



इण्डियन ओवरसीज़ बैंक Indian Overseas Bank
तुलन पत्र प्रबंधन विभाग Balance Sheet Management Department
केंद्रीय कार्यालय, चेन्नै Central Office Chennai

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

PART A

POLICY FOR SELECTION AND APPOINTMENT OF STATUTORY CENTRAL AUDITORS (SCAs)

1. PREAMBLE:

To formulate policy on selection and appointment of Statutory Central Auditors and Statutory Branch Auditors in accordance with the guidelines issued by the Reserve Bank of India.

2. POLICY FOR SELECTION AND APPOINTMENT OF STATUTORY CENTRAL AUDITORS (SCAs):

- 2.1** Department of Financial services, Ministry of Finance, Government of India vide F.No.1/14/2004-BOA dated 25/11/2014 informed that the work of selection and appointment of SCAs is delegated to the individual public sector banks for the year 2014-15 and onwards.
- 2.2** The selection criteria along with norms on eligibility and appointment of audit firms as Statutory Central Auditors will be advised by the Reserve Bank of India (RBI) every year. The latest guidelines issued by RBI in selection and appointment of SCAs shall form part of this policy.
- 2.3** RBI will forward a single list of all audit firms eligible to be appointment as SCAs to all Public Sector Banks (PSBs) on an annual basis. PSBs shall shortlist audit firms from the said list of eligible audit firms as received from RBI, based on certain objective criteria (like number of full-time partners, number of professional staff, number of CISA/ISA qualified partners/paid CAs, number of FCAs, etc.) as laid down in the bank's policy for appointment of statutory auditors.
- 2.4** Bank shall place the list of shortlisted firms, in order of preference, before the Audit Committee of the Board (ACB) for selection of SCAs in a transparent manner. Upon selection of SCAs by the Bank in consultation with ACB and verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of SCAs.

- 2.5** From FY 2021-22, RBI is providing a single list of eligible audit firms to all PSBs. The firms in said list would not be ranked in any order and all firms would be eligible for selection by all PSBs. Bank can select audit firms from the entire list provided by RBI, subject to audit firms meeting eligibility criteria, for appointment as SCAs.
- 2.6** The RBI guideline further requires the Bank to formulate a Board Approved Policy to be hosted on its official website/public domain and formulate necessary procedure thereunder to be followed for appointment of SCAs. Apart from conforming to all relevant statutory/regulatory requirements in addition to these instructions, this should afford necessary transparency and objectivity for most key aspects of this important assurance function.
- 2.7** All Commercial Banks (excluding RRBs) and UCBs will be required to take prior approval of RBI (Department of Supervision) for appointment/reappointment of SCAs/SAs, on an annual basis in terms of the above-mentioned statutory provisions. For the purpose, the Public Sector Banks (PSBs) should apply to Department of Supervision, Central Office, RBI within one month of receipt of list of eligible audit firms from RBI.

3. Number of Statutory Central Auditors (SCAs) and Branch Coverage:

- 3.1** Bank can decide on the number of SCAs based on the Board approved policy, *inter alia*, 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.
- 3.2** For Entities with asset size of ₹15,000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of a minimum of two audit firms [Partnership firms/Limited Liability Partnerships (LLPs)].

Considering the above factors and requirements of the Bank, the number of SCAs to be appointed shall be decided by the Board/ACB, based on the total Asset Size of the bank as under:

Sl No.	Asset Size of the Entity	Maximum number of SCAs
1.	Upto ₹5,00,000 crore	4
2.	Above ₹5,00,000 crore and Upto ₹10,00,000 crore	6
3.	Above ₹10,00,000 crore and Upto ₹20,00,000 crore	8
4.	Above ₹20,00,000 crore	12

The above limits have been prescribed by RBI to ensure that the number of SCAs appointed by the Entities are adequate, commensurate with the asset size and extent of operations of the Entities, with a view to ensure that audits are conducted in a timely and effective manner. This will be subject to review in future based on the experience.

Considering the above guidelines and based on the asset size, our Bank can appoint maximum four (4) number of audit firms as SCAs.

