

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

VERSION – 1.4



FINANCIAL REPORTING & TAXATION DEPARTMENT

STATE BANK OF INDIA

Corporate Centre, Mumbai

FY 2023-24

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Ownership

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

1. INTRODUCTION:

RBI guidelines require that the banks should frame a Board Approved Policy, inter alia, for engagement of Statutory Central Auditors and Statutory Branch Auditors, covering their eligibility criteria, appointment, re-appointment, removal, business coverage and selection of branches for statutory audit. Accordingly, this policy has been prepared.

2. STATUTORY AND REGULATORY PROVISIONS

a) Legal provision:- Section 41(1) of SBI Act, 1955 which stipulate as under:-

41. Audit. - (1)The affairs of the State Bank shall be audited by two or more auditors duly qualified to act as auditors of companies under section 226 of the Companies Act, 1956 (1 of 1956)], who shall be appointed by the State Bank with the previous approval of the Reserve Bank.

b) Reserve Bank of India, vide circular No. Ref. No.

i. DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021 on *Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)*

ii. DoS.CO.ARG/S8213/08.91.001/2022-23 dated March 06, 2023 and DoS.CO.ARG/S512/08.91.001/2022-23 dated April 24, 2023 on *(i) Revised Guidelines for appointment /Re-appointment of Statutory Branch Auditors of Public Sector Banks and (ii) Norms on Business Coverage under Statutory Branch Audit of Public Sector Bank*

c) SEBI (Listing obligations and Disclosure Requirements) Regulations, 2015, Regulation 33 (1) (d)

The listed entity shall ensure that the limited review or audit reports submitted to the stock exchange(s) on a quarterly or annual basis are to be given only by an auditor who has subjected himself /herself to the peer review process of Institute of Chartered Accountants of India and holds a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India.

3. APPOINTMENT OF STATUTORY AUDITORS

A. CONDITIONS APPLICABLE TO BOTH STATUTORY CENTRAL AUDITORS (SCA) /STATUTORY BRANCH AUDITORS(SBA)

- a) These guidelines are applicable to the Bank for Financial Year 2023-24 and onwards in respect of the appointment/reappointment of Statutory Auditors of the Bank after receiving the list from RBI for appointment of SCAs/SBAs.
- b) In terms of section 41(1) of the SBI Act 1955, the appointment of Statutory Auditors of the Bank will be done with the approval of RBI.
- c) 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.
- d) Only audit firms duly qualified under the provisions of Section 141 of the 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 eligible for appointment as auditors.
- e) The audit firm or any of its partners should not have 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), Govt. of India, the National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), or by any other Govt. Agency or Other Financial Regulators.

- f) For selection of a firm as SCA/SBA, the minimum number of partners /chartered accountant/professional employees should be exclusively associated with the audit firm.
- g) 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 wilful defaulters by any bank/financial institutions. If any auditor/audit firm refuses to give such a declaration statutory audit assignment would not be allotted to them.
- h) In order to protect the independence of the auditors/audit firms, the Bank would not remove any audit firm without prior concurrence of the RBI.
- i) 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 the allotment of Branches.
- j) 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. To this extent, a committee of senior officials comprising DMD(Finance), CGM (FC) and Chief Financial Officer would be empowered to monitor and assess the Independence of the auditors and conflict of interest position in terms of regulatory provisions, standards and best practices and put up the same to ACB for its review. Any concerns in this regard may be flagged by the ACB to the Board of Directors of the Bank and the concerned Senior Supervisory Manager (SSM) of RBI.

- k) The audit entity should not undertake any audit engagements, either as SBA or SCA of any other Public Sector Bank for the period of appointment. An audit entity shall be eligible for appointment/ re-appointment as a SCA or as SBA of only one PSB during a particular year.
- l) Fee for Statutory Audit shall be as per RBI guidelines, which shall be approved by ACB. 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.
- m) A committee of senior officials comprising DMD (Finance), CGM (FC) and Chief Financial Officer (CFO) 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 for approval before forwarding to the RBI for appointment as SCA / SBA.
- n) 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 / Chairman and their decision would be binding on the Bank's Auditors.

