



**POLICY ON APPOINTMENT OF STATUTORY CENTRAL AUDITORS (SCAs)
FOR THE YEAR 2021-22 AND ONWARDS**

VERSION 1.0

ACCOUNTS DEPARTMENT

This Policy supersedes and replaces the "Policy on Appointment of Statutory Central Auditors (SCA) for the year 2020-21 and onwards". This Policy is the property of Indian Bank, and may not be reproduced or copied, in any form or by any means, in whole or in part, without prior permission of Indian Bank.





Title Policy on appointment of Statutory Central Auditors (SCA) for the year 2021-22 and onwards

Version 1.0

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1. Purpose of the Policy

The purpose of the Policy on Appointment of Statutory Central Auditors (SCAs) from FY 2021-22 and onwards is to provide guidance on eligibility and procedures to be applied for the appointment of SCAs for the Bank in line with guidelines issued by RBI.

2. Scope of Application

The policy is applicable for Appointment of Statutory Central Auditors.

3. Objectives of the Policy

The objective of the Policy document is to provide guidance on Appointment of Statutory Central Auditors for the Bank.

4. Regulatory Reference

RBI notification No RBI/2021-22/25 vide ref No. DoS. CO. ARG. SEC. 01/ 08. 91.001/2021-22 dated 27.04.2021 and FAQ issued by RBI dated 11.06.2021.

5. Procedural Guidelines

A) Number of SCAs

For Entities with asset size of Rs 15000 crore and above as at the end of previous year, the statutory audit should be conducted under joint audit of minimum two audit firms. It shall be ensured that joint auditors of the Entity do not have any common partners and they are not under the same network of audit firms. Further, Bank may finalise the work allocation among SCAs, before the commencement of the statutory audit, in consultation with their SCAs..

Bank shall 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.

The actual number of SCAs to be appointed shall be decided by the Board subject to the following limits.





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

The Asset size of the Bank as on 31.03.2021 comes under Asset size category – “Above Rs 5,00,000 crore and upto Rs 10,00,000 crore” and Bank can have maximum of 6 SCAs. For the year 2021-22, the Bank shall have 5 SCAs and this shall be reviewed on an annual basis.

B) Basic Eligibility for SCAs:

RBI has stipulated the eligibility criteria for SCAs based on the Asset size of entity as on 31st March of Previous year.

Bank comes under category- “Asset size of Entity of above Rs 15000 crore as on 31st March of Previous year” and accordingly following criteria will be adhered to :-

Asset Size of the Entity as on 31 st March of Previous Year	Minimum No. of Full Time Partners (FTPs) associated with the firm for a period of at least three (3) years	Out of the 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.
Above Rs 15000 crore	5	4	2	15	18





i. **Number of full-time Partners** :

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 and other Entities with asset size above Rs 1000 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 1000 crore , the full time partner's association with the firm would mean exclusive association.

The definition of 'exclusive association' would be based on following criteria:

- The full term partner should not be partner in other firm/s.
- She / He should not be employed full time / part time elsewhere.
- She / He should not be practising 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.

ii. **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.

iii. **Audit Experience** :

For Commercial Bank , 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 2 years of merger while demerger will be effected immediately for this purpose.

iv. **Professional Staff** :

Professional staff includes audit and article clerks with knowledge of book-keeping and accountancy and who are engaged in on-site audit but excludes typists / stenographers/ computer operators/ secretaries / subordinate staff, etc. There should be at least one-year continuous association of professional staff with the firm as on date of empanelment (for PSBs) for considering them as professional staff for the purpose.



**C) Additional Consideration**

- i. The audit firm proposed to be appointed as SCAs, 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), Institute of Chartered Accountants of India (ICAI) , RBI or other Financial Regulators.
- iii. The appointment of the audit firm will be 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 the Bank, the said firm shall not appointed as SCA of any of the group entities of the Bank.

