

## **Guidelines for Appointment of Statutory Auditors in Public Sector Banks**

### **Appointment of Statutory Auditors in Public Sector Banks**

GoI had granted autonomy to the public sector banks (PSBs) in December, 2005, in the matter of appointment of statutory auditors, providing an option that PSBs may obtain the names of statutory central auditors (SCAs) and branch auditors (SBAs) directly from the Comptroller and Auditor-General of India (C&AG) and the Institute of Chartered Accountants of India (ICAI) respectively and appoint them with prior approval of Reserve Bank of India (RBI). To encourage and enable PSBs to exercise the autonomy, a Road Map has been rolled out for appointment of statutory auditors in PSBs.

The salient features of the road map in respect of the appointment of SCAs and SBAs are as under:

- i) All the PSBs to compulsorily exercise autonomy in appointment of SCAs from the year 2008-09;
- ii) RBI to forward to PSBs a list containing the names of audit firms equivalent to the total number of vacancies of SCAs in all the PSBs put together during the year 2008-09;
- iii) PSBs to select suitable SCAs from the list and after obtaining the consent of the audit firms in writing to recommend the names to RBI for prior approval;
- iv) The following large PSBs will exercise autonomy in regard to SBAs also, viz. State Bank of India, Allahabad Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, Indian Overseas Bank, Oriental Bank of Commerce, Punjab National Bank, Syndicate Bank, UCO Bank and Union Bank of India.

The relevant guidelines and norms for empanelment/eligibility/categorization, etc. regarding appointment of statutory auditors in PSBs have been advised to PSBs and are given in Annex.

[Annex 1](#) - The minimum eligibility norms for SCAs.

[Annex 2](#) – The eligibility/categorization norms for SBAs.

[Annex 3](#) – Road Map prescribed by Government of India for appointment of statutory auditors in PSBs from 2008-09 and onwards.

[Annex 4](#) - Procedure for appointment of statutory auditors in PSBs.

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**Norms of empanelment for Statutory Central auditors  
of Public Sector Banks Select applicable from the year 2005-06**

**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. 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.

(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 atleast 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 with deposits resources of not less than Rs.500 crore. In case any of the partner of an audit firm is nominated / elected for a period of atleast 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 one partner of the firm or its paid Chartered Accountant must possess CISA / ISA or any other equivalent qualification.

**Categorisation norms effective from the year 2005-06 for the empanelment of audit firms to be appointed as statutory branch auditors for public sector banks**

Category	No. of CAs exclusively associated with the firm (Full time)	No. of partners exclusively associated with the firm (full time) (Out of 2)	Professional 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 with deposits of not less than Rs.500 crore.	8 years
II.	3	2	6	The firm or atleast one of the partners should have preferably conducted branch audit of a nationalised bank or of a private sector bank with deposits not less than Rs.500 crore for atleast 5 years	6 years (for the firm or atleast one partner)
III.	2	1	4	The firm or atleast one of the CAs should have preferably conducted branch audit of a nationalised bank or of a private sector bank with deposits not less than Rs.500 crore for atleast 3 years	5 years (for the firm or atleast 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 with deposits not less than Rs.500 crore will be treated at par with the partnership firm after deducting their 3 years seniority from the date of their establishment).			
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**Road Map for operationalisation of Managerial Autonomy and procedure for appointment of Statutory Auditors in PSBs w.e.f the year 2008-09**

**I. Statutory Central Auditors**

- i) The existing minimum eligibility / empanelment norms to remain the same.
- ii) All PSBs to compulsorily exercise autonomy and select their SCAs from now onwards.
- iii) The number of SCAs to be appointed to each PSB to be determined as per the existing system based on the size of the balance sheet.
- iv) **For the year 2008-09** – RBI to forward a list containing the names of audit firms **equivalent to the total number of vacancies**, after assessing the requirement of the SCAs in each PSB, from the list of eligible audit firms received from C&AG.
- v) **For the year 2009-10** – RBI will forward to the PSBs a list of eligible audit firms containing the names of firms **equal to twice the number of vacancies** identified for the year 2009-10.
- vi) **For the year 2010-11 and onwards** – PSBs will obtain the names of eligible audit firms directly from the Office of C&AG and appoint the SCAs with the prior approval of RBI.
- vii) The practice of appointing one Statutory audit firm (SCA / SBA) to one PSB to continue.
- viii) PSBs will select suitable SCAs from the list provided by RBI / C&AG – as the case may be, and after obtaining the consent of the audit firms in writing for consideration of appointment as SCAs, would recommend their names to RBI with the approval of the respective ACB / Board of Directors before actual appointment.
- ix) Banks to clearly advise the audit firms selected for consideration of appointment that one audit firm can take up audit assignment (SCA / SBA) in one PSB only and should obtain their consent in writing for consideration of appointment as SCA or SBA of the bank concerned for the particular year before recommending their names to RBI. The consent given by an audit firm will be treated as **irrevocable**.
- x) The existing tenure of 3 years of continuous statutory central audit (existing SCAs appointed prior to 2006-07 will complete a tenure of 4 years) to continue with compulsory rest of **at least 2** years.

