

**PUNJAB NATIONAL BANK
FINANCE DIVISION CORPORATE OFFICE,
DWARKA, NEW DELHI**

Date: 26.07.2018

REG: POLICY FOR APPOINTMENT OF STATUTORY AUDITORS

Based on the extant guidelines issued by RBI for appointment of Statutory Central Auditors (SCAs), Statutory Branch Auditors (SBAs) for Domestic Branches and for overseas Branches Existing policy has been revised & updated covering appointment of Statutory Auditors for overseas branches, as approved by the Board in its meeting held on 06.08.2018, is as under. The policy will be in force for the FY 2018-19 onwards till amended as per changes in guidelines issued by RBI/Govt.

While the detail policy is annexed (Ann.-1), key highlights of the policy is as under:

a) Appointment of Statutory Central Auditor (SCA):-

- i) Our bank being 'A' category' Bank, may have maximum 6 SCAs. However, we are managing with 5 SCAs at present.
- ii) The allotment of fresh vacancies of SCAs shall be in ratio of 60:40 between "Experienced" and "New" audit firms.
- iii) The term of SCA will be of three year. However, appointment will be done on annual basis, subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability.

b) Appointment of Statutory Branch Auditor (SBA) – Domestic Branches/Offices

- i) The total number of Auditors to be appointed as statutory branch auditors of the Bank for the concerned year will be decided on the basis of the number of branches/offices selected for statutory auditors per latest guidelines of RBI and also keeping in view that not more than three branches/offices (irrespective of the size) may be allotted to each of the branch auditors.
- ii) The appointment of SBAs will be for a maximum period of 4 years and will be made on annual basis subject to eligibility norms prescribed by RBI from time to time and to their suitability.
- iii) All audit firms whose names appear in the list of continuing auditors provided by RBI are considered for audit assignments during the concerned financial year. For the remaining vacancies, if any, the Bank will select audit firms from the list of non- continuing (New) audit firms provided by RBI.

c) Appointment of Statutory Branch Auditor (SBA) – Overseas Branches/Offices

- i) Countries where audit firms are listed/ registered with local regulator, names of at least 3 audit firms will be selected from such list by the branch manager of overseas main branch which will be sent to IBD at Head Office. GM-IBD will scrutinize the list & send the name of

audit firm finally selected to Finance Division at Head Office. Finance Division will recommend the name of such audit firm to ACB/Board for their approval and thereafter will send to RBI for its final approval.

- ii) However, where there is no system of listing/registering of audit firms with the local Regulator, Branch Manager of concerned overseas Branch will identify at least 3 audit firms having requisite knowledge and experience from the certified public accountant firms of the respective country along with quotation of their fee and send the details of such audit firms to IBD at Head Office.
- iii) Selection/appointment of statutory auditors for overseas branches will be on annual basis.

Policy for appointment of Statutory Auditors from 2018-19 & onwards

Statutory Central Auditors (SCAs)

(As per latest guidelines of RBI vide letter No. DBS. ARS. No. 2528/08:01:003/2017-18 dt 17.11.2017)

As per direction of RBI, Bank has been delegated powers for selection & appointment of SCAs till any change is made by GOI/RBI in the policy.

2. Number of SCAs: Our bank is under Large Banks category "A". Accordingly as per Reserve Bank of India guidelines, Bank has requirement of maximum 6 SCAs. However, at present we are working with 5 SCAs, which are sufficient.

3. Tenure of appointment: 3 years (Three Annual Audit). However the appointment of SCAs will be made on annual basis, subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability.

4. The audit firms applying for empanelment as SCAs in PSBs will be required to give an undertaking that, in case of selection in PSBs, they would give up the existing assignment, if any, in Private Banks/Foreign Banks/RBI/Financial Institutions such as National Housing Banks, EXIM Bank etc. and they cannot refuse appointment of PSBs once selected.

5. An audit firm which takes up statutory central audit assignment in a PSB will not be eligible to be appointed as a statutory central auditor in a private sector / foreign bank during that particular year and vice versa.

6. The audit firm(s) selected by the PSBs after obtaining consent in writing from the audit firm will be debarred for a period of 3 years for selection if the firm refuses to accept the appointment without a reasonable ground, that is ground not to the satisfaction of RBI.

