

केन्द्रीय कार्यालय/ Central Office

PART "A" : POLICY - GENERAL

1. Preamble & Background :

Appointment of Statutory Branch Auditors (SBAs) by our Bank is being done every year based on the policy approved by the Board which is framed in line with the guidelines issued by the Government of India/Reserve Bank of India. The approved policy is being hosted on our Bank's website.

The policy for Selection and Appointment of Statutory Branch Auditors was last reviewed, and approved by the Board of Directors vide F&A:BM:197:2020-21 dated March 17, 2021 through Circulation Agenda No. 164 dated March 16, 2021.

Reserve bank of India has advised vide communication No. DOS.CO.ARG.No.S3954/08.15.008/2021-22 dated March 17, 2022, reiterating the instruction to consider appointing SBAs centrally at Corporate Office with the help of suitable software, customized or otherwise, to select the audit firms in terms of the appointment policy formulated/approved by the Banks Board/ACB. Appointment of the SBAs and selection of the branches is done at the Central Office with the assistance of an in-house developed software application.

2. Objective & Scope of the Policy:

The policy is aimed at providing a framework and methodology to be adopted by the Bank in Selection and Appointment of Statutory Branch Auditors (SBAs). Part 'B' of this Policy deals with the appointment of SBAs for the domestic branches which require prior approval of the RBI in terms of provisions contained in Section 30(1A) of the Banking Regulation Act, 1949. The policy is in tune with the RBI guidelines issued in respect of the appointment of SBAs for the domestic branches.

Policy for selection and appointment of overseas branches for the year 2021-22 is approved by the Board vide Agenda No. P-21 in its meeting held on March 25, 2021.

The objective of the Bank shall be to ensure timely completion of annual closing exercise complying with Statutory/Regulatory guidelines, with the help of audit firms so selected and appointed.

3. RBI guidelines on policy formulation and implementation:

Complying with the RBI guidelines, the policy for selection and appointment of SBAs for domestic branches shall be framed and placed for approval before the ACB and thereafter before the Board by the Finance and Accounts (F&A). The F&A will ensure compliance with all the relevant guidelines issued by the RBI including obtaining of various prescribed declarations/undertakings from the audit firms, as necessary. The F&A shall also ensure compliance with the Board-approved policy.



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For appointment of Statutory Auditors for overseas branches, a separate policy is formulated in compliance with the regulatory framework of respective overseas regulators/ RBI which is duly approved by Board vide Agenda No. P-21 in its meeting held on March 25, 2021.

As regards the appointment of the Statutory Auditors of the overseas branches, compliance with the applicable regulatory framework of the overseas regulators as well as that of the RBI will be ensured by Domestic Foreign Business and International Banking Division (DFB&IBD) of the Bank.

4. Compliance to RBI norms and procedure :

The norms and procedure for selection and appointment of Statutory Branch Auditors (SBAs) for domestic branches as conveyed by the Reserve Bank of India are contained in annexure(s) as detailed below:

- 4.1 Norms for categorization of Audit firms and selection of branches for Statutory Audit - Annexure I
- 4.2 Procedure for selection of SBAs - Annexure II
- 4.3 General Guidelines applicable to SBAs - Annexure III
- 4.4 The policy / methodology framed for selection and appointment of SBAs for 2021-22 - Annexure IV
- 4.5 Various declarations/undertakings, in terms of extant RBI guidelines, required to be submitted by the SBAs - Annexure V

5. Policy Review and Renewal:

This policy shall be reviewed in tune with the guidelines issued by the Reserve Bank of India at least on an annual basis. The policy shall be valid for the financial year 2021-22.



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PART "B"
(Annexure I to V)

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 and/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 and/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 and not				

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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)
	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 definition of 'exclusive association', 'professional staff', and 'standing of the audit firm' will be the same as defined in the norms for empanelment of Statutory Central Auditors of Public Sector Banks.

The norms for selection of branches of PSBs for Statutory Audit from the year 2021-22 are as follows:

- i) Statutory Branch Audit of PSBs should 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 centralized hubs, by whatever nomenclature called, would be included for branch audit every year. The selection of branches may be finalized by each PSB with the consent of their Statutory Central Auditor/s.
- 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 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.