B. CONDITIONS APPLICABLE FOR APPOINTMENT OF STATUTORY CENTRAL AUDITORS (SCAs) AND BRANCH COVERAGE

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

- ii) Bank will select suitable SCAs from the list provided by RBI and after obtaining the consent of the audit firms in writing for consideration of appointment as SCAs, would recommend their names to RBI with the approval of the ACB.
- iii) Regarding SCAs, preference would be given to those firms on the basis of number of full-time partners, number of full-time paid CAs, Bank audit experience and Professional staff (audit staff) as per the list provided by RBI. Basic eligibility criteria are mentioned in Annexure I.
- iv) The SCAs shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with the highest diligence.
- v) SCA firm would have a maximum tenure of three years and each year the appointment of SCA would be subject to approval by the Bank's Board / Audit Committee and RBI.
- vi) Bank shall allot the top 20 branches (to be selected strictly in order of 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.
- vii) 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 an audit for part-tenure (1 year or 2 years) and then not appointed for the remainder of tenure, they also would not be eligible for reappointment for six years from completion of part-tenure.
- viii) The ACB of the Bank shall review the performance of SCAs presented to the Committee, 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 by the bank to RBI within two months

from the 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.

- ix) 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 the bank's any of the Group Entity/ies, the said firm shall not be appointed as SCA.
- x) 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.
- xi) 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, which are subject to undergo the peer review process of The Institute of Chartered Accountants of India (ICAI) and hold a valid certificate issued by the Peer Review Board of the ICAI.
- xii) The Bank shall appoint at least one audit firm having their Head Office in Mumbai. The bank shall examine that the Head Office of the said firm has their maximum number of partner's and employees stationed in Mumbai (Head Office) preferably.

C. CONDITIONS APPLICABLE FOR APPOINTMENT OF STATUTORY BRANCH AUDITORS (SBAs)

- i) Bank will select suitable SBAs from the list provided by RBI and after obtaining the consent of the audit firms in writing for consideration of appointment as SBAs, would recommend their names to RBI with the approval of the ACB. Basic eligibility criteria are mentioned in Annexure II.
- ii) Further, before appointing the audit entity the Bank shall seek its irrevocable consent for consideration of appointment/ reappointment 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.
- iii) Local auditors would be preferred for branch audits. 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.
- iv) SBAs will have a maximum tenure of four years and not more than 2 branches will 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.
- v) 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 audit cycle of four years.
- vi) The audit firms retiring as Statutory Central Auditors from the Bank shall not be eligible to be appointed as SBAs of the Bank during the prescribed cooling period for SCAs from the Bank.

- vii) The firms whose partner/s are on the Boards of the Bank will not be appointed as Statutory Branch Auditors of the Bank.
- viii) The audit entity does not have any common partner(s) with any other SBA of the Bank and they are not under the same network of audit firms.
- ix) 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 topmost 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.

4. BUSINESS COVERAGE

RBI vide its circular dated 06.03.2023 has advised PSBs to have methodology approved by the Board for business coverage and selection of branches for statutory audit, 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, whistleblower complaints and unusual pattern/ activities shown by internal MIS reports. The selection of branches for Statutory audit shall include a representative cross section of rural / semi-urban / urban and metropolitan branches, including branches which are not subjected to concurrent audit. The circular also states, the methodology approved by the Board for business coverage and selection of branches, shall be reviewed and updated regularly.