6. Procedure of Selection/Appointment

- a. RBI will send i) list of continuing firms, ie the list of audit firms who have not completed 3 years of audit and ii) list of eligible, non -continuing audit firms in two parts viz, 'experienced' audit firms and 'new' audit firms. For this purpose an 'Experienced' firm is one which has a Statutory Central Audit experience of any of Public Sector banks and 'New' Firm is one who does not have such experience.
- b. A Committee consisting of Bank's senior officials will be formed by the order of Executive Director for short listing and selection of audit firms from list of eligible Non Continuing "Experienced" and "New" audit firms for appointment as Statutory Central Auditors of the Bank as per the existing vacancies advised by Reserve Bank of India.
- c. The Committee will take care of following RBI guidelines while short listing of Audit Firms:
 - ❖ The allotment of new vacancies of SCAs shall be in the ratio of 60:40 between "Experienced" and "New" audit firms. Accordingly if there is only one fresh vacancy in the bank, the same will go to an experienced firm only, based on rounding of the ratio to the nearest whole number. The allotment of audit work in the ratio of 60:40 among experienced & new audit firms will only for fresh vacancies and it may not take into account continuing auditors.
 - ❖ The number of audit firms selected as SCAs will be equal to the number of existing vacancies advised by RBI.

- ❖ As far as possible, the Bank will have at least two audit firms having their Head Office from the same place where the Bank's HO/CO is located. This condition is applicable for the combined pool of continuing and fresh auditors.
 - ❖ While selecting the audit firms from the list provided by RBI, all audit firms will be treated equally. However factors like their place of headquarter, experience, number of partners etc. will be kept in mind.
 - ❖ Audit firms will not be selected if they have retired from the same bank before going under rest.
 - ❖ The firms whose partner/s are on the Boards of PSBs will not be appointed as auditors for the same PSB.
 - ❖ An audit firm will be eligible to be appointed as a Central/Branch auditor of only one PSB during a particular year.
- d) After short listing, the Bank will obtain the willingness in writing from the shortlisted audit firms to accept the assignment of Statutory Central Audit work. In the willingness letter, it will be clearly mentioned that there is no commitment on the part of the Bank to allot the Statutory Central Audit work to the auditors and the audit firms are free to give similar willingness to multiple PSBs, if approached by other PSBs.
 - e) The list of shortlisted audit firms will be placed before ACB. The ACB will approve adequate number of audit firms in order of preference. The number of audit firms approved should be adequate enough to take care of the situation where some firms may not give consent.
 - f) Thereafter the Bank will approach the audit firms to obtain their consent in writing strictly in order of preference. The audit firms should give their consent in writing for consideration of appointment in the Bank for the particular year and the subsequent continuing years. If the approached audit firm does not give consent, the Bank will approach the next audit firm in order of preference for obtaining consent till the time the number of audit firms who have given the consent equals to number of vacancies for the particular year.
 - g) The consent letter will clearly state that this selection of the audit firms as Statutory Central Auditor is subject to approval of RBI and any force majeure events and, in such cases, the audit firms will not have any claim against the Bank and RBI. The consent letter should mention that appointment is subject to complying with the stipulated norms on eligibility and empanelment issued by RBI from time to time. In the consent letter, the audit firm should declare that consent is given to one PSB only.
 - h) The list of audit firms selected by the Committee after obtaining consent in writing from such audit firms will be placed before ACB for its concurrence before it is forwarded to RBI for final approval.
 - i) After selection, irrevocable consent of selected SCA firms will be obtained for appointment as SCAs of the bank. As per statutory requirement, Bank, in turn, will forward the names of the selected SCA firms along with continuing SCA firms for appointment as SCAs for the particular financial year to RBI for its prior approval before their actual appointment.
 - j) The actual appointment of the said firm/s as SCA/s will be done for that particular year on receipt of approval from RBI. The said firms will continue to conduct quarterly reviews for next year until the bank receive new panel/list of SCAs from RBI.
 - k) Chief Manager & above at Finance Division is authorized to get the consent of SCAs shortlisted for appointment by the committee and to allocate review/ audit work/branches to the statutory Central Auditors.

7. Feedback: A feedback on the quality of audit of SCAs will be submitted by the Bank to RBI after annual audit of the Bank.

8. Top 20 branches shall be audited by SCAs, to be selected based on their level of advances as at end of March of previous year with a maximum of 5 branches to any individual SCA. This will cover 15% of gross advances of the bank.

