Sonapat, Bangalore, Ernakulam, Indore, Nagpur, Ludhiana, Jodhpur, Bhilwara and Ghaziabad). In such centers, the auditors/ audit firms will be put to a period of compulsory rest for two years after completion of four years of continuous branch audit. In other centers, where the number of eligible auditors/ audit



firms is less than the number of branches to be audited, the branch auditors on completion of four years of continuous branch audit will be subjected to the policy of rotation.

4. While allotting branches, the Bank is required to select auditors/ audit firms which are in close proximity to their offices/branches. The Bank is also required to have a suitable mix of various categories of auditors/audit firms while selecting the branch auditors keeping in view the size of the branches to be audited.
5. As regards statutory branch audit to be carried out by SCAs, the 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



The RBI General Guidelines applicable to SBAs:-

1. The Bank is required to have a Board approved policy for appointment of statutory auditors and the same will be hosted on the bank's web-site. The Bank is 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 branch auditors may be placed before the ACB/Board for its concurrence before it is forwarded to RBI for final approval.
2. 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.
3. In order to protect the independence of the auditors/audit firms, the Bank will have to make the appointments of branch auditors for a continuous period of four years subject to the firms satisfying the eligibility norms each year. The Bank cannot remove the audit firms during the above period without the prior approval of the Reserve Bank of India.
4. The firms whose partner(s) are on the Board of the Bank are not to be appointed as auditors of the Bank.



Annexure: IV

The policy / methodology framed for selection and appointment of SBAs for 2018-19

In line with the extant guidelines/norms of the RBI, Methodology/policy for selection and appointment of Statutory Branch Auditors for the year 2018-19 is framed as indicated below:

1.1 Selection of branches to be covered under Audit:

The selection of branches for subjecting to statutory audit shall be based on the guidelines/ norms prescribed by the RBI from time to time. Currently, all the branches having advances of over Rs. 20 Crores and 1/5th of the remaining branches (which are not subjected to concurrent audit) are to be subjected to statutory audit so as to cover 90% of advances of the Bank.

Though RBI guidelines mention that CPU/LPU and other processing center would be included in 1/5th of remaining branches. However, as the Support Service Dept is withdrawing SOLs from all Union Loan Points, we propose that ULPs and SAARALs would be outside the purview of 1/5th of the branches. Going forward these will be part of Base Branch and Regional Offices respectively.

Further, branches where fraud is reported during the financial year shall have to be audited though the advance level of these branches is below Rs. 20 Crore.

1.2 Criterion for Categorization of branches:

The RBI has categorized audit firms into 4 categories based on the criteria mentioned in Part B Annexure I of the policy. The Bank has adopted the following criteria for categorization of the branches:

Level of Advance	Category of Branch
₹ 75 Crore & Above	I
₹ 50 Crore & above and less than ₹ 75 Crore	II
₹ 25 Crore & above and less than ₹ 50 Crore	III
Below ₹ 25 Crore	IV

The Bank may select the audit firms, to the extent possible, taking into consideration the category and size of the branches selected for audit in such a way that there is a proper mix of audit firms from all the categories.

- 1.3 The Committee of General Managers called "Committee for selection and appointment of Statutory Branch Auditors" consisting of General Manager (FP&IR) & CFO, General Manager (CA&ID) and General Manager (CP&MSME) or composition of committee as approved by Executive Director will shortlist the



audit firms from the list of statutory branch audit firms provided by RBI in the following manner:

- 1.3.1 The committee will assess the number of audit firms category wise for appointment based on RBI guidelines and above mentioned additional criteria of categorization of branches.
- 1.3.2 The extant RBI norms permit allocation of maximum 3 branches per audit firm. However, as per the past experience some of the audit firms may refuse to take up the assignment even after giving consent, consent given to multiple banks which leads to rejection by the RBI etc. Further, considering category-wise requirement of audit firm in different state/centers, to minimize resorting to interstate assignment and to facilitate completion of audit work in time and in smooth manner committee may consider the ratio of 2.6 to 2.9 instead of 3 branches per audit firm while assessing the requirement of new audit firms for the current year i.e. 2018-19.
- 1.3.3 Having assessed the requirement of new audit firms to be selected and appointed for the year by the said Committee of GMs, the Central Accounts Department (CAD) will undertake and complete the work of short listing of new audit firms from the list provided by the RBI, by contacting and obtaining consent letters from eligible audit firms.

1.4 Criteria for selection of audit firms:

While contacting the audit firms, the CAD will take into consideration the following:

1.4.1 Continuing Audit Firms:

To consider all audit firms whose names appear in the list of continuing auditors for audit assignment during the year.

1.4.2 Non Continuing Audit Firms:

SCA's firms whose tenure is completed in our bank very recently and whose performance is satisfactory and that their name is appearing in the list provided by the RBI.

Since RBI has done due diligence and vetting, it will be considered that all audit firms in a particular category are equally capable for being considered as a branch auditor. In view of large number of audit firms appearing in the list provided by the RBI and paucity of time, preference shall be given to those audit firms appearing in the list provided by the RBI, who in the recent past have contacted/requested for assignment of Statutory Branch Audit work of our bank for the year 2018-19.



Thereafter to contact audit firms appearing in the list of RBI in the order of serial number & considering geographical locations where the Bank needs audit firms for filling the vacancy..

In case consent from the required number of audit firms of respective category is not received, audit firms from other category will be contacted for obtaining their consent. The number of new audit firms to be considered with interchangeability in category of audit firms will be limited to the Bank's overall requirement only.

1.5 Restrictive Category:

- Firms (or any of its partner) against whom any disciplinary proceeding is initiated/pending by any regulator/tribunal/court.
- The firms which are disqualified in terms of provisions of section 141 of the Companies Act, 2013.
- Firms whose partners are on the Board of our Bank are ineligible for appointment as SBAs.
- Associate firms/sister concern of the audit firm shall be disqualified from undertaking any internal audit, TEV Study, special audit and insolvency work of the bank and its subsidiaries.
- No sub-contracting of audit work is allowed and only such team members are allowed for auditing who are either partner or employed with the firm or undergoing article training as per ICAI Record.
- The audit firm shall confirm that there is adequate knowledge, competence and expertise within the audit engagement team and that the audit will be conducted in compliance with the accepted auditing standards, as well as any applicable laws and regulations.

Undertaking from the audit firm shall be obtained for the same. Various declaration and undertakings to be submitted by the SBAs in terms of extant RBI instructions are contained in Annexure V.

1.6 Allotment of Branches:

The team of SCAs may be assigned the top 20 Branches of the Bank (in terms of advance level) covering not less than 15% of advances of the Bank with a maximum of 5 branches to any individual SCA which they had not audited earlier. Not more than three branches may be allotted to each of SBA.

No distinction shall be made between continuing and new auditors while allocating the branches.

In order to ensure proper audit quality, particularly in case of large branches, where proper compliance of IRAC norms as also correct interpretation of RBI circulars is needed, employing of senior audit firm/s with experience is very much essential. They would also give a great level of comfort to the Statutory Central Auditors for stating the financials of Bank properly.



For remaining branches, though it shall be the endeavor of the Bank to select the audit firm from the respective category of the city/state pool, however, in case the same is not possible/feasible due to non availability of prescribed category of branches/auditors in that location or for any other genuine reason, the audit firm can be allocated branches from other category/city/state pool.

The allotment of branches, to the possible extent shall be as per their category, however, in case the number of audit firms remain less than the required number in any category, the branches in that category will be allotted to other category of auditors.

In order to have fair and independent, the branches audited by the SBA during the previous year will not be repeated.

An audit firm, who has carried out stock audit assignment and is shortlisted as a new firm, shall not be allocated the same branch/es where he has carried out the stock audit assignment during the year 2018-19.

1.7 Fee & Travelling Expenses:

Fee Payable to SBAs will depend upon the amount 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 respective Regional Offices in accordance with the extant RBI guidelines communicated in due course. In order to ensure smooth and timely completion of audit, the General Manager (FP&IR) & CFO, on a case to case basis, may permit air travel (by economy class shortest route) to audit assistants, as a special case.

1.8 Recommendation of Panel of audit firms:

The Committee of General Managers would recommend the panel of audit firms to fill the number of vacancies arising for the current year to the Audit Committee of Board for their concurrence and further recommendation to the Reserve Bank of India for approval before final appointment of Statutory Branch Auditors. This would be placed before the Board of Directors for information.

