

Government to handle selection of auditors for public sector banks

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The government will now handle the selection of auditors for state-run banks, a finance ministry official said, signalling growing concern over laxity in the audit followed by lenders and possible overstatement of profits.

The finance ministry is expected to issue a directive on the issue soon. "We are in consultation with key players. We expect to issue the directives in the next few days," the official said. The issue of public sector banks selecting auditors on their own had earlier been flagged by the Institute of Chartered Accountants of India (ICAI), which said the appointments should be done by an independent regulator, such as the Reserve Bank of India. The ICAI regulates the profession of accountants in India. "The institute has repeatedly written to the ministries of corporate affairs and finance regarding the new practice of management self-selecting auditors in PSU banks. This is not ethical, given the conflict of interest," a ICAI member, who did not want to be named, told ET. According to the ICAI council member, the selection of auditor in most state-run banks is now being done by the bank heads without consulting either the auditing committee or the central bank, as was the norm earlier.

"Most selections were made on who knows whom," the member said. However, the chief of a public sector bank said, "We will be more than happy if government decides to appoint regulators. There was a lot of push and pull from different influential people and associations. If ministry does it we will not be in a spot anymore." The finance ministry believes that appointment of independent auditors will also address the concern that there is possibility of overstatement of profits. Earlier this year, the ministry had written to some banks saying they had not followed the RBI's income recognition and asset classification norms. As per the RBI, the gross non-performing assets of public sector banks climbed to 3.2% of gross advances at the end of 2011-12, from 2.3% at the end of the previous fiscal. The restructured standard advances in these banks increased to 5.7% of gross advances by at the end of 2011-12 from 4.2% a year ago.

"There was this issue of not making enough provisioning against stressed assets. We hope that this will also be addressed by the new norms," the finance ministry official said. As per the RBI's annual report 2011-12, restructuring increased substantially in the fourth quarter of 2011-12, taking restructured loans at the end of the year to about 5% of the loan book of the scheduled commercial banks, up from 3.9% a year ago. The central bank carries out an annual financial inspection of banks and suggests corrective measures.

[Source: The Times of India]