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

The Govt. of India, Ministry of Finance, had granted managerial autonomy to Public Sector Banks (PSBs) in the matter of appointment of Statutory Central Auditors (SCAs) and Statutory Branch Auditors (SBAs) and a roadmap was rolled out to operationalise the same. The Govt. of India, vide their letter No. F.No. 1/14/2004-BOA dated 21st November 2008, instructed all PSBs to follow the roadmap to enable the Banks to exercise autonomy in appointment of Statutory Auditors.

Based on the roadmap and the RBI guidelines and other statutory provisions, the following policy for appointment of SCAs and SBAs is proposed:

i) The eligibility norms for SCAs and SBAs are enclosed as Annexure I and Annexure II respectively.

ii) As per extant norms of Reserve Bank of India, fourteen SCAs can be appointed by our Bank.

iii) In terms of section 41 (i) of the SBI Act 1955, the appointment of statutory auditors of the Bank is required to be done by the RBI. Our Bank would, therefore, select SCAs/SBAs for appointment by RBI in accordance with the statutory provisions.

iv) The Bank will select suitable SCAs/SBAs from the list provided by RBI/C&AG – as the case may be and after obtaining the consent of the audit firms in writing for consideration of appointment as SCAs/SBAs, would recommend their names to RBI with the approval of the ACB.

v) In respect of SCAs, the Bank would have a suitable mix of audit firms meeting the minimum eligibility criteria. However, preference would be given to those firms having adequate seniority, audit exposure to large commercial banks, partners having audit experience in the technology environment.
vi) The Bank would clearly advise the audit firms selected for consideration of appointment that one audit firm can take up audit assignment (SCA/SBA) in one PSB only and would obtain their consent in writing for consideration of appointment as SCA or SBA of the Bank for the particular year before recommending their names to RBI. The consent given by audit firms will be treated as irrevocable.

vii) 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/adjoin States/other States may be considered for audit.

viii) Only audit firms duly qualified under the provisions of Section 226 of Companies Act 1956 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.

ix) In addition to the requirements of Section 226 (3) (d) of the Companies Act 1956 in regard to indebtedness, any Audit firm selected for appointment would have to certify that none of the spouse, dependent children and 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 their partners/directors are indebted to the bank.

x) A declaration as per the format prescribed by the 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 their 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.

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 and RBI.
xii) SBA firm would have maximum tenure of four years and not more than three branches would be allotted to each SBA firm.

xiii) SCA firm, if appointed as Statutory Branch Auditors after completion of 3 years’ tenure as SCA, would be eligible for appointment as SCA again only after rest / break of two years on completion of its tenure as SBA.

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

xv) It would be ensured that the 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.

xvi) Audit firms would not undertake statutory audit assignment while they are associated with internal assignments in the bank during the same year. In case the firms are associated with internal assignments, they would relinquish the internal assignments before accepting the statutory audit assignment during the year.

xvii) Associate firms or sister concerns of statutory audit firm would be disqualified for internal audit or for any special assignment when the main firm/partners are allotted Statutory Audit in a particular year.

xviii) 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 larger branches are audited by bigger/more experienced audit firms.

xix) Fee for Statutory Audit will be paid as per RBI guidelines. Audit firms would be eligible for TA/DA as per the extant guidelines issued by RBI and amendments therein from time to time.

xx) A committee of senior officials comprising MD & CFO, CGM (FRC&T) and CGM (FC) would be empowered to shortlist the names of SCAs and SBAs forwarded by RBI/C&AG for selection. The same would be put up to the ACB for being forwarded to the RBI for appointment as provided under State Bank of India Act, 1955. Further, on account of exigency the list would be sent to RBI with the approval of the senior-most MD other
than MD & CFO and the same would be put up to the ACB in its next meeting.

xxi) In case of grievances like non appointment as auditor for the Bank, selection branches, number of branches etc. the matter would be referred to the senior-most MD other than MD & CFO and his decision would be binding on the Bank’s Auditors.
Annexure - I

Eligibility norms for appointment as Statutory Central Auditors (SCAs) in SBI

As on 1 January of the relative year the firm should have

(i) minimum 7 full time chartered accountants, of which at least 5 should be full time partners exclusively associated with the firm. These partners should have minimum continuous association with the firm i.e. one each should have continuous association with the firm at least for 15 years and 10 years, two with a minimum of 5 years each and one with a minimum of one year. Four of the partners should be FCAs. Also at least two of the partners should have minimum 15 and 10 years experience in practice. In case the paid Chartered Accountant available with the firm without any break was admitted as a partner of the said firm at a future date, his association with the firm as a partner will be counted from the date of his joining the firm as a paid Chartered Accountant.

(ii) the number of professional staff (excluding typists, stenographers, computer operators, secretary/ies and sub-ordinate staff etc.), consisting of audit and articled clerks with the knowledge in book-keeping and accountancy and are engaged in outdoor audit should be at least 30.

(iii) the standing of the firm should be of at least 15 years which would be reckoned from the date of availability of one full time FCA continuously with the firm.

(iv) the firm should have minimum statutory central audit experience of 15 years of public sector banks (before or after nationalisation) and by way of statutory branch audit thereof or statutory branch audit experience of
20 years of public sector banks or that of statutory audit experience (of 20 years) of a private sector bank with deposits resources of not less than Rs.500 crores. In case any of the partner of an audit firm is nominated / elected for a period of at least 3 years or more on the Board of any public sector bank then his / her such experience for a maximum period of three years will be considered as bank audit experience, provided such experience has not been earned by him / her concurrently i.e. when his / her firm was assigned statutory audit of any PSB, select all India financial Institutions or RBI.

(v) the firm should have statutory audit experience of 5 years of the public sector undertakings (either Central or State Government undertaking). While calculating such experience, more than one assignment given to a firm during a particular year or more than one year’s statutory audit (audits in arrears) assigned to the firm will be reckoned, as one year experience only, for the purpose of counting such experience.

(vi) SCA firm, if appointed as Statutory Branch Auditors after completion of 3 years’ tenure as SCA, would be eligible for appointment as SCA again only after rest / break of two years on completion of its tenure as SBA.

(vii) at least one partner of the firm or its paid Chartered Accountant must possess CISA / ISA or any other equivalent qualification.

(viii) For appointment as SCAs the firm would subject itself 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.
### Annexure - II

**Eligibility norms for appointment as Statutory Branch Auditors (SBAs)**

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of CAs exclusively associated with the firm (Full time)</th>
<th>No. of partners exclusively associated with the firm (full time) (Out of 2)</th>
<th>Professional staff</th>
<th>Bank audit experience</th>
<th>Standing of the audit firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>5</td>
<td>3</td>
<td>8</td>
<td>The firm or at least one of the partners should have a minimum of 8 years experience of branch audit of a nationalized bank and/or of a private sector bank with deposits of not less than Rs.500 crore.</td>
<td>8 years</td>
</tr>
<tr>
<td>II</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>The firm or at least one of the partners should have preferably conducted branch audit of a nationalized bank or of a private sector bank with deposits not less than Rs.500 crore for at least 5 years</td>
<td>6 years (for the firm or at least one partner)</td>
</tr>
<tr>
<td>III</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>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 with deposits not less than Rs.500 crore for at least 3 years.</td>
<td>5 years (for the firm or at least one partner)</td>
</tr>
<tr>
<td>IV</td>
<td>2</td>
<td>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 with deposits not less than Rs.500 crore will be treated at par with the partnership firm after deducting their 3 years seniority from the date of their establishment).</td>
<td>2</td>
<td>2</td>
<td>Not necessary</td>
</tr>
</tbody>
</table>