(ii) The business processes of the Bank are fully centralized and automated. The Bank has an effective IFCoFR system in place for effective control over financial reporting at different levels. To take care its Credit Risk and Operational Risk portfolios, The Bank has established several centralized processing cells viz. RACPCs, SMECCs, RASMECCs, RACCs etc. Similarly, to take care risks associated with its liability

products and related operational risks, the Bank has several LCPCs, CPPC, CCPCs CACs, DACs etc. in place. Automation of Asset classification on a daily basis, in line with RBI guidelines, has further strengthened the credit risk process of the Bank. Further, the Internal Audit (IA) Department works in close coordination with the Risk Management Department and Compliance department to evaluate the effectiveness of controls, assess compliance with controls and adherence to internal processes and procedures on an ongoing basis. The IA undertakes comprehensive risk-based audit of the operating units in line with regulatory guidelines relating to Risk Based Supervision. The IA has initiated the following technological interventions to provide enhanced efficiency and effectiveness in the Bank's audit process:

- a) RFIA (Risk Focused Internal Audit) for assessing compliance with controls at granular level.
- b) Remote evaluation of data for continuous assessment of compliant Controls
- c) System-driven off-site monitoring of transactions
- d) Concurrent Audit of business units to ensure contemporaneous scrutiny of compliances.
- e) Early Review of Sanctions to assess critical risks of eligible sanctioned credit proposals.
- f) Self-audit by branches for self-assessment and vetting by controllers.

(iii) In light of the above, we propose to adopt the following methodology for selection of branches for Statutory Audit to ensure proper business coverage: -

S.N.	RBI Criteria	Bank's Methodology
1	The selection of branches for Statutory audit shall include a representative cross section of rural/ semi-urban/urban and metropolitan branches,	Considering Bank specific characteristics, degree of centralization of processes, we propose to cover minimum 70% of fund based, minimum 70% of non-fund based exposure and 70% of NPA for F.Y.2023-24

	including branches which are not subjected to concurrent audit.	including all the branches of CAG, CCG and SARG verticals. It will be ensured that the branches selected based on the above criterion should represent coverage of cross-section of rural, semi-urban, urban, and metropolitan branches. All IBG branches shall also be covered.
2	Branches having credit risk to be covered.	All Credit CPCs branches to be covered.
3	Branches having adverse reports from internal/concurrent auditors.	All "C" / "D" rated branches on the basis of Credit Risk Management (CRM) / Operational Risk Management (ORM) under Risk Focussed Internal Audit.
4	Branches having whistleblower complaints.	Branches considered as per Fraud Monitoring Department reports on whistleblower complaints during the Current Financial Year.
5	Branches showing unusual patterns/ activities by internal MIS reports.	Branches showing unusual pattern / activities as per AML / CFT reporting.
6	Branches having Fraud Risks.	All branches, where frauds above Rs.15.00 lakhs have been reported during the last 3 years.
7	Branches scoped in for IFCoFR (<i>additional criteria by the Bank</i>)	Branches to be covered under IFCoFR audit.

5. REVIEW OF POLICY

Policy for the appointment of Statutory Central Auditors/Statutory Branch Auditors will be reviewed/renewed within three years from the date of renewal or as and when regulatory change takes place, whichever is earlier.

Approved Annexure
Ministry of Finance, Government of India

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	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	Minimum No. of years of Audit Experience of the firm	Minimum No. of Professional staff
Note 1		Note 2	Note 3	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 for considering them as full-time partners. Further, for appointment as SCA at least two partners of the firm 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 any 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, 7 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 reappointment.
- 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 ranking, before the ACB for selection of SCAs. The criteria of ranking shall be determined and decided by the committee of Senior Officials as given in the policy. Upon selection of SCAs by the Bank in consultation with the 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.

iv) The Bank shall verify the compliance of audit firms 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.

APPROVED AND
FORWARDED TO THE BOARD OF DIRECTORS

Eligibility Norms for appointment as Statutory Branch Auditors (SBAs)

Eligibility Norms for appointment as Statutory Branch Auditors (SBAs)

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 public sector 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 conducted branch audit of a public sector bank or of a private sector bank 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 public sector bank or of a private sector bank 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 Public Sector Bank / Private Sector Bank for at least 3 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 any other firm/s
- (b) She/He should not be employed full time /part time elsewhere

(c) She/He should not be practising 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 shall be reckoned for standing.

Approved
Director General
Chartered Accountants