- 3.3** Considering the Asset Size of Bank of less than ₹ 5 lakh Crore as on 31st March of the previous year, four (4) SCA Firms were taken for audit assignment after obtaining the approval from the ACB and this Policy propose to continue with the four (4) audit firms which will be appropriate for completion of audit in time with coordination and proper allocation of the work.
- 3.4** It shall be ensured that joint auditors of the Bank do not have any common partners and they are not under the same network [as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014] of audit firms. Further, the Bank may finalize the work allocation among SCAs, before the commencement of the statutory audit, in consultation with their SCAs.
- 3.5** 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 so as to cover a minimum of 15% of total gross advances of the bank by SCAs.

4. Independence of Auditors:

- 4.1** 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.
- 4.2** 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.
- 4.3** Concurrent auditors of the Bank should not be considered for appointment as SCAs of the same Bank. The audit of the Bank and entity with large exposure (as defined in RBI instructions of Large Exposure Framework) to the Bank for the same

reference year should also be explicitly factored in while assessing independence of the auditor.

- 4.4** The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SCAs for the Bank or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SCAs. However, during the tenure as SCA, an audit firm may provide such services to the concerned Bank which may not normally result in a conflict of interest, and Bank may take its own decision in this regard, in consultation with the Board.
- 4.5** The restrictions as detailed in para 4.3 and 4.4 above, should also apply to an audit firm under the same network (as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014), of audit firms or any other audit firm having common partners.
- 4.6** A conflict would not normally be created in the case of following special assignment (indicative list):
- i) Tax audit, Tax representation and advice on taxation matters,
 - ii) Audit of interim financial statements
 - iii) Certificates required to be issued by the Statutory Auditor in compliance with statutory or regulatory requirements
 - iv) Reporting on financial information or segments thereof

5. Professional Standard of SCAs:

- 5.1** The SCAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.
- 5.2** The ACB 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 approval / recommendation of the ACB, with full details of the audit firm.
- 5.3** 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.

6. Tenure and Rotation:

- 6.1** 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 the concern office of RBI (Department of Supervision), as applicable for prior approval for appointment, as mentioned at Para 2.7 of this Policy.
- 6.2** An audit firm would not be eligible for reappointment in the same Bank for six (6) 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 Banks.
- 6.3** The audit firms which have already completed tenure of 1 year or 2 years with the Bank (appointed as per the existing guidelines) may be permitted to complete the balance tenure only, i.e., 2 years and 1 year respectively, if they fulfil the eligibility norms on an annual basis.
- 6.4** In case an audit firm has conducted audit of any Bank for Part Tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for re-appointment in the same entity for six (6) years from completion of part-tenure.
- 6.5** 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 and other conditions for each Bank and within overall ceiling prescribed by any other statutes or rules.
- 6.6** A group of audit firms having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of SCA accordingly.
- 6.7** Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

7. Norms on Selection and Appointment of Statutory Central Auditors (SCAs):

Eligibility Criteria for appointment as SCAs:

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) 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 partner's association with the firm would mean exclusive association. 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/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.
- 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) for considering them as Paid CAs with CISA/ISA qualification for the purpose.

Note 3: Audit Experience:

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) for considering them as professional staff for the purpose.

B. ADDITIONAL CONSIDERATION

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

Explanation: For the purpose of this Policy, Group entities shall mean two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint Venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997]

for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.

- (v) The proposed auditors of the Bank should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) 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.

8. Procedure for Appointment of Statutory Central Auditors (SCAs)

- 8.1** The appointment of SCAs will be made on an annual basis.
- 8.2** The Bank shall shortlist minimum of two (2) audit firms for every vacancy of SCAs so that even if firm at first preference is found to be ineligible/ refuses appointment, the firm at second preference can be appointed and the process of appointment of SCAs does not get delayed. However, in case of reappointment of SCAs by banks till completion of tenure of continuous term of three (3) years, there would not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.
- 8.3** Since no ranking will be given by RBI in the list of SCA firms provided to PSBs, preference shall be given to the audit firms who have satisfactory past association with our Bank, having experience in audit of large PSUs/ listed entities, certification like CISA/DISA and the audit firms who fulfil the eligibility criteria and also contacted our bank and submitted their profile details through hard copy OR e-mail to us and expresses willingness to take up the audit work, if appointed before completion of selection process for appointment as SCAs.

