

Guidelines on appointment of statutory auditors in public sector banks

Based on the recommendations of a Working Group (WG) to review the norms for empanelment of statutory auditors for public sector banks and other related issues and after seeking the approval of GoI, it has been decided to revise the guidelines on appointment of statutory auditors in public sector banks with effect from the year 2013-14. The revised eligibility norms for empanelment of SCAs as prescribed by RBI in consultation with the WG have been indicated in **Annex 1**. The categorization/eligibility norms for empanelment of branch auditors which have been kept unchanged are indicated in **Annex 2**.

The guidelines/instructions relating to the selection procedure to be followed for appointment of statutory auditors in PSBs and details thereof are furnished in **Annex 3**. These guidelines will be effective from the financial year 2013-14 and onwards.

**Norms of Empanelment for Statutory Central Auditors
of Public Sector Banks applicable from the year 2013-14**

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. **The remaining 2 full-time chartered accountants or partners, as the case may be, should also have a continuous association with the firm for a period 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.

***Note:**

1. The definition of 'exclusive association' will be based on the following criteria:
 - (a) The full time partner should not be a partner in other firm/s.
 - (b) He should not be employed full time / part time elsewhere.
 - (c) He should not be practicing in his own name or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under Section 2(2) of the Chartered Accountants Act, 1949.
 - (d) The total compensation@ of the partner from the firm should not be below the following limit:

In case the Head office of the firms located in

- (i) Delhi, Mumbai, Chennai, Kolkata, Bangalore and Hyderabad

ACA partner ` 1.80 lakh in a year ( ` 15000/- per month)

FCA partner ` 3.00 lakh in a year ( ` 25000/- per month)

- (ii) Other places:

ACA partner ` 1.20 lakh in a year ( ` 10000/- per month)

FCA partner ` 1.80 lakh in a year ( ` 15000/- per month)

(e) A partner whose total compensation@ from the firm is less than the following will not be treated as exclusively associated with the firm :

Firms having more than 14 partners	1%
Firms having 10 to 14 partners	3%
Firms having 5 to 9 partners	5%
Firms having less than 5 partners	8%

@Total compensation = Sum total of share of profit, remuneration and interest on capital.

2. Out of the 7 full-time chartered accountants, the remaining two chartered accountants/partners (besides the 5 exclusively associated partners) will be treated to be exclusively associated with the firm only if they are continuously associated with the firm for a period of one year as on January 1 of the relevant year. These norms will be made applicable from the financial year 2014-15 i.e. the chartered accountants/partners will have to comply with the norms as on January 1, 2014.

- (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 18.
- (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/or by way of statutory branch audit thereof or that of statutory audit experience of a private sector bank. 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) at least two partners of the firm or its paid Chartered Accountants must possess DISA/CISA or any other equivalent qualification.

Annex 2

Norms for the empanelment of audit firms to be appointed as statutory branch auditors for public sector banks (2013-14)

Cate- gory	No. of CAs exclusively associated with the firm (Full time)	No. of partners exclusively associated with the firm (full time) (Out of 2)	Profe- ssional staff	Bank audit experience	Standing of the audit firm
(1)	(2)	(3)	(4)	(5)	(6)
I.	5	3	8	The firm or at least one of the partners should have a minimum of 8 years experience of branch audit of a nationalised bank and/ or of a private sector bank .	8 years
II.	3	2	6	The firm or at least one of the partners should have preferably conducted branch audit of a nationalised bank or of a private sector bank.	6 years (for the firm or at least one partner)
III.	2	1	4	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 for at least 3 years	5 years (for the firm or at least one partner)

IV.	2	2	2	Not necessary	3 years
	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 will be treated at par with the partnership firm after deducting their 3 years seniority from the date of their establishment).				

PROCEDURE FOR APPOINTMENT OF STATUTORY AUDITORS IN PUBLIC SECTOR BANKS

A. Statutory Central Auditors (SCAs)

1. For the year 2013-14 and onwards, GoI have approved the revision in the norms on the number of SCAs to be appointed in PSB as under:

- i) **Category “A” Banks (Large Banks** viz. Bank of Baroda, Bank of India, Canara Bank, Punjab National Bank, Central Bank of India and Union Bank of India) shall not have more than **6 SCAs**. **However, in case of SBI the number of SCAs shall not be more than 14.**
- ii) **Category “B” Banks (Medium Banks** viz. Allahabad Bank, Corporation Bank, Indian Bank, Indian Overseas Bank, Oriental Bank of Commerce, Syndicate Bank and UCO Bank) shall not have more than **5 SCAs**, and;
- iii) **Category “C” Banks (Small Banks** viz. Andhra Bank, Bank of Maharashtra, Dena Bank, Punjab & Sind Bank, United Bank of India, Vijaya Bank, State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore) shall not have more than **4 SCAs**.

Actual numbers of SCAs to be appointed can be decided by respective boards subject to the above limit.

2. As per the existing practice, SCAs appointed will have a tenure of three years after which they will be rested for a period of two years. The appointment of SCAs will be made on an annual basis, subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability.

