



**POLICY ON APPOINTMENT OF STATUTORY BRANCH  
AUDITORS(SBAs) FOR THE YEAR 2022-23 AND ONWARDS  
(DOMESTIC & OVERSEAS)**

**VERSION 1.0**

**ACCOUNTS DEPARTMENT**

This Policy supersedes and replaces the “Policy on Appointment of Statutory Branch Auditors (SBAs) for the year 2021-22 and onwards (Domestic & Overseas)” dated 21.03.2022. This Policy is the property of Indian Bank, and may not be reproduced or copied, in any form or by any means, in whole or in part, without prior permission of Indian Bank.



**Title** Policy on appointment of Statutory Branch Auditors (SBAs) for the year 2022-23 and onwards (DOMESTIC & OVERSEAS)

**Version** 1.0

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<b>Prepared By:</b>	<b>Accounts Department</b>
<b>Reviewed By:</b>	
<b>Approved By:</b>	<b>Board</b>
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## 1. Purpose of the Policy

The purpose of the Policy on Appointment of Statutory Branch Auditors from 2022-23 and onwards is to provide guidance on eligibility and procedures to be applied for the appointment of SBAs to the bank in line with guidelines issued by RBI.

## 2. Scope of Application

The policy is applicable for appointment of Statutory Branch Auditors.

## 3. Objectives of the Policy

The objective of the Policy document is to provide guidance on appointment of Statutory Branch Auditors for the bank.

## 4. Regulatory Reference

RBI letter No DoS.CO.ARG/S8213/08.91.001/2022-23 dated 06.03.2023 on the following :-

- (i) Revised Guidelines for Appointment/Re-appointment of Statutory Branch Auditors of Public Sector Banks.
- (ii) Norms on Business Coverage under Statutory Branch Audit of Public Sector Banks.

## 5. Selection and Appointment of Auditors

1. ICAI shall forward a list of eligible audit entities as per the norms prescribed by RBI. The same shall be reviewed to identify continuing / non-continuing auditors, etc, and forwarded by RBI to PSBs for selection.
2. The appointment of auditors will be made from the two lists of auditors received from the RBI namely, (i) Continuing Firms and (ii) Non-Continuing firms.
3. The selection of Audit firms will be done taking into consideration of their category, location and size of Branches selected for Audit to their extent possible.
4. The selection shall be made by the committee comprising of DGM (DBD), DGM (Inspection), DGM/AGM (Accounts) and is to be placed to GM-CFO for approval.



5. RBI has permitted PSBs to appoint SBAs in compliance with instructions of RBI circular No DoS.CO.ARG/S8213/08.91.001/2022-23 dated 06.03.2023 without requiring its prior approval in each case for appointment of SBAs for audit of accounting periods ending March 31,2023 and onwards.
6. Irrevocable consent to be obtained from the Audit Firm in writing to take up the engagement for a period of four consecutive years.
7. Prior to appointment /re-appointment, the names of the audit entities selected shall be uploaded to the RBI's Auditor Allocation System (AAS) to ensure that any audit entity which is preferred by multiple PSBs is allocated only to one PSB on 'first-come, first-served' basis by the AAS. Post appointment / re-appointment, the banks shall report to RBI (through AAS) the list of SBAs appointed, along with details of allocation of branches thereof.
8. The bank shall appoint the SBA for a period of one year at a time upto a period of four consecutive years, subject to the audit firm meeting the eligibility criteria. The name of the SBAs appointed shall be reported to the RBI.

## 6. Eligibility Criteria

- A) In order to be eligible for appointment/reappointment as SBA, an audit entity (i.e audit firms or sole proprietorship auditors) shall meet all the following conditions :-
- (i) The audit entity satisfies all the criteria laid down in section 141 of the Companies Act, 2013.
  - (ii) The audit entity or any of its partners have not been barred from exercising duties as auditor by any regulatory body including the RBI, Securities and Exchange Board of India, the Comptroller and Auditor General (C&AG), Government of India, the National Financial Reporting Authority (NFRA) and the Institute of Chartered Accountants of India (ICAI).
  - (iii) The audit entity is not undertaking audit engagements, either as SBA or Statutory Central Auditor (SCA), of any other PSB for the period of appointment.