- 8.4** The Bank has constituted a Committee of GMs called “SCAs & SBAs Selection Committee” (hereafter called as ‘the Committee’) consisting of i) Senior General Manager at Central Office ii) GM (Balance Sheet Management Department) iii) GM (Risk Management Department) and iv) GM(Inspection), for short-listing and selection of the Auditors and recommending the same to the ACB / Board. The quorum for the GMs Committee meeting shall be three (3). In case the above department is headed by DGM, then that respective DGM (HOD) will become the member of the said Committee.
- 8.5** The eligible audit firms (list as received from RBI) shall be short-listed based on certain objective criteria such as number of full-time partners, number of professional staff, number of CISA/ISA qualified partners/paid CAs, number of FCAs, number of years of audit experience, experience in the field of conducting special audits, etc. The details which are not in RBI list, may be separately called for from the audit firms before short-listing.
- 8.6** Based on the above criteria and available details of the individual audit firms, the Committee would select number of audit firms equal to two (2) times the number of vacancies of SCAs arising during the year out of the list of eligible audit firms provided by RBI.
- 8.7 The following procedure that will be followed for selection of SCAs by the Bank:**
- a. RBI will provide a single list of eligible audit firms to PSBs. The firms in said list would not be ranked in any order and all firms would be eligible for selection by all PSBs.
 - b. On receipt of the eligible list of audit firms from RBI and based on the vacancy position of the Bank, the Balance Sheet Management Department (BSMD), under the guidance from the Chief Financial Officer (CFO) will start contacting the eligible audit firms from the said list who fulfil the objective criteria (like number of full-time partners, number of professional staff, number of CISA/ISA qualified partners/paid CAs, number of FCAs, number of years of audit experience, etc.) as laid down in this Policy.
 - c. CO-BSMD, will prepare the list of the audit firms so contacted and have given their willingness to take up the Statutory Central Audit of the Bank in case the audit firm is selected, and have submitted their firm's profile (by email or hard copy) in the order of preference 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. The list shall contain number of audit firms at least 03 time of the number of vacancies arising during the year.
 - d. The preference list shall be placed before the Committee for their vetting and shortlisting of the number of audit firms twice of the vacancy position for

recommendation to the Audit Committee of the Board (ACB) for its concurrence.

- e. While placing the preferred list of audit firms eligible to be appointed as SCA, before the GMs Committee, the CO-BSMD shall ensure that the proposed audit firms are fulfilling all the eligibility criteria set out as per the RBI guidelines and also in accordance with this Policy.
- f. The shortlisted audit firms by the GMs Committee, shall be place before the Audit Committee of Board (ACB) for its concurrence. After obtaining ACB concurrence, the list of audit firms shall be forwarded to the RBI for final approval, before actual appointment of audit firms.
- g. Before putting up the shortlisted audit firms before ACB, the Bank shall obtain a consent letter and certificate, along with relevant information as per **Form B**, from the audit firm(s) proposed to be appointed as SCAs to the effect that the audit firm(s) complies with all the eligibility norms prescribed by RBI for the purpose. Such certificate should be signed by the main partner/s of the audit firm proposed for appointment of SCAs, under the seal of the said audit firm.
- h. Upon approval of selection of SCAs by the ACB and after verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of SCAs in the order of preference.
- i. The Bank shall verify the compliance of audit firm(s) to the eligibility norms prescribed by RBI for the purpose and after being satisfied of their eligibility, recommend the names along with a certificate, in the format as per **Form C**, stating that the audit firm(s) proposed to be appointed as SCA by them comply with all eligibility norms prescribed by RBI for the purpose.
- j. While approaching the RBI for its prior approval for appointment of SCAs, Bank shall indicate the total asset size as on March 31st of the previous year (audited figures), forward a copy of ACB Resolution recommending names of audit firms for appointment as SCAs in the order of preference and also furnish information as per **Form B** and **Form C** as mentioned above, to facilitate expeditious approval of appointment/re-appointment of the concerned audit firm.
- k. As per the extant RBI guidelines, the Bank should apply to RBI, Department of Supervision, Central Office, for approval of the SCAs within one month of receipt of list of eligible audit firms from RBI.
- l. Upon receipt of confirmation from the RBI, final appointment letter will be issued to the audit firm(s).