3. From the financial year 2013-14, selection of SCAs will be done by the Selection Committee constituted by GoI and the procedure that will be followed by RBI for forwarding the list of eligible audit firms for selection of SCAs by the Selection Committee constituted by GoI is as under :

- After receipt of the list of eligible auditors / audit firms, based on the eligibility norms for empanelment of auditors / audit firms prescribed by RBI from the Office of the Comptroller and Auditor General of India (C&AG), verification of eligibility of audit firms by RBI with respect to their bank audit experience available with RBI will be done by RBI.
- List of eligible firms after excluding the firms which are to be continued, rested and denied audit during the relevant year will be prepared by RBI and forwarded to GoI for selection by the Selection Committee.
- After selection, GoI will advise bank-wise names of the selected firms to the respective banks. As per the statutory requirement, banks, in turn, are required to forward the names of the selected SCAS to RBI for its prior approval before their actual appointment.

B. Statutory Branch Auditors (SBAs)

1. The norms for selection of branches of PSBs for statutory audit from the year 2012-13 and onwards will be based on the following :

- (i) For the year 2012-13, statutory branch audit of PSBs may be carried out for all branches with advances of ` 20 crore & above 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 as to cover 90% of advances of a bank. CPUs/LPUs/and other centralized hubs by whatever nomenclature called would be included in the one fifth of the remaining branches every year.
- (ii) 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 will now be submitted by the concurrent auditors and such branches may not generally be subject to statutory audit.
- (iii) Going forward, in mutual discussions with GoI and SCAs, based, inter alia, on the operational efficiency and robustness of CBS, system driven identification of NPAs, and integrity of MIS,

managements of individual PSBs may decide on the threshold level of advances for the purpose of selecting branches for statutory audit.

- (iv) Progressively, the threshold level of advances may be increased so that the number of branches to be taken up for statutory audit is phased down over a period of time.

2. The following procedure will be followed for appointment statutory branch auditors (SBAs) in public sector banks (PSBs):

(i) The list of eligible auditors/audit firms will be prepared by the Institute of Chartered Accountants of India (ICAI) as per the norms prescribed by RBI.

(ii) The above list will be subjected to scrutiny by RBI for identifying the continuing and rested firms and excluding audit firms against whom adverse remarks/disciplinary proceedings are pending or who have been denied audit.

(iii) RBI will, thereafter, forward the final list of all eligible auditors/audit firms to PSBs for selection.

(iv) The PSBs will select the required number of branch auditors/audit firms. Banks will be required to clearly advise the audit firms selected for consideration of appointment that each audit firm can take up audit assignment (branch audit) in one PSB only. The audit firm should give their consent in writing for consideration of appointment in the bank concerned for the particular year and the subsequent continuing years.

(v) The consent given by an audit firm will be treated as irrevocable and request, if any, from audit firms for changing the bank, after giving its consent to the bank concerned will not be entertained.

(vi) After the selection of branch auditors, PSBs will be required to recommend the names of both continuing and selected branch auditors to RBI for seeking its prior approval before their actual appointment, as per statutory requirement.

3. SBAs will have a maximum tenure of four years. The appointment of SBAs will be made on an annual basis, subject to their fulfilling the eligibility norms prescribed by RBI from time to time and also subject to their suitability.

4. The number of eligible auditors / audit firms is more than the number of branches to be audited at the following 33 centres (viz. Mumbai, Kolhapur, Pune, Solapur, Thane, Kolkata, Chennai, Coimbatore, Delhi/ New Delhi, Ajmer, Bikaner, Jaipur, Kota, Udaipur, Ahmedabad, Vadodara, Surat, Hyderabad, Chandigarh, Raipur, Faridabad, Gurgaon, Panchkula, Panipat, Sonapat, Bangalore, Ernakulam, Indore, Nagpur, Ludhiana, Jodhpur, Bhilwara, and Ghaziabad). In such centres, the auditors/ audit firms will be put to a period of compulsory rest for two years after completion of four years of continuous branch audit. In other centres, where the number of eligible auditors / audit firms is less than the number of branches to be audited, the branch auditors on completion of four years of continuous branch audit will be subjected to the policy of rotation.

5. While allotting branches, banks are required to select auditors/audit firms which are in close proximity to their offices/branches. Banks are also required to have a suitable mix of various categories of auditors / audit firms while selecting the branch auditors keeping in view the size of the branches to be audited.

6. As regards statutory branch audit to be carried out by SCAs, banks will allot the top 20 branches(to be selected strictly in order of the level of outstanding advances) in such a manner as to cover a minimum of 15% of total gross advances of the bank by SCAs.

C. General Guidelines applicable to both SCAs and SBAs

(i) All PSBs are required to have a Board approved policy for appointment of statutory auditors and the same may be hosted on the bank's web-site. Banks are also required to ensure that the policy framed by the Board in the matter of selection of auditors/audit firms for appointment of auditors is strictly adhered to. Further, the list of firms selected for appointment as statutory branch auditors may be placed

before the ACB/Board of bank before for its concurrence before it is forwarded to RBI for final approval.

(ii) 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.

(iii) Further, 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. The policy has been made applicable from the year 2012-13 onwards.

(iv) In order to protect the independence of the auditors/audit firms, banks will have to make the appointments of SCA/branch auditors for a continuous period of three and four years respectively subject to the firms satisfying the eligibility norms each year. Banks cannot remove the audit firms during the above period without the prior approval of the Reserve Bank of India.