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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 the audit firms who have been denied audit.
 - iii) RBI will, thereafter, forward the final list of all eligible auditors/audit firms to PSBs for selection of the required number of branch auditors/audit firms. Banks will be required to clearly advise the selected audit firms that each audit firm can take up audit assignment (branch audit) in one PSB only. The audit firm should give its consent in writing for consideration of appointment in the bank concerned for the particular year and the subsequent continuing years.
 - iv) The consent given by an audit firm is irrevocable and no request from audit firms for changing the bank, after giving its consent will be entertained.
 - v) 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 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.
3. 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.
4. While allotting branches, Banks are required to select auditors/audit firms which are in 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 specialised and larger branches are audited by bigger/experienced audit firms.

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5. As regards Statutory Branch Audit to be carried out by SCAs, banks 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.
6. All PSBs are required to have a Board approved policy for appointment of Statutory Branch Auditors and the same shall be hosted on the Bank's website. 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 Branch Auditors shall be placed before the ACB/Board of bank for its concurrence before it is forwarded to RBI for final approval.
7. 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.
8. In order to protect the independence of the auditors/audit firms, Banks will have to make the appointments of Statutory Branch Auditors for a continuous period of four 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.
9. The firms whose partner/s are on the Boards of PSBs are not to be appointed as auditors of the same PSB.
10. 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.



The RBI General Guidelines applicable to SBAs:-

1. The Bank is required to have a Board approved policy for appointment of Statutory Branch Auditors and the same will be hosted on the Bank's website. 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.
5. 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.



The policy / methodology framed for selection and appointment of SBAs for 2021-22

In line with the extant guidelines/norms of the RBI, methodology/policy for selection and appointment of Statutory Branch Auditors for the year 2021-22 is framed as indicated below:

1. Selection of branches to be covered under Audit:

- 1.1. Statutory branch audit of PSBs should 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 centralized hubs, by whatever nomenclature called (in our case the Union Loan Points, SARAL, USK, Currency Chest, LIC Hubs, Service Branches, STCs etc), would be included for Branch Audit every year. The selection of branches may be finalized by each PSB with the consent of their Statutory Central Auditor/s.

- 1.2. 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.

2. Criteria 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.



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3. The Committee of Chief General Managers/General Managers called "Committee for selection and appointment of Statutory Branch Auditors" consisting of i) Chief Financial Officer ii) Chief General Manager - CA&ID iii) General Manager - Credit Research & Policy and iv) Chief General Manager - SAMV, will shortlist the audit firms from the list of non-continuing Statutory Branch Audit firms provided by RBI in the following manner:

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.

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 and sometimes consent is being given to multiple banks which leads to rejection by the RBI. 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, the Committee may consider selecting higher number of Audit Firms depending upon the Number of Branches subjected to Audit (to cover the 80% of the FB as well as NFB advances), the number of existing Continuing Branch Auditors. However, in no case maximum ratio of branches to SBAs shall exceed 3 as prescribed by RBI.

3.3. Having assessed the requirement of new audit firms to be selected and appointed for the year by the said Committee of Executives, the Finance and Accounts (F&A) will undertake and complete the work of shortlisting of new audit firms from the list of non-continuing Auditors provided by the RBI, by contacting and obtaining consent letters from eligible audit firms.

4. **Criteria for selection of audit firms:**

While contacting the audit firms, the F&A will take into the following consideration:

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.

4.2. **Non Continuing Audit Firms:**

While finalizing the panel of audit firms, the RBI has done due diligence and vetting. Therefore, 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 2021-22.

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

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

5. Restrictive Category:

- 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.
- 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.
- The SBAs and their associate firms/sister concerns shall be disqualified from undertaking any internal audit, TEV Study, special audits (including Forensic Audits and Agency for Specialized Monitoring of Large Borrower Accounts) and for insolvency work appointed by the Bank, either individually or in a Consortium / Joint Lending Arrangement, where the Bank is a member and for 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.

6. Allotment of Branches:

- 6.1. 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 4 branches to any individual SCA which they had not audited earlier. Not more than three branches may be allotted to each of SBA.



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- 6.2. No distinction shall be made between continuing and new auditors while allocating the branches.
- 6.3. 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.
- 6.4. 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.
- 6.5. 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.
- 6.6. In order to have fair and independent, the branches audited by the SBA during the previous year will not be repeated.
- 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 Chief Financial Officer, on a case to case basis, may permit air travel (by economy class shortest route) to audit assistants, as a special case.
- 8. Tax Audit of Branches for Financial Year 2021-22:**
In FY 2020-21, Tax Audit of the Bank was carried out centrally through SCAs. For FY 2021-22, we propose to continue carrying out the assignment at Central Office level through Statutory Central Auditors. Separate note for appointment of them for this assignment is being placed before ACB/Board.
- 9. Recommendation of Panel of audit firms:**
The Committee of Executives for selection and appointment of SBAs, 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.



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Annexure: V (a)

Formats of various declaration/undertakings to be submitted by the SBAs
Proforma of Declaration to Be Submitted
(To be submitted on Firm's Letter Head)

The Chief Financial Officer
Union Bank of India
Finance & Accounts
Union Bank Bhawan, 6th Floor,
239, Vidhan Bhavan Marg
Nariman Point, Mumbai - 400 021.

Dear Sir,

Sub: Declaration of Fidelity, Secrecy, Non-disqualification and Undertaking not to sub-contract Audit Work.

We _____ do hereby declare that we will faithfully, truly and to the best of our skill and ability execute and perform duties required of us as auditors of Union Bank of India and which properly relate to the office or position in the said Union Bank of India held by us.

We further declare that we will not communicate or allow to be communicated to any person not legally entitled thereto any information relating to the affairs of the Union Bank of India, or to the affairs of any person having any dealing with Union Bank of India, nor will we allow any such person to inspect or have access to any books or documents belonging to or in the possession of Union Bank of India and relating to the business of Union Bank of India or to the business of any person having any dealings with Union Bank of India.

We also hereby declare that we are not subject to any of the disqualification specified in Section 141 of the Companies Act, 2013 and are hence qualified to act as auditors. We also declare that neither our firm nor our Associates (i.e. firms having common partners) have been given an Internal Audit or any other assignment of Union Bank of India.

We hereby undertake that the audit would be carried out by our own staff and that we would not sub-contract the work except with the prior approval of Reserve Bank of India.

We also hereby declare that the Proprietor/Partner of the concern is/are not in the employment in any other company/firm.

We also declare that we are full time practicing chartered accountant and that we do not have any other business interest.

Yours faithfully,

For _____
(Name of the firm)
(Name of the Signatory)
Partner



Declaration for non indebtedness from Union Bank of India
(To be submitted on Firm's Letter Head)

Place :
Date :

I _____ the proprietor / main partner of M/s. _____ situated at (complete address) hereby declare 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* have been declared as wilful defaulter by any Bank/Financial Institution.

In case the above declaration or any part thereof is proved to be incorrect, the bank is free to advise the details thereof to RBI and Institute of Chartered Accountants of India for initiating necessary action against me.

Signature of the
proprietor/main
partner

Seal of the
proprietary concern/
partnership firm

* For the purpose of this declaration, the credit facilities availed by companies where the partner / proprietor of a firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.

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Annexure -V(c)

Declaration
(To be submitted on Firm's Letter Head)

Place :

Date :

1. I _____ the main partner of M/s.

situated at _____(complete address) hereby declare that credit facilities (including guaranteeing any facility availed of by third party) availed of by me / any of our partners / the spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them of any of the partners of the firm or the firm / company or by the firm / company in which I am / they are partners / directors from _____bank / financial institution (please give the name) have not turned non performing as per the prudential norms prescribed by Reserve Bank of India.

2. Further, declare that none of the partners/proprietor of the firm or their spouse, dependent children and wholly or mainly dependent parents, brothers, sister or any of them or the firm/ company in which they are partners/director* have been declared as willful defaulter by any bank/financial institution.
3. In case the above declaration or any part thereof is proved to be incorrect, the bank is free to advise the details thereof to the RBI and the Institute of Chartered Accountants of India for initiating necessary action against me/us.

Signature of the
proprietor/ main
partner

Seal of the proprietary
concern/ partnership
firm

* For the purpose of this declaration the credit facility availed by companies where the partner/proprietor of the firm has been appointed as non-executive director in a professional capacity having no financial interest shall not be included.



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Annexure: V (d)

Undertakings
(To be submitted on Firm's Letter Head)

The Chief Financial Officer
Union Bank of India
Finance & Accounts
Union Bank Bhawan, 6th Floor,
239, Vidhan Bhawan Marg,
Nariman Point, Mumbai - 400 021

Dear Sir,

1. We undertake that there are no adverse remarks/disciplinary proceeding pending / initiated against firm or partners with any regulator/tribunal/court.
2. We undertake that, if appointed as SBA, the associate firms/sister concern of our firm shall be disqualified from undertaking any internal audit, TEV Study, special audit, insolvency work etc of the bank and its subsidiaries.
3. We 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.
4. We undertake and understand that 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.
5. We confirm that none of the partner(s) of the firm is on the Board of Union Bank of India.

Yours faithfully,
For..... (Name of the Firm)
..... (Firm Registration No)

(Name of the Partner/Proprietor)
Partner