## **II. Statutory Branch Auditors**

### **(a) Norms**

The existing minimum eligibility / empanelment / categorization, etc. norms including those for deficit / surplus areas to continue as of now.

### **(b) SBAs for large PSBs**

The large PSBs having balance sheet size (assets + liabilities) of above Rs. 1 lac crore each to exercise managerial autonomy in regard to appointment of SBAs **also from the year 2008-09 onwards**. Thus, State Bank of India, Allahabad Bank, Bank of India, Bank of Baroda, Canara Bank, Central Bank of India, Indian Overseas Bank, Oriental Bank of Commerce, Syndicate Bank, Punjab National Bank, UCO Bank and Union Bank of India would be required to select / appoint their SBAs from the year 2009-10, and Central Bank of India, Union Bank of India and Bank of Baroda have indicated their unwillingness to select their SBAs, all these banks would also be encouraged to select their SBAs from this year itself.

As SBI Act mandates appointment of statutory auditors by RBI in consultation with Central Government, SBI would select their SCAs /SBAs for appointment by RBI in accordance with the statutory provisions.

### **(c) SBAs for remaining PSBs**

For the remaining PSBs, the existing practice of RBI providing the list of audit firms to be appointed as SBAs would continue during the years 2008-09 and 2009-10. During these two years, these banks would put in place an effective system of selection / appointment of SBAs on their own **from the year 2010-11**.

## **II. General Norms applicable both for SBAs and SCAs.**

(i) In respect of the banks identified above, RBI to provide the list of eligible auditors / audit firms. The existing categorisation norms for empanelment of SBAs to continues.

(ii) The banks, stated above, to select suitable auditors / audit firms as SBAs in such a manner as to enlist the required number of branch auditors to carry out the statutory audit of branches during the relevant year.

(iii) The existing tenure of 4 years of continuous statutory branch audit (existing SBAs appointed prior to 2006-07 will complete a tenure of 5 years) to continue, after which they are to be rotated / rested in 33 identified centres.

(iv) The concept of one audit firm for one PSB to continue. The consent given by an audit firm will be treated as irrevocable.

(v) SBAs to be selected for appointment to audit branches located in the centres in which their offices are situated or branches located in centres which are in close proximity to their offices.

(vi) Banks to have a suitable mix of various categories of auditors / audit firms while selecting the SBAs keeping in view the size of the branches to be audited. The same auditors / audit firms cannot audit the same bank for a continuous period exceeding 4 years.

(vii) Banks should carry out branch audit in such a way that SCAs should audit the **top 20 branches** (to be selected strictly in order of the level of outstanding advances as at the end of March 31 of the previous year) to cover a minimum of 15% of total gross advances of the bank by SCAs.

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**PROCEDURE FOR APPOINTMENT OF  
STATUTORY AUDITORS IN PUBLIC SECTOR BANKS**

**A. Statutory Central Auditors (SCAs)**

1) There is no change in the existing norms for appointment of Statutory Central Auditors (SCAs) in public sector banks, the number of audit firms to be allotted to each public sector bank (excluding SBI) for appointment as SCAs is calculated based on the banks' (audited) assets and liabilities as on 31 March of the previous year, as under :

<b>Total Liabilities &amp; Assets</b>	<b>No of SCAs required</b>
upto Rs.50,000 crore	4
above Rs.50,000 crore and upto Rs.1 lakh crore	5
above Rs.1 lakh crore	6

As regards SBI, one audit firm is to be appointed as statutory circle auditor for each of the Circle Offices (presently 14, in number) of the bank.

2) SCAs appointed prior to 2006-07 will be completing their tenure of four years while those appointed during 2006-07 and afterwards 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) The allotment of vacancies of SCAs among the “experienced” and “new” audit firms is being continued in the ratio of 60:40 for the year 2008-09.

4) While continuing the practice of appointing one audit firm (as SCA and/or branch auditor) to one PSB, the banks will clearly advise the audit firms selected for consideration of appointment that one audit firm can take up audit assignment (central and /or branch audit) in one PSB only and also should give their consent in writing for consideration of appointment in the bank concerned for the particular year and the subsequent continuing years. 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.

5) In order to determine the inter-se seniority of both “experienced” and “new” audit firms for appointment as SCAs, a marking system based on various parameters such as the number of partners, period of association of partners, experience of the firms, full-time CA employees and bank audit/ PSU audit experience of the firms was followed by RBI during 2005-06. The seniority list thus prepared for the financial year 2005-06 is treated as the “base list”. Further additions to the list are made every year to include fresh additions / firms which are to be re-inducted from rest, etc. Allotment of audit is being made strictly in the order of seniority of the firms in the list in the ratio of 60:40 among the “experienced” and “new” audit firms

respectively, from the financial year 2006-07 and onwards. This system of allotment of audit assignment as per the seniority will ensure equitable distribution of audit assignments among all eligