"POLICY FOR APPOINTMENT OF STATUTORY CENTRAL AUDITORS (SCAs) AND STATUTORY BRANCH AUDITORS (SBAs)"

VERSION – 1.2

FINANCIAL REPORTING & TAXATION DEPARTMENT

STATE BANK OF INDIA

Corporate Centre, Mumbai

FY 2021-22

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Ownership

Financial Reporting and Taxation Department is responsible for processing of selection / appointment of SCAs / SBAs.

1. Introduction:

a) Reserve Bank of India, vide circular No. DoS. CO. ARG /SEC. 01/ 08.91.001 / 2021-22 dated April 27, 2021, has issued detailed guidelines for appointment of Statutory Central Auditors (SCAs) of Commercial Banks under provisions of Section 30(1A) of the Banking Regulation Act, 1949, Section 10(1) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/1980 and Section 41(1) of SBI Act, 1955. These guidelines supersede all previous guidelines issued on the subject.

b) RBI has also hosted on its website the new Norms on eligibility, empanelment, and appointment of Statutory Branch Auditors in Public Sector Banks from the year 2020-21 and onwards.

2. Applicability:

a) These guidelines are applicable to the Bank for Financial Year 2021-22 and onwards in respect of appointment/reappointment of Statutory Central Auditors (SCAs) of the Bank after receiving the list from RBI for the appointment of SCAs and;

b) These Guidelines are applicable to the Bank for Financial Year 2021-22 and onwards in respect of appointment of Statutory Branch Auditors (SBAs).

c) The Policy for appointment of Statutory Central / Branch Auditors will be reviewed/renewed at least every three years or as and when required.

POLICY FOR APPOINTMENT OF STATUTORY CENTRAL AUDITORS (SCAs) AND STATUTORY BRANCH AUDITORS (SBAs)

The following procedure will be followed for appointment of SCAs and SBAs:

i) The actual number of SCAs to be appointed shall be decided by the Audit Committee of Board (ACB), subject to the maximum limit of Twelve (12) SCAs. Further, the time frame for process of appointment will be in sync with RBI directives.

ii) In terms of section 41(1) of the SBI Act 1955, the appointment of Statutory Auditors of Bank will be done with the approval of RBI.

iii) The Bank will select suitable SCAs/SBAs from the list provided by RBI and after obtaining the consent of the audit firms in writing for consideration of appointment as SCA/SBAs, would recommend their names to RBI with the approval of the ACB. Basic eligibility criteria for SCAs and SBAs are mentioned in Annexure I and Annexure II respectively.

iv) In respect of SCAs, preference would be given to those firms having adequate seniority, audit experience in PSBs and PSUs, number of partners, number of professional employees and partners having audit experience in the technology environment. Basic eligibility norms are mentioned in Annexure II para 1.

v) Audit firms selected for consideration of appointment can take up audit assignment (SCA/SBA) in one PSB only and will give their irrevocable consent in writing for consideration of appointment as SCA or SBA of the Bank for the particular year.

vi) Local auditors would be preferred for branch audit. Among local auditors, preference would be given category-wise. In case local auditors are not available, auditors from the nearby districts within the State/adjoining States/other States may be considered for audit.

vii) Only audit firms duly qualified under the provisions of Section 141 of Companies Act 2013 and with no adverse remarks/disciplinary proceedings pending/initiated against the firm/any of its partners/proprietor on the records of ICAI would be considered as eligible for appointment as auditors.

viii) 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.

ix) A declaration as per the format prescribed by RBI will be obtained that none of the partners/proprietors of the audit firms, or their spouse, dependent children, wholly or mainly dependent parents, brothers, sisters or any of them, of any of the partners/proprietors of the firm or the firm/company in which they are partners/directors have been declared as willful defaulters by any bank/financial institutions. If any auditor/audit firm refuses to give such declaration statutory audit assignment would not be allotted to them.

x) The SCAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

xi) SCA firm would have maximum tenure of three years and each year the appointment of SCA would be subject to approval by the Bank's Board / Committee and RBI.

xii) An audit firm would not be eligible for reappointment as SCA in the Bank for six years (two tenures) after completion of full or part of one term of the audit

tenure. In case an audit firm has conducted audit for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment for six years from completion of part-tenure.

xiii) SBAs will have a maximum tenure of four years and not more than 3 branches would be allotted to each SBA. 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.

xiv) The audit firms will not be eligible to be re-appointed as SBAs, in the Bank after completion of their audit assignment for at least one cycle of four years.