FORM B

Eligibility Certificate from (Name and Firm Registration Number of the firm)

A. Particulars of the firm:

Asset Size of Entity as on 31st March of Previous Year	Number of Full-Time partners (FTPs) associated* with the firm for a period of three (3) years	Out of total FTPs, Number of FCA Partners associated with the firm for a period of three (3) years	Number of Full Time Partners/ Paid CAs with CISA/ISA Qualification	Number of Years of Audit Experience#	Number of Professional staff

* Exclusively associated in case of all Commercial Banks (excluding RRBs), and UCBs/NBFCs with asset size of more than ₹1,000 crore

Details may be furnished separately for experience as SCAs/SAs and SBAs

B. Additional Information:

- (i) Copy of Constitution Certificate.
- (ii) Whether the firm is a member of any network of audit firms or any partner of the firm is a partner in any other audit firm? If yes, details thereof.
- (iii) Whether the firm has been appointed as SCA/SA by any other Commercial Bank (excluding RRBs) and/or All India Financial Institution (AIFI)/RBI/NBFC/UCB in the present financial year? If yes, details thereof.
- (iv) Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- (v) Details of disciplinary proceedings etc. against firm by any Financial Regulator/Government agency during last three years, both closed and pending.

C. Declaration from the firm:

The firm complies with all eligibility norms prescribed by RBI regarding appointment of SCAs of Commercial Banks (excluding RRBs)/UCBs/NBFCs (as applicable). It is certified 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.

It is confirmed that the information provided above is true and correct.

Signature of the Partner

(Name of the Partner)

Date:

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

FORM C

**Certificate to be submitted by the Commercial Banks (excluding RRBs) and UCBs
regarding eligibility of audit firm proposed to be appointed as SCA/SA**

The Bank is desirous of appointing M/s _____, Chartered Accountants (Firm Registration Number _____) as Statutory Central Auditor (SCA) for the financial year _____ for their 1st/2nd/3rd term and therefore has sought the prior approval of RBI as per the section 30(1A) of the Banking Regulation Act, 1949/ Section 10 (1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

2. The Bank obtained eligibility certificate (copy enclosed) from (name and Firm Registration Number of the audit firm) proposed to be appointed as Statutory Central Auditor (SCA) for FY _____ along with relevant information (copy enclosed), in the format as prescribed by RBI.

3. The firm has no past association/association for _____ years with the Bank as SCA/SBA.

4. The Bank has verified the said firm's compliance with all eligibility norms prescribed by RBI for appointment of SCAs of Commercial Banks (excluding RRBs)/UCBs.

Signature

(Name and Designation)

Date:

PART B

POLICY FOR SELECTION AND APPOINTMENT OF STATUTORY BRANCH AUDITORS (SBAs)

1. Preamble:

The policy for Appointment of Statutory Branch Auditors (SBAs) framed in line with the guidelines issued by the Reserve Bank of India.

2. Objective & Scope of the Policy

The policy is aimed at providing a framework and methodology to be adopted by the Bank in Appointment of Statutory Branch Auditors (SBAs). This Policy deals with the selection and appointment of SBAs for the domestic branches as the prior approval of the RBI is dispensed now. The policy is in line with the extant RBI guidelines issued in respect of the appointment of SBAs for the domestic branches.

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:

Prior approval from RBI for the appointment/reappointment of statutory branch auditors (SBAs) has been done away with and now RBI has granted general permission to PSBs for appointment/ re-appointment of SBAs subject to the compliance of eligibility criteria. Complying with the RBI guidelines, the policy for Engagement of SBAs for domestic branches shall be framed and placed for approval before the ACB and thereafter before the Board by the Balance Sheet Management Department (BSMD), CO. The Department 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 Department shall also ensure compliance with the Board-approved policy.

As per RBI guidelines, 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. PSBs shall also disclose on their website the extent of business coverage under statutory branch audit for the respective year and the previous year with effect from FY 2023-24.

4. Compliance to RBI norms and procedure:

The norms and procedure for Engagement of Statutory Branch Auditors (SBAs) for domestic branches in line with the Reserve Bank of India directives, are contained as detailed below:

- 4.1** Methodology for Business coverage and selection of branches for Statutory Audit: Section – I
- 4.2** Eligibility Criteria and Norms for categorization of Audit firms: Section - II
- 4.3** Procedure for selection & appointment/re-appointment of SBAs and allotment of Branches: Section – III
- 4.4** Various declarations/undertakings, in terms of extant RBI guidelines, required to be submitted by the SBAs: Section - IV

Section – I

Methodology for Business coverage and selection of branches for Statutory Audit:

5. Selection of branches to be covered under Audit:

- 5.1** It has been advised by RBI that the methodology for 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 should also ensure that a representative cross section of rural, semi-urban, urban and metropolitan branches is covered, including branches that are not subjected to concurrent audit.
- 5.2** It is also advised by RBI that, the main operating office of the Bank, (irrespective of whether it is attached to the Head / Central Office of the Bank or functions as a separate unit), Centralized Processing Units (CPUs) / Loan Processing Units and other centralized hubs, by whatever nomenclature called which are taken up for the purpose of Statutory Branch Audit during a particular year, will be treated as any other Branch.
- 5.3 In accordance with the above, the following factors are considered for selection of the Branches under Statutory Branch Audit:**
 - 5.3.1** Branches having large advances with a mix of Retail, Agriculture, MSME and Corporate Advances. This will cover the specialized Branches namely, Large Corporate Branches (LCBs), MSME categorised Branches and Specialized Asset Recovery Branches (ARMBs) etc.

- 5.3.2** High Risk Branches/Special Report Branches identified by the Inspection Department.
- 5.3.3** Branches having Fraud detected and reported by the Fraud Risk Management Cell.
- 5.3.4** Other operating offices such as Regional Office, City Back Office, Staff Training Colleges etc., are to be covered under statutory branch audit as and when desired.
- 5.3.5** In addition to the above, few other low advances Branches will be also selected on Random basis as a surprise element.
- 5.3.6** Addition of 20% of non-audited Branches in previous 05 years for covering under Statutory Branch Audit.
- 5.4** While selecting the branches it will be ensured that Statutory branch audit of Bank should be carried out so as to cover minimum 70% of all funded and 70% of all non-funded credit exposures of a Bank or as prescribed by RBI from time to time.
- 5.5** 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 subject to statutory branch audit. Any other certificates and reports prepared by the concurrent auditors for such branches shall also be submitted to the SCAs.

6. Criteria for Categorization of Branches:

The RBI has categorized audit firms into 4 categories based on the criteria mentioned in Part B Section II of the policy. Further, RBI has issued revised guideline on remuneration to SBAs/SCAs on the basis of advances and coverage of minimum 70% of fund based and non-fund-based credit exposures under statutory audit. In view of the above we propose the following criteria for categorization of the branches:

Level of Advances	Category of Branch
Rs.300 Crores and above	I
Rs.125 Crores and above and less than Rs.300 Crores	II
Rs.75 Crores and above and less than Rs.125 Crores	III
Upto Rs.75 Crores	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.

Section – II

7. Eligibility Criteria and Norms for categorization of Audit firms:

To be eligible for appointment/re-appointment as SBA, an audit entity (i.e. audit firms or sole proprietorship auditors) shall meet all the following conditions:

- a. The audit entity satisfies all the criteria laid down in section 141 of the Companies Act, 2013.
- b. 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).
- c. 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.
- d. 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.
- e. In case the auditor has been appointed as an SCA of the bank in the past, at least six years have elapsed after the completion of the last audit engagement as SCA of the same PSB (irrespective of tenure of previous engagement).
- f. None of the partners of the audit firm or the proprietor of the audit entity are Directors in the same PSB.
- g. The audit entity does not have any common partner(s) with any other SBA of the same PSB and that they are not under the same network (as defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014) of audit firms.
- h. An audit entity shall be eligible for appointment/re-appointment as a SCA or as SBA of only one PSB during a particular year.