(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 audit firm should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalised Audit Software (GAS), commensurate with the degree / complexity of computer environment of the Bank where accounting and business data reside in order to achieve audit objectives.

D) 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 norms before commencement of Annual Statutory Audit for Financial Year ending 31st March and till completion of annual audit.

In case of any extraordinary circumstances after 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.

E) Disqualification :

- Concurrent auditors of the Bank shall not be considered for appointment as SCAs. This would also apply to an audit firm under same network of audit firms or any other audit firm having common partners.
- Joint Auditors should not have common partners or under same network of audit firms.

F) Procedure for appointment of the SCAs in line with RBI guidelines

1. The Entities shall shortlist minimum 2 audit firms for every vacancy of SCAs.
2. MD & CEO / ED in absence of MD & CEO is authorised to inform RBI on the number of vacancies of SCAs that may arise.
3. As far as possible, Bank shall have at least two audit firms having Head Office from the same place where Bank's HO/CO is located. The Bank shall endeavour to fill the remaining vacancies with firms representing other parts of the country.
4. The procedure that will be followed for selection of SCAs is as under:
 - a. RBI will forward a single list of all audit firms eligible for appointment as SCAs to the Bank on an annual basis.
 - b. The SCAs will be selected from eligible list of firms as provided by RBI every year.
 - c. Bank will shortlist the audit firms from the list of eligible audit firms received from RBI and selection shall be made by the Evaluation Committee comprising of DGM-Accounts, GM-CFO, GM (Inspection) and Chief Compliance Officer and recommend to ACB for its concurrence.





- d. The Evaluation Committee will shortlist 3 audit firms for every vacancy of SCAs. The short listing will be based on the eligibility criteria (like number of full time partners, number of professional staff, number of CISA/ISA qualified partners/paid CAs, number of FCAs, etc.) mentioned in this policy.
5. The shortlisted audit firms, in order of preference, shall be placed before the ACB for selection of SCAs.
6. Upon selection of SCA(s) by Bank in consultation with ACB and verifying their compliance with eligibility norms prescribed by RBI, Bank shall seek RBI's prior approval for appointment as SCA(s).
7. Bank shall approach RBI within one month of receipt of list of eligible audit firms from RBI for appointment as SCAs with the concurrence of ACB.

6. Undertakings / Declarations to be obtained from the firm/firms

The audit firm(s) proposed to be appointed as SCAs shall submit a certificate along with the relevant information as per Form B (Annexure-I) (Ref: RBI notification No RBI/2021-22/25 vide ref No DoS. CO. ARG. SEC. 01/ 08. 91.001/2021-22 dated 27.04.2021) 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 as SCAs under the seal of the audit firm.

7. Number of assignment

The firm appointed as SCA of the Bank can concurrently take up statutory audit of 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.

8. Number of branches to be audited by each SCAs

Bank shall allot the Top 20 branches in the order of the level of outstanding advances to SCAs in such a manner as to cover a minimum of 15% of total gross advances of the bank by SCAs, besides the Treasury Branch.

9. Internal Assignments, if any

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 or any audit/non-audit works for the group entities(*) should be at least one year(**), before or after 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 Bank may take their own decisions in this regard , in





consultation with the Board. This restriction would also apply to an audit firm under same network of audit firms or any other audit firm having common partners.

(*)The Group Entities here refer to the RBI Regulated Entities in the Group, which fulfill the definition of Group Entity, as provided in the Circular. However, if an audit firm engaged with audit/non-audit works for the Group Entities (which are not regulated by RBI) is being considered by any of the RBI Regulated Entities in the Group for appointment as SCAs, it would be the responsibility of the Board/ACB of the concerned RBI Regulated Entity to ensure that there is no conflict of interest and independence of auditors is ensured, and this should be suitably recorded in the minutes of the meetings of Board/ACB