9. Fee & TA/DA : Fee payable to SCAs will depend upon the figure of advances which gets reflected into the final Balance sheet of the Bank i.e post MOC advances for the concerned period. The total fee is to be shared among all the SCAs equally. Fees & TA/ DA will be paid to them as per extant guidelines prescribed by RBI/Bank as far as possible and considering the constraints in conducting the audit.

Statutory Branch Auditors (SBAs) – For Domestic Branches

(As per latest guidelines of RBI vide letter No. DBS. ARS. No. /08:10:003/2017-18 dt 09.03.2018)

Branches for annual audit for 2018-19 and onwards will be selected as per norms advised by RBI at Finance Division of the Bank. For 2018-19&onwards, the norms for selection of branches will be as per latest guidelines issued by RBI as mentioned above.

1. Coverage of Audit: Statutory branch audit of the Banks will be carried out for all the branches with advances of Rs.20.00 Cr and above as at end of March of previous year and 1/5th of the remaining branches covering a representative cross section of rural / semi – urban / urban and metropolitan branches, predominantly including branches which are not subjected to concurrent audit, so to cover 90% of advances of the bank. Centralized processing centers/Centralized loan processing centers and other centralized HUBs by whatever nomenclature called would be included in the 1/5th of the remaining branches every year.

In respect of branches below the cut – off point, which are subject to concurrent audit by Chartered Accountants, henceforth, LFARs and other certifications done earlier by SBAs may be submitted by the concurrent auditors and such branches may not generally be subject to statutory audit.

Any other branch/es that may be required to be taken up for audit for any special reasons like fraud, embezzlement of funds etc., or where transactions of suspicious nature was observed.

2. Bank may decide on the threshold level of advances for the purpose of selecting branches for statutory audit based on the mutual discussions held with GOI and SCAs taking care of operational efficiency and robustness of CBS, system driven identification of NPAs and correctness of MIS.
3. Threshold level of advances may be increased in such a way that the branches to be considered for statutory audit are phased down over a period of time.
4. Number of Auditors: The total number of auditors/audit firms to be appointed as statutory branch auditors of the bank for the concerned year may be decided on the basis of the number of branches/offices to be audited and keeping in view that not more than three branches/offices (irrespective of the size) may be allotted to one auditor. Further to cover the rejection/ deletion of names of some auditors by RBI at the time of final approval and/or non- acceptance of audit by some of the auditors after final appointment, names of about 5% more auditors will be selected. The Offshore Banking Units of the Bank will be included in the total list of the branches to be audited by Statutory Branch Auditors.
5. Tenure of Auditor: SBAs will have a maximum tenure of 4 years. The appointment of SBAs will be made on annual basis, subject to their fulfilling the eligibility norms prescribed by RBI from time to

time and also subject to their suitability. Bank will not remove the audit firms during the above period without the prior approval of RBI.

6. Firms whose partners are on the Board of the Bank, will not be appointed as auditors of the Bank.
7. As far as possible, while allotting branches, Bank will select SBAs which are in close proximity to their office/branches. Bank will have a suitable mix of various categories SBAs keeping in view the size of the branches to be audited.
8. The policy of one audit firm for one PSB will be continued. Accordingly an audit firm will be eligible to be appointed as a central/branch auditor of only one PSB during a particular year.
9. Procedure for selection/appointment:
 - a. As per existing practice, RBI will send lists of continuing and non-continuing eligible auditors/auditor firms to the Bank before Annual audit every year.
 - b. Bank will consider all the audit firms whose names appear in the list of continuing auditors for audit assignments during the concerned financial year.
 - c. For the remaining vacancies, if any, the Bank will select the audit firms from the list of non -continuing firms provided by RBI.
 - d. A Committee consisting of Senior Officials at HO Finance Division level will be constituted by the order of General Manager, Finance Division for selection of Statutory Branch Auditors from the Non Continuing list of Statutory Branch Auditors and allotment of branches for audit to both continuing & fresh branch auditors selected.
 - e. In the list provided by RBI, the category of audit firms/auditors has been indicated against their names. The Bank may select the audit firms, to the extent possible, taking into consideration their category and the size of the branches selected for audit, in such a way that there is a proper mix of audit firms from all the categories.
 - f. The category of the branches as per advance size will be decided by the Bank before the annual audit every year. The allotment of branches/offices to the audit firms will be as per their category. In case the numbers of audit firms remain less than the required number in any category, the branches in that category will be allotted to other category auditors. Further in case of refusal of appointment by the branch auditors, the branches allotted to them may be allotted to other category auditors also, as the audit process has to be completed within a short time.
 - g. The Committee after looking into related aspects and taking care of guidelines to consider all the audit firms whose names appear in the list of continuing auditors for audit assignment during the year and to maintain average number of branches per auditor with minimum variation of fee range under a particular category of auditors, may further select required number of branch auditors from the recommended list of Non Continuing branch auditors provided by RBI keeping in mind that since RBI has done due diligence and vetting of the firms of Statutory Auditors, it will be considered that all the audit firms of statutory branch auditors in a particular category are equally capable for being considered as branch auditors of our bank.
 - h. The number of fresh branch auditor's category wise may be inducted to enable equitable distribution to each audit firm and also to take care of any eventuality on account of refusal or any other event, if any.
 - i. The bank will then obtain consent / undertaking from the shortlisted auditors / audit firms for accepting the assignment for that particular year. One senior level officer at Finance Division will be assigned the job of accepting such consent / undertakings from the auditors / audit firms. The consent /

undertaking given by the audit firm will be irrevocable and requests if any for any change will not be entertained.

- j. The final list showing names of continuing and non-continuing auditors / audit firms so prepared will be forwarded to RBI for final approval after getting concurrence of ACB of the bank. The appointment letter to both continuing & New branch auditors will be issued after getting final approval of RBI.
 - k. In case RBI rejects name of some auditors before final approval for any reason, the committee constituted for the purpose, will select the required number of auditors from the non -continuing list of audit firms within the overall limit of audit firms approved by the ACB and the names of new audit firms will be forwarded to RBI for their final approval after getting their acceptance.
 - l. Before appointment of the statutory branch auditors, the bank will ensure that in addition to the requirement of Section 141(3)(d) of the Companies Act in regard to indebtedness, 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 they are partners/directors are not indebted to the bank. Further a declaration should also be obtained to the effect that none of the partners/proprietor of the audit firm or their spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them, or the firm/company in which they are partners/directors have been declared as willful defaulters by any bank/financial institution. The Chartered Accountants nominated as non - executive directors in their professional capacity and having no financial interest in companies are exempted from the above. If any auditor/audit firm refuses to give such declaration, audit assignment should not be allotted to them.
 - m. The word "Proprietary" indicated against the category of the auditors denotes that they are sole proprietary concerns. A declaration to the effect that they are full-time practicing Chartered Accountants, are not employed elsewhere and they do not have any other business interest, may be obtained from the proprietors before allowing them to take up audit assignments. The declaration should indicate the nature of other business interest of the sole proprietor, if any.
10. Allotment of Branches: The allotment of branches for conducting statutory audit by SBAs is centralized at HO level & will be looked after by the committee set up for appointment of SBAs. The endeavor will be to allot branches to auditors within their Circles/States as far as possible. However, in case the required branch auditors are not available in the Circle/ State, the branches may be allotted to auditors of nearby Circle/State as far as possible. Further , the cutoff limit, as aforementioned will not be applicable in case of appointment of alternate auditors in the event of refusal/non acceptance by any selected auditors, as the audit process has to be completed within time frame.
11. Fee: Fee payable to SBAs will depend upon the figure of advances which gets reflected in the final Balance sheet of the bank i.e post MOC advances for the concerned period. The Audit fee and TA Bills will be paid by the Circles in whose jurisdiction the branch audit fall.
12. Feedback: Annual feedback on the quality of audit of SBAs will be submitted by the Bank to RBI after annual audit of the Bank.

Statutory Branch Auditors (SBAs) - For Overseas Branches

In terms of RBI guidelines vide letter no. DBOD.No.1361/08/91/003/93 dated June 15, 1993, Circular no. DBS. ARS. No. BC.17/08.91.001/2002-03 dated June 5, 2003 and DBS.ARS.No.16380/08:91.003/2010-11 dated 24.05.2011, public sector banks are required to obtain prior approval of Reserve Bank of India for appointment of auditors for their overseas branches and also for the remuneration payable to them for the purpose.

Policy for selection/appointment of statutory auditors for overseas branches based on guidelines of RBI is as under:

1. Every overseas Branch will be subject to annual statutory audit and 1/3rd of overseas branches are subject to quarterly review.
2. Auditors will be appointed every year for conducting statutory audit of overseas branches including quarterly review. Audit firms operating in the countries where such branches are functioning, will be selected/appointed for audit.
3. Countries where audit firms are listed/ registered with local regulator, names of at least 3 audit firms will be selected from such list by the branch manager of overseas main branch which will be sent to IBD at Head Office. GM-IBD will scrutinize the list & send the name of audit firm finally selected to Finance Division at Head Office. Finance Division will recommend the name of such audit firm to ACB/Board for their approval and thereafter will send to RBI for its final approval.

However, where there is no system of listing/registering of audit firms with the local Regulator, Branch Manager of concerned overseas Branch will identify at least 3 audit firms having requisite knowledge and experience from the certified public accountant firms of the respective country along with quotation of their fee and send the details of such audit firms to IBD at Head Office.

4. The details of audit firms, their experience, standing etc may be indicated in the cases where the appointment is not subject to the approval of the overseas regulators.

5. The maximum tenure of overseas auditor will be decided by law of the land. If no law of land exists then tenure prescribed by RBI will prevail i.e. 5 years at present.

6. Bank may advise the Branch Manager of overseas branch in overseas countries to hold dialogue with in-charge of other Indian banks for reasonableness of fee before formulating the proposals. Bank may consider the name of only reputed firms in the audit profession acceptable to the Monetary/Central Banking Authorities of host country.

7. Bank shall give full particulars in the prescribed format (Annexure) for approval of appointment. of SBAs while sending the proposal for its approval to RBI.

8. Procedure of selection/appointment:

a) Finance Division, HO will decide and inform IBD, HO about the quarterly/annual audit of the overseas branches for obtaining quotations and for recommending the name of audit firms.

b) Branches at foreign countries being the only representative of our Bank at the overseas countries, the Branch Head of that host country, after holding dialogue with in-charge of other Indian banks, will approach to the Audit firms who are well versed with the local regulators norms and also with the Audit procedure and requirements as per RBI guidelines and also have background, capacity, expertise and audit experience of audit of the Indian based banks along with willingness to do the Statutory Audit.

c) The Audit firm must be listed/ registered with local regulator of that country. In case there is no system of listing/registering such audit firms with the local regulator, the audit firm should be a certified public accountant firm in the respective country.

d) The Branch Head will obtain accurate quotations of audit remuneration from the proposed auditors giving full detail of the work to be done for annual/quarterly audit.

e) After getting and scrutinizing quotations/applications (minimum 3 quotes) of audit firms with full detail i.e. their experience, standing, name of the partners etc, the same may be forwarded to IBD, HO. Wherever the

approval of the overseas regulator is required, the same may be indicated in the application.

f) Branch Head will send these quotations to IBD, HO, New Delhi along with the annexed format and their recommendation.

g) The quotations/applications obtained from overseas branches will be scrutinized and recommended by General Manager, IBD, HO New Delhi and submitted to Finance Division, HO New Delhi.

h) Finance Division, HO, New Delhi will place the matter to ACB and Board of Directors of the Bank for getting their approval.

i) After getting approval from the Board, Finance Division will send recommendation along with copy of Board Resolution to RBI for Approval.

j) After receiving approval from RBI, Finance Division will inform IBD, HO for further necessary action at their end.

FORMAT

1. Name of the Country & Branch :
2. Name of the Proposed Auditors:
3. Fees quoted by the Proposed Auditor:

Audit	Taxation Work	Qtly Review per Qtr	LFAR	Others (Pl. Specify)	OPE	Vat	Total

4. Name of the last year's auditors –
5. Fees paid to the last year's auditors:

Audit	Taxation Work	LFAR	Others (Pl. Specify)	OPE	Vat	Total

6. Past association of the proposed auditors: if any
7. Quotations obtained from other auditors:

Name	Audit	Qtly Review per Qtr	LFAR	Other (Pl. Splecify) Out of Pocket expenses	Ore	Vat	Total

8. Position regarding Deposits, Advances & Profit/ Loss

Figures for the Last 2 Years (Aggregate of Both Branches)	
Deposits	
Advances	
Profit/Loss	

9. Branch's recommendations :

(Please indicate here specifically as to whether appointment is subject to approval of Monetary/Central Banking Authorities. If yes, whether it is obtained or not).