All Scheduled Commercial Banks (excluding RRBs)

Dear Sir/ Madam,

**Risk-based Internal Audit**

Please refer to our circular DBS.CO.PP.BC.10/11.01.005/2002-03 dated December 27, 2002 on Risk-based Internal Audit setting out the scope and coverage of Risk-based Internal Audit (RBIA) system in commercial banks. In this connection some banks have represented to us seeking approval for engaging services of retired officers of the bank for assisting in internal audit.

2. Keeping in view the change in demographic profile of the staff in banks on account of retirement leading to shortage of staff to conduct internal audit which is an important component of Risk Based Supervision (RBS), it has been decided to permit banks to engage the services of its retired officials for assisting in internal audit subject to following conditions:

i. Each bank should formulate with the approval of their Board of Directors, a policy to engage the services of its retired personnel for a maximum tenure not exceeding three years in the areas where it does not have enough expertise. The policy should interalia include the terms of engagement, review of performance, termination of services, etc.
ii. Banks need to ensure that the retired personnel so engaged, work under the close supervision of the Management of the bank and the final sign off of the audit reports would be the responsibility of the serving bank officials.

iii. In order to avoid conflict of interest, the retired personnel so engaged may not be assigned branches/sections, where they had worked while in active service with the bank.

Yours faithfully,

(Parvathy V Sundaram)
Chief General Manager- in- Charge