- (iv) In case the auditor has previously completed four consecutive years as SBA of the bank, at least four years have elapsed after the completion of the last audit engagement as SBA of the same PSB.
- (v) In case the auditor has been appointed as an SCA of the bank in the past, at least six years have elapsed after completion of the last audit engagement as SCA of the same PSB (irrespective of tenure of previous engagement).
- (vi) None of the partners of the audit firm or the proprietor of the audit entity are Directors in the same PSB.
- (vii) The audit entity does not have any common partners (s) with any other SBA of the same PSB and that they are not under the same network of audit firms (Network as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014).
- (viii) The audit entity meets the criteria for bank audit experience, number of partners, standing, etc as laid down in Annexure 1 for audit engagements for the year ending March 31,2023 and Annexure 1A for audit engagement for the year ending March 31,2024 and onwards.

B.) It shall be ensured that the audit entity meets the eligibility criteria requirement before making any appointment /re-appointment as well as during the audit engagement. Further, Bank before appointing the audit entity, shall seek its irrevocable consent to take up the audit engagement for a period of four consecutive years. Further, the audit entity shall also undertake not to accept appointment as SCA or SBA of any other PSB, if appointed.

## 7. Remuneration

The Remuneration to the SBAs for Audit, TA/DA and other incidental expenses will be paid as per the guidelines issued by RBI from time to time and duly approved by competent authority as per the prescribed guidelines.

## 8. Selection of Branches

The branches are selected based on the following RBI guidelines.

- a) For FY 2022-23, statutory branch audit of PSBs shall be carried out so as to cover a minimum of 70% of all funded and 70% of all non-funded credit exposures of the bank.
- b) The business coverage and selection of branches shall, inter-alia, consider bank-specific characteristics, degree of centralization of processes, need to address fraud risk and credit risk, adverse reports from internal/concurrent



auditors, whistle blower complaints and unusual patterns/ activity shown by internal MIS reports. It shall be ensured that a representative cross section of rural, semi-urban, urban and metropolitan branches are covered, including branches that are not subjected to concurrent audit.

- c) The actual selection of branches as well allocation of SBAs shall be done as per Board approved methodology and approved by the Audit Committee of the Board (ACB).
- d) It shall be ensured that the selection and allocation of branches to SBAs is made in a transparent, fair and judicious manner.
- e) Bank shall allot the top 20 branches (to be selected strictly in descending order of outstanding advances) to the SCAs and shall ensure that at least 15 percent of gross advances of the bank are covered by branches under SCAs.
- f) Not more than two branches shall be allotted to each SBA.
- g) The Long Form Audit Reports (LFAR) prepared by concurrent auditors, who are practicing Chartered Accountants, shall be consolidated and submitted by the bank to their SCAs for branches that are not subjected to statutory branch audit. Any other certificates and reports prepared by the concurrent auditors for such branches shall also be submitted to the SCAs.
- h) For FY 2023-24 and onwards, RBI has given PSBs the discretion to determine business coverage under statutory branch audit, as per their Board approved policy, after considering bank-specific aspects relating to business and financial risks, including guidelines contained in RBI circular No DoS.CO.ARG/S8213/08.91.001/2022-23 dated 06.03.2023.

#### **9. Undertakings/Declarations to be obtained from audit firms.**

- a) An undertaking would be obtained from the firm / firms to the effect that the Audit will be carried by their own staff and they will not subcontract the Audit work and the partner/s in his/her/their individual capacity/ the other firms in which he/she/they may be partner/s have not/will not undertake audit of branches of the public sector banks for the current year.
- b) For Sole Proprietary firms, a declaration to the effect that they are full-time practicing Chartered Accountants, are not employed elsewhere and that they do not have any other business interest may be obtained from the proprietors before allowing them to take up audit assignments. The declaration should indicate the nature of other business interest of the sole proprietor, if any.
- c) The audit entity satisfies all the criteria laid down in section 141 of the Companies Act, 2013.





- d) 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.
- e) None of the partners of the audit firm or their spouse, depending children and wholly or mainly dependent parents, brothers, sisters or any of them, or the firm/company in which they are partners/ directors are indebted to our Bank and they have not been declared as wilful defaulters by any Bank or financial institutions.
- f) The audit entity does not have any common partners (s) with any other SBA of the same PSB and that they are not under the same network of audit firms (Network as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014.
- g) The audit entity is not undertaking audit engagements, either as SBA or Statutory Central Auditor (SCA), of any other PSB for the period of appointment.
- h) The audit entity shall undertake not to accept appointment as SCA or SBA of any other PSB, if appointed.
- i) The audit entity or any of its partners have not been barred from exercising duties as auditor by any regulatory body including the RBI, Securities and Exchange Board of India, the Comptroller and Auditor General (C&AG), Government of India, the National Financial Reporting Authority (NFRA) and the Institute of Chartered Accountants of India (ICAI).
- j) None of the partners of the audit firm or the proprietor of the audit entity are Directors in the Bank.
- k) Irrevocable consent to be obtained from the Audit Firm in writing to take up the engagement for a period of four consecutive years.

#### 10. Other Matters

1. The ACB shall review the performance of SBAs on an annual basis. Any serious lapses, negligence in audit responsibilities, conduct issues or any other matter considered as relevant as observed by the ACB shall be reported to the RBI within two months from the completion of the annual audit, with the full details of the audit firm.
2. General Manager-CFO will dispose-off grievances/ complaints (if any) with regard to the selection of Statutory Central Auditors or Statutory Branch Auditors and allotment of Branches to them.





3. Non-reappointment / removal of SBAs by PSBs before completion of audit tenure of four years will continue to be subject to RBI's prior approval. Such request for prior approval shall be forwarded to RBI with the approval of Board/ACB.
4. The Board approved policy for selection and appointment of auditors shall be placed on the official website of the bank. Bank shall also disclose on its website the extent of business coverage under statutory branch audit for the respective year and the previous year with effect from FY 2023-24.
5. It shall be ensured as a part of the terms of engagement, the SBA shall report any fraud entailing an amount of Rs 1 crore or more directly to the Fraud Monitoring Group, Department of Supervision, Reserve Bank of India. Further, the terms of engagement shall require reporting of all material irregularities, including frauds, concurrently to the Chairman of the ACB as well as the Managing Director & Chief Executive Officer of the bank.
6. The SEBI (LODR) Regulations- "The listed entity shall ensure that, for the purposes of quarterly consolidated financial results, at least eighty percent (80%) of each of the consolidated revenue, assets and profits, respectively, shall have been subject to audit or in case of unaudited results, subjected to limited review" shall be adhered.
7. Guidelines issued by RBI from time to time also shall apply.

### 11. Audit of Foreign/Overseas Branches

As per RBI guidelines, in the case of public sector banks having overseas branches, 1/3<sup>rd</sup> thereof (by rotation) be covered for review and the same may be got done through audit firms operating in the countries where such branches are functioning.

As on date Bank is having one branch in Singapore, 2 branches in Sri Lanka and one branch in Gift City, India. The Audit of existing Foreign Branch and branches which may be opened in future will be governed by the Laws of that country as well as norms prescribed by RBI. Accounts department, Corporate office will ensure compliance with respect to Auditing, Selection of Auditors and approval of remuneration etc.

### 12. Review of the Policy

The policy is subject to review every year at the time of appointment of SBAs by the Bank.

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### 13 Annexure 1

**Eligibility norms for the empanelment of audit firms to be appointed as Statutory Branch Auditors of Public Sector Banks for audit engagements for the year ending March 31,2023.**

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 Public Sector Bank (PSB) or of a Private Sector Bank (PVB) .	8 years
II.	3	2	6	The firm or at least one of the partners should have preferably conducted branch audit of a PSB/PVB 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 PSB/PVB 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 having any statutory branch audit				



	experience of a PSB/PVB will be treated at par with the partnership firm after deducting their 3 years seniority from the date of their establishment).			
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\* 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.



**14 Annexure 1A**

**Eligibility norms for the empanelment of audit firms to be appointed as Statutory Branch Auditors of Public Sector Banks for audits of the year ending March 31,2024 and onwards.**

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)
Category 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 Public Sector Bank(PSB) or of a Private Sector Bank (PVB) .	8 years
Category II	3	2	6	The firm or at least one of the partners should have conducted branch audit of a PSB / PVB for at least 5 years.	6 years (for the firm or at least one partner)
Category III	2	2	4	The firm or at least one of the CAs should have conducted branch audit of a PSB / PVB for at least 3 years.	5 years (for the firm or at least one partner)
Category IV					
Partnership firm	2	2	2	Not necessary	3 years
Proprietorship concern	2	1	2	Not necessary	6 years





Proprietorship concern	1	1	2	The proprietor should have conducted branch audit of a PSB/PVB for at least 3 years	6 years
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\* The definition of 'exclusive association' will be based on the following criteria:

- 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 or 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.

# Professional staff (excluding typists, stenographers, computer operators, secretary/ies and sub-ordinate staff etc.) implies audit and articled clerks with the knowledge in book-keeping and accountancy and are engaged in audit.

@ The standing of an audit firm would be reckoned from the date of its establishment. For a proprietorship, the period for which the proprietor has been holding a Certificate of Practice issued by the ICAI shall be reckoned for standing.