If any partner of a Chartered Accountant firm is a director in an RBI Regulated Entity in the Group, the said firm shall not be appointed as SCA of any of the RBI Regulated Entities in the Group. However, if an audit firm is being considered by any of the RBI Regulated Entities in the Group for appointment as SCAs, whose partner is a director in any of the Group Entities (which are not regulated by RBI), the said audit firm shall make appropriate disclosures to the ACB as well as Board

(**)Before appointment of an audit firm as SCA/SA of the RBI Regulated Entity, there should be a time gap of minimum one year between this appointment and completion of the assignment of any non-audit works given to the same audit firm in that RBI Regulated Entity or completion of any audit/non-audit works in other RBI Regulated Entities in the Group. This stipulation shall be applicable prospectively, i.e. from FY 2022-23. Therefore, if an audit firm is involved in some non-audit work with the Entity and/or any audit/non-audit work in other RBI Regulated Entities in the Group and completes or relinquishes the said assignment prior to the date of appointment as SCA of the Entity for FY 2021-22, the said audit firm would be eligible for appointment as SCA of the Entity for FY 2021-22.

(***)A conflict would not normally be created in the case of the following special assignments (indicative list) -Tax audit, Tax representation and advice on taxation matters , Audit of interim financial statements, Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements, reporting on financial information or segments thereof.

10. Tenure and Rotation

In order to protect the independence of the auditors/ audit firms, Bank will appoint the SCAs for a maximum period of three years. The appointment of SCAs will be made on an annual basis subject to fulfilling the eligibility norms and approval by the Bank's ACB/Board and RBI.





An audit firm would not be eligible for reappointment 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 of any Entity for part-tenure (1 year or 2 years) and then not appointed for remainder tenure, they also would not be eligible for reappointment in the same Entity for six years from completion of part-tenure. However, audit firms can continue to undertake statutory audit of other Entities.

11. Removal

An audit firm appointed as Statutory Central Auditor can be removed during its tenure with the prior approval of the Reserve Bank of India.

12. Professional Standards of SCAs

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

13. Feedback on Quality of SCAs

Audit Committee of the Board shall review the performance of the 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 relevant shall be reported to RBI within two months from completion of the annual audit. Such report shall be sent with approval of the ACB with details of the audit firm.

In the event of lapses in carrying out audit assignments resulting in misstatement of an Entity'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 Entities, the SCAs would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

14. Review of the Policy

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

15. Audit Fees and Expenses

Bank will be guided by the relevant RBI instructions on payment of audit fees and expenses to SCAs.

16. RBI guidelines

The guidelines issued by RBI from time to time shall apply



17. Other matters

- a) In case of receipt of intimation from RBI for utilising the services of existing SCAs for Half year ending September, considering the operational convenience approval to be obtained from MD & CEO for the same and this is to be informed to ACB for information.
- b) 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 the 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.
- c) Bank shall verify the compliance of the audit firm(s) to the eligibility norms prescribed by the RBI for the purpose and after being satisfied of their eligibility , recommend the names along with a certificate to RBI, in the format as per Form C (Annexure –II) stating that the audit firms(s) proposed to be appointed as SCA comply with all eligibility norms prescribed by RBI for the purpose.
- d) A group of audit firms having common partners and/or under the same network, will be considered as one entity and they will 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.
- e) The audit of the Entity and any entity with large exposure to the Entity for the same reference year should also be explicitly factored in while assessing independence of the auditor. RBI has also stipulated that Board/ACB shall see that there is no conflict of interest and the independence of auditors is ensured.
- f) Irrevocable consent is to be obtained from the Audit firm in writing for consideration of appointment in our Bank for the particular year and for the subsequent continuing years.





Annexure –I

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

A. Particulars of the firm:

Asset Size of Entity as on 31 st 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:

- Copy of Constitution Certificate.
- 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.
- 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.
- Whether the firm has been debarred from taking up audit assignments by any regulator/Government agency? If yes, details thereof.
- 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/SAs 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:

(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.)