However, the above instructions do not preclude an audit entity from accepting appointment as SCA of a PSB after its resignation as SBA of another PSB."

- i. The audit entity should meet the criteria for bank audit experience, number of partners, standing, etc., as per norms mentioned below in **Table A** for the audit engagements for the year ending March 31, 2024, and onwards.

Table A

**Eligibility norms for the empanelment of audit firms to be appointed as
Statutory Branch Auditors of Public Sector Banks**

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 a Private Sector Bank (PVB)	8 years
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)
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 proprietorship should have conducted branch audit of a PSB/PVB for at least 03 years	6 years

* 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) She/he should not be employed full /part time elsewhere
- c) She 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 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 should be reckoned for standing.

Further, before appointing the audit entity, the bank shall seek its irrevocable consent for consideration of appointment/re-appointment as SBA for the particular year and during the subsequent continuing years, respectively, and not to take up Statutory Branch Audit engagement with any other PSB during such period.

- a) The bank shall ensure that as a part of the terms of engagement, the SBA shall report any fraud entailing an amount of Rs.1.00 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.
- b) The ACB of the bank 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.

Section – III

8. **Procedure for Selection & Appointment/Re-Appointment/Removal of SBAs and allotment of Branches:**

- a) The ICAI shall forward a list of eligible audit entities as per norms prescribed by RBI. The same shall be reviewed to identify continuing/ non-continuing auditors, etc., and forwarded by the RBI to Bank for selection.
- b) Banks will be required to clearly advise the selected audit entities that each audit entity can take up audit assignment (branch audit) in one PSB only.
- c) The audit entity should give its irrevocable consent in writing for consideration of engagement in the bank for a period of four consecutive years.
- d) Further, the audit entity shall also undertake not to accept appointment as SCA or SBA of any other PSB, if appointed.
- e) An audit entity shall be eligible for appointment/re-appointment as a SCA or as SBA of only one PSB during a particular year. However, the above instructions do not preclude an audit entity from accepting appointment as SCA of a PSB after its resignation as SBA of another PSB.
- f) 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 an 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 bank shall report to RBI (through AAS) the list of SBAs appointed, along with details of allocation of branches thereof.

9. **Tenor of Appointment:**

The Bank shall appoint the SBAs 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 prescribed in section II. The names of the SBAs appointed shall be reported to the RBI.

10. **Removal of Auditors:**

Non-reappointment / removal of SBAs by Bank 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.

11. **Allotment of Branches:** While allotting the branches to SBAs, 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.

12. Restrictive Clause:

- i) 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 (six years) for SCAs from that particular PSB.
- ii) Firms (or any of its partner) against whom any disciplinary proceeding is initiated/pending by any Regulator/Tribunal/Court.
- iii) The firms which are disqualified in terms of provisions of Section 141 of the Companies Act, 2013.
- iv) Firms whose partners are on the Board of our Bank are ineligible for appointment as SBAs.
- v) 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.
- vi) 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.
- vii) 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.

13. Criteria for selection of audit firms:

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

13.1 Continuing Audit Firms:

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

13.2 Non-Continuing Audit Firms:

While finalizing the panel of audit firms, the RBI does 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, the process of selection and appointment of SBAs will be system driven.

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. Preference shall be given to those eligible audit firms appearing in the RBI list and who in the recent past requested for assignment of SBA.

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.

14. Procedure for selection of continuing and non-continuing audit firms:

- 14.1** The appointment of SBAs as per the norms specified will be vetted by a committee of General Managers, comprising of Senior 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).
- 14.2** The committee will assess the number of audit firms' category wise for engagement based on RBI guidelines and above-mentioned additional criteria of categorization of branches.
- 14.3** The extant RBI norms permit allocation of maximum two(2) 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 70% of the FB as well as NFB advances or as prescribed by RBI from time to time), the number of existing Continuing Branch Auditors etc. However, in no case more than two(2) branches shall be allotted to each SBA and therefore the Bank will maintain Branch allocation ratio maximum 2.

