

## Annexure-I

### Part - A

#### Appointment of Statutory Central Auditors (SCAs) for Regional Rural Banks (RRBs)

##### I. Norms to be followed for Appointment of new SCAs:

The process to be followed for the appointment of SCAs in RRBs shall be as follows:

##### i) Allocating Category of Audit firms to Group of RRBs

- a) RRBs shall be classified by NABARD into four Groups viz., A, B, C and D based on the level of advances as on 31<sup>st</sup> March of previous year. The classification of RRBs based on level of Advances shall be as under:

Group	Level of advances
A	>Rs 6000 crore
B	> Rs 3000 crore to < Rs 6000 crore.
C	> Rs 1000 crore to < Rs 3000 crore
D	< Rs 1000 crore

- b) The categorisation of Audit firms into category I, II, III & IV shall be done by ICAI as per the norms prescribed by RBI followed for Public Sector Banks (PSBs).
- c) The category of Auditors to be allotted to the aforesaid 'Groups' of RRBs shall be as under:

Group	Category of Audit Firm
A	I
B	II
C	III
D	IV

- d) Category of Auditors mentioned above for the respective group of RRBs is the minimum. However, higher category of auditors if available will be considered.
- e) In case of Group 'A' RRBs, if auditors in Category I is not available, auditors from Category II will be considered.

##### ii) Scoring of SCAs by ICAI based on the criteria prepared by NABARD

- a) ICAI shall assign the marks on the scale of 0-50 to the audit firms as per the marking system prepared by NABARD which is based on the system of C & AG.
- b) ICAI will prepare a state-wise and category-wise list of audit firms with their respective scores.

- c) In case there is more than one audit firm securing same marks, the experience of the audit firms in Bank audit will be considered for ranking. If the experience in Bank audit of the audit firms is also the same then the year of establishment of the firm will be taken for final ranking.

**iii) Other Conditions to be followed**

The list prepared by ICAI will be further screened by NABARD based on the following criteria:

- a) Sole Proprietorship firms shall not be considered.
- b) Audit firms having experience of Bank audit of less than 5 years shall not be considered.
- c) For the audit of RRBs for the year ending 2016-17, DISA qualified partners/employees in the audit firms shall be considered. However, for conduct of audit of RRBs from the year 2017-18 onwards, DISA/CISA qualified partners/ employees in the audit firms shall be considered.

**iv) Allocation of Branches**

SCAs shall be given the top 20 branches of the RRBs (to be selected in order of Outstanding Advances) for audit, along with Head Office Audit.

In addition to the above, SCA will be allotted additional branches taking into consideration the following parameters:

- a) Branches where frauds, embezzlements or transactions of a suspicious nature are suspected or have taken place may be taken up for audit, in addition to the number determined.
- b) Branches where the loan, business growth is 50% and more over the preceding year should also be compulsorily taken for audit.
- c) To introduce a surprise element in the branch audit, two/three branches outside the above criteria may be selected on a random basis.
- d) The actual selection of branches to be taken up for audit will be decided by the SCA in Consultation with the Bank.

**v) Location Criteria**

Auditors shall be empanelled on a state-wise basis. If eligible audit firms are not available in a State, audit firms from the neighbouring State will be considered. If eligible audit firms(s) are not available in the neighbouring state(s), audit firms from a nearby state will be considered.

**2. Empanelment / Continuation of SCAs**

- a) Based on the norms prescribed above, 3 SCAs will be empanelled per RRB and one of these will be appointed as SCA. The other two will be Standby SCAs.



- b) The SCA will be appointed on annual basis, extendable for a period of total three years. The continuation of audit firm in a subsequent year will be subject to vetting of the firm by ICAI.
- c) The cooling off period after completing the period of three years as SCA will be of three years.

**3. Stand-by Auditors**

- a) There will be a panel of 2 audit firms as stand-by SCAs for each RRB.
- b) In the case of continuation of SCA for the second year or the third year for the audit of RRB, the standby SCA will be retained as Stand by, only if their name is vetted by ICAI.

**4. Approval by GoI**

NABARD will recommend the list of auditors to GOI for approval.

**5. Refusal**

In case of any changes/refusal by the existing appointed audit firm due to certain reasons, which are considered satisfactory by NABARD and ICAI, stand-by audit firm will be appointed by RRBs with the prior approval of the Board of RRBs under advice to NABARD.

**6. Complaint**

- a) In case of any existing /continuing audit firm against whom ICAI receives any complaint and ICAI suggests black listing such firm or keeping it in abeyance, an audit firm from the stand-by list will be appointed by RRB. In case a new list of audit firm(s) is required, NABARD will forward the list to RRB with prior approval of GOI.
- b) In case of any stand-by audit firm against whom ICAI receives any complaint and ICAI suggests black listing such firm or to keep it in abeyance, the firm shall be removed from the stand-by list.

**7. Deviations from norms**

Minor procedural deviations may be made by NABARD under extra-ordinary circumstances for smooth conduct of Statutory Audit under intimation to GoI indicating reasons thereof.

**8. Monitoring by NABARD**

- a) As soon as the auditor is appointed with the approval of the Board of RRB and work has been started in the RRBs, <sup>SA</sup>RRMS shall intimate to NABARD the names of the Audit firms within 15 days from the commencement of audit work.

- b) After completion of the audit, RRBs shall intimate to NABARD the performance of the audit firm, in the prescribed format.

9. Other Procedure / Norms

- a) On receipt of the approval from GOI, NABARD shall forward the approved list to the respective RRBs.
- b) On receipt of list from NABARD, the RRBs will obtain the willingness from the audit firms to accept the assignment of Statutory Central Audit work valid for a period of 3 years. Seeking willingness of an Audit firm will not constitute any commitment to assign SCA work to the firm.
- c) Audit firms appointed by RRBs with the approval of GOI may be debarred from selection for a period of 3 years, if the firm refuses to carry out assigned work even after giving consent in writing, without reasonable ground considered satisfactory by NABARD and ICAI.
- d) The list of audit firms who have given consent as stated above will be placed before the Board for approval. In exigencies, Board approval may be obtained and Audit firms may be asked for their consent subsequently.