xv) In order to protect the independence of the auditors/audit firms, Bank would not remove any audit firm without prior concurrence of the RBI.

xvi) It would be ensured that all approved auditors/audit firm are allotted appropriate audit assignments and no distinction would be made between the continuing auditors and the fresh auditors in allotment of Branches.

xvii) 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) of RBI.

xviii) The ACB of Bank shall review the performance of SCAs on an annual basis. Any serious lapse/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 the full details of the audit firm.

xix) The audit firms retiring as Statutory Central Auditors from Bank shall not be eligible to be appointed as SBAs of the Bank during the prescribed cooling period for SCAs from the Bank.

xx) 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. Further, if any partner of a Chartered Accountant firm is a director in any Group Entity of the bank, the said firm shall not be appointed as SCA of the bank.

xxi) The firms whose partner/s are on the Boards of Bank will not to be appointed as Statutory Branch Auditors of the Bank.

xxii) Concurrent auditors of the Bank should not be considered for appointment as SCAs. 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 will 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 Bank which may not normally result in a conflict of interest, and at the discretion of the Bank, in consultation with the ACB. The restrictions as detailed above, should also apply to an audit firm under the same network of audit firms or any other audit firm having common partners. However, this stipulation shall be applicable prospectively, i.e. from FY 2022-23.

xxiii) In respect of SBAs, the category (I, II , III & IV) of audit firms/auditors would be considered while allotting branches in such a way that as far as possible larger branches in terms of advances (excluding top most branches, which are to be allotted to the Statutory Central Auditors from CAG, CCG, SARG & IBG verticals) are audited by bigger/ more experienced audit firms.

xxiv) Fee for Statutory Audit will be paid as per extant RBI guidelines. Audit firms would be eligible to claim actual expenses incurred for traveling, halting, etc. for conducting the audit work as per the extant guidelines issued by RBI and amendments therein from time to time.

xxv) In terms of SEBI (Listing obligations and Disclosure Requirements) Regulations, 2015, Regulation 33 (1) (d), only those firms will be considered for appointment as SCAs, who have subjected themself to the peer review process of Institute of Chartered Accountants of India (ICAI) and hold a valid certificate issued by the Peer Review Board of the ICAI.

xxvi) The Bank shall appoint at least one audit firm having their Head Office in Mumbai.

xxvii) A committee of senior officials comprising DMD (Finance), Chief Financial Officer (CFO) and CGM (FC) would be empowered to shortlist the names of SCAs and SBAs forwarded by RBI for selection. The same would be put up to the ACB before being forwarded to the RBI for appointment as SCA/SBA.

xxviii) In case of grievances like non appointment as auditors for the Bank, selection of branches, number of branches etc. the matter would be referred to the senior-most MD of the Bank and his decision would be binding on the Bank's Auditors.

xxix) The eligibility norms and other guidelines for appointment of SCAs and SBAs are enclosed as Annexure I and Annexure II respectively.

xxx) Procedure for shortlisting the audit firms for the appointment of SCAs and SBAs is placed as Annexure III.

Annexure I

ELIGIBILITY NORMS FOR APPOINTMENT AS STATUTORY CENTRAL AUDITORS (SCAs) IN SBI

1. **Eligibility Criteria for Appointment as SCA**

For being eligible for selection as SCA(s), audit firms should fulfill the eligibility norms as prescribed below:

A. Basic Eligibility

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
7	4	2	15	30

Note 1: Full Time Partners

A minimum no. of Full-Time Partners associated with the firm should be 7 given the size and complexity involved while conducting the audit of the Bank. There should be at least one-year continuous association of partners with the firm as on the date of empanelment / shortlisting for considering them as full-time partners. Further, for appointment as SCA at least four FCA partners of the firm shall have continuous

association with the firm for at least 3 years, two of which, shall have continuous association with the firm for at least 10 years .

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:

(a) The full-time partner should not be a partner in other firm/s.

(b) She/He should not be employed full time / part time elsewhere.

(c) 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.

(d) 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:

At least two full time partners of the firm or its paid full time Chartered Accountants must possess CISA/ISA qualification.

Note 3: Audit Experience:

Audit experience shall mean experience of the audit firm as Statutory Central/Branch Auditor of Commercial Banks (excluding RRBs)/ AIFIs.

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 considering them as professional staff for the purpose. Considering the size of the bank and complexity involved while conducting the audit of the Bank an audit firm should have minimum 30 Professional Staff, 10 of them should be Qualified Chartered Accountants.

B. Additional Consideration

i) The appointment of SCAs will be in line with the ICAI's Code of Ethics/any other such standards adopted to avoid any conflict of interest.

ii) The auditors 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.

iii) 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.

iv) 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.

v) 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 Entity and within overall ceiling prescribed by any other statutes or rules.

vi) 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. 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.

2. Procedure for Appointment of SCAs

i) The Bank shall shortlist minimum of 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 Bank till completion of tenure of continuous term of 3 years, there would not be any requirement of shortlisting and sending names of multiple audit firms to RBI while seeking approval to appointment.

ii) Bank shall shortlist audit firms from the 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. Further, Bank shall place the list of shortlisted firms, in order of preference, before the ACB for selection of SCAs.

Upon selection of SCAs by the Bank in consultation with their ACB and verifying their compliance with the eligibility norms prescribed by RBI, the Bank shall seek RBI's prior approval for appointment of SCAs.

iii) The Bank shall obtain a certificate, along with relevant information as per Form-'B' prescribed by RBI, from the audit firm(s) proposed to be appointed as SCA 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.

Annexure II

Eligibility Norms for appointment as Statutory Branch Auditors (SBAs)

<u>**Eligibility Norms for appointment as Statutory Branch Auditors (SBAs)**</u>

Category	No. of CAs exclusively associated* with the firm (Full time)	No. of partners exclusively associated*with the firm (full time) (Out of 2)	Professional staff	Bank audit experience	Standing of the audit firm
(1)	(2)	(3)	(4)	(5)	(6)
I.	5	3	8	The firm or at least one of the partners should have a minimum of 8 years' experience of branch audit of a nationalised bank and/ or of a private sector bank.	8 years
II.	3	2	6	The firm or at least one of the partners should have preferably conducted branch audit of a nationalised bank or of a private sector bank for at least 5 years.	6 years (for the firm or at least one partner)
III.	2	1	4	The firm or at least one of the CAs should have preferably conducted branch audit of a nationalised bank or of a private sector bank for at least 3 years.	5 years (for the firm or at least one partner)

IV.	2	2	2	Not necessary	3 years
	Even proprietorship concern without bank audit experience may be considered as hitherto. (The proprietary concerns of Chartered Accountants with 1 paid CA, 2 professional staff and not having any statutory branch audit experience of a nationalised bank or of a private sector bank will be treated at par with the partnership firm after deducting their 3 years seniority from the date of their establishment).				

Annexure III

A. Procedure for shortlisting the audit firms for the appointment as SCAs

1. A Sub-Committee comprising of Deputy Chief Financial Officer (Dy CFO), DGM (FR) and DGM (IFRS) will shortlist the audit firms for the appointment of SCAs. The committee will shortlist 4 audit firms for every vacancy of SCAs. The shortlisting will be based on below mentioned criteria:

Sl No	Parameter	Eligibility norms
i.	Location	Preference will be given to the audit firm having registered office near to our LHO where SCA is to be appointed
ii.	The seniority of the firm	Minimum 15 years
iii.	PSU / PSB audit experience	Minimum 5 years' experience in PSU
iv.	Total bank audit experience	Minimum 15 years as SCA/SBA in Commercial Bank
v.	Number of Partners	7 full time Chartered Accountants, of which at least 5 should be full time partners exclusively associated with the firm
vi.	Number of Professional employees	30 including audit and articled clerks, 10 of which shall be qualified Chartered accountants.

2. The shortlisted audit firms will then be scrutinized by the Committee of senior officials comprising DMD (Finance), Chief Financial Officer (CFO) and CGM (FC). The committee would finally shortlist 2 audit firms for every vacancy of SCAs based

on the ranking given by the Sub-Committee. The same would be put up to the ACB before being forwarded to the RBI for appointment as SCA.

B. Procedure for shortlisting the audit firms for the appointment of SBAs

A Committee of senior officials comprising DMD (Finance), Chief Financial Officer (CFO) and CGM (FC) will shortlist the audit firms to be appointed as SBAs based on the below mentioned criteria:

Sl No	Parameter	Eligibility norms
i.	Location	Preference will be given to the audit firm having registered office near to the branches identified for audit
ii.	Category of the SBA as determined by the ICAI	Suitable mix of various categories of audit firms will be selected keeping in view the size of the branches to be audited