14.4 Having assessed the requirement of new audit firms to be selected and appointed for the year by the said Committee, CO-BSMD 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.

15. Allotment of Branches:

15.1 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 per cent of the gross advances of the bank are covered by branches under SCAs.

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

15.3 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 rich 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.

15.4 For remaining branches, though it shall be the endeavour 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.

15.5 The allotment of branches, to the extent possible shall be as per SBAs 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.

16. Recommendation of GMs Committee for selection and appointment of audit firms as Statutory Branch Auditors SBA:

The GMs Committee for selection and appointment of SBAs, would recommend the panel of Audit Firms to fill the number of vacancies arising for the current year for Statutory Branch Audit, to the Audit Committee of Board for approval.

Post approval of the panel of Branch Auditors by ACB, the same shall be uploaded to RBI's Auditors Allocation System (AAS) to avoid any duplication of

appointment of the Audit Firm by any other PSB. The AAS System will ensure the appointment of Audit Firms by only a single PSB on 'first-come first-serve' basis.

The final list of Branch Audit Firms after validation through AAS will be used for appointment / re-appointment and allocation of Branches as per the methodology set out in this Policy.

Post appointment / re-appointment, the Bank shall report to RBI (through AAS) the final list of SBAs appointed along with the details of allocation of branches thereof.

17. 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 and approved by the ACB. Any changes to the fee structure advised by RBI in due course will automatically form part of the policy with the approval of ACB.

18. GRIEVANCE REDRESAL:

General Managers Committee 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.

19. Validity of the Policy for Engagement of SCAs and SBAs and amendments thereto:

The Policy for selection and appointment of SCAs & SBAs is in line with the latest guidelines issued by the RBI. The policy shall be valid for a period of three years subject to annual review. New / revised guidelines issued by RBI /Other Regulatory authorities during the currency of the said policy shall automatically form part of the policy.

Section – IV

Formats of various Declarations / Undertakings required to be submitted by the SBAs

ON THE LETTER HEAD OF THE AUDIT FIRM

Annexure “A’

Date: _____

The General Manager
Indian Overseas Bank
Balance Sheet Management Department
Central Office
763, Anna Salai
Chennai – 600 002

Dear Sir / Madam,

Selection of Statutory Branch Auditors –

We refer to your offer mail for selection as SBA, we confirm having given our consent to the bank for considering the appointment of our firm as a Statutory Branch Auditor (SBA) of Indian Overseas Bank for the year ending 31.03.20__ and for the next three years i.e. up to 20__-__, subject to our firm satisfying the eligibility norms each year.

In this connection, we declare that

- a) We are not associated with any internal assignment in the bank.
- b) Our firm satisfies all the criteria laid down in section 141 of the Companies Act, 2013 and other criteria prescribed by RBI for appointment as SBA for Public Sector Bank (PSBs).

We also confirm having noted that:

- a) 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).
- b) 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.
- c) In case the auditor / audit entity 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.

- d) In case the auditor / audit entity has been appointed as an SCA of the bank in the past, at least six years have elapsed after the completion of the last audit engagement as SCA of the same PSB (irrespective of tenure of previous engagement).
- e) None of the partners of the audit firm or the proprietor of the audit entity should be Directors in the same PSB.
- f) The audit entity does not have any common partner(s) with any other SBA of the same PSB and that they are **not under the same network** of audit firms.
- g) The audit firm should relinquish internal assignment, if any, in our Bank / subsidiaries of our Bank, before accepting the statutory audit assignment.
- h) The consent given by an audit firm will be treated as irrevocable and requests, if any, from the audit firm, for changing the Bank, after giving the consent to the Bank, will not be entertained.
- i) 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.
- j) The appointment is subject to final approval from RBI.
- k) Our firm is required to maintain confidentiality till RBI's final approval and the formal appointment letter is issued by the Bank.

Yours faithfully,

for _____
Chartered Accountants

Seal

(Partner)
FRN No.

ANNEXURE “B”

DECLARATION

I hereby declare that my Firm is a sole proprietary concern and I Mr/Ms..... am a full-time practicing Chartered Accountant and not employed elsewhere. I do not have any other business interest.

PLACE:

CHARTERED ACCOUNTANTS

DATE:

Note:

1. This declaration is applicable for sole proprietary concerns only.
2. To be returned along with the letter of acceptance.
3. Please indicate the nature of other business interest, if any, the sole proprietor has.

ANNEXURE "C"

PARTICULARS IN RESPECT OF ASSOCIATE FIRM

1. Name of the Firm
2. Full Address

Phone No.

E-Mail Address
3. Names of the Partners
4. Name/s of your Associate Firm(s) and names of the Partners
5. Name/s of your Partner/s who is/ are associated with other Firms and the name of the Firm in which they are associated.
6. Whether any other Audit work other than Branch Audit of our Bank was taken up by you / associate Firm during the preceding year. If so, furnish details.
7. Firm's Registration No.
8. PAN Details
9. GST Details

Place:

Date:

CHARTERED ACCOUNTANTS

Note: To be returned together with the letter of acceptance

ANNEXURE “D”

(Format of declaration from the Main Partner / Proprietor)

DECLARATION

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 willful defaulter by any bank / financial institution.

2. 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
Proprietor /
Main partner

Seal of the
Proprietary concern/
Partnership Firm

Place:

Date:

* 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.

Note: The above declaration must be furnished on the letter head of the proprietary concern/Audit Firm, and sent to us along with the letter of acceptance.

ANNEXURE “E”

Declaration of fidelity, secrecy cum declaration regarding disqualification

(see Sub Sections (2) and (3) of section 13 of the Banking
Companies (Acquisition and Transfer of Undertakings) Act 1970
and Sec.141 of the Companies Act, 2013)

We, _____, Chartered Accountants, do hereby declare that we faithfully, truly and to the best of our skill and ability execute and perform the duties required as a Statutory Branch Auditors of Indian Overseas Bank.

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 Indian Overseas Bank or to the affairs of any person having any dealing with Indian Overseas Bank nor will we allow any such person to inspect or have access to any books or / and relating to the business of Indian Overseas Bank or to the business of any person having any dealing with Indian Overseas Bank.

We, declare that we have never been disqualified for being appointed as Auditor under Sec.141 of the Companies Act, 2013. We further declare that:

1. We are not a Body Corporate
2. We are not in the position of officer or employee under the management of the Bank.
3. We are not a partner of a person in the employment as an officer or employee of the Bank.
4. I/We am/are not indebted to the Bank exceeding the amount prescribed under Companies Act, 2013 or we have not given guarantee or provided any security in connection with indebtedness of any third person to the Bank exceeding the amount prescribed under Companies Act, 2013.

We hereby undertake to carry out the Audit work allotted to us vide your appointment letter dated _____ with our own staff and we would not sub-contract the Audit work to other Audit Firms.

CHARTERED ACCOUNTANTS

PLACE:

DATE:

Note: This declaration to be furnished on the letterhead of the proprietary concern/Audit Firm and sent to us along with the letter of acceptance.

DECLARATION

Annexure "F"

1. I, _____, the Partner of M/s _____, situated at _____, hereby declare that neither I nor any of our partners / members of my/ their families (family will include besides spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them) or any of the partners of the firm or the firm/company in which they are partners/directors are indebted to the Bank.
2. Further, I declare that none of the partners of M/s. _____, Chartered Accountants, or their spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them or the firm / company in which I am / they are partners/ directors have been declared as wilful defaulters 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 Reserve Bank of India and the Institute of Chartered Accountants of India for initiating necessary action against me.

Signature of Partner

Seal of the Firm

Place: _____

Date: _____

Please Note:

The Chartered Accountants nominated as non-executive directors in their professional capacity and having no financial interest in the company are exempted from the above.

If any audit firm refuses to give such declaration, statutory audit assignment shall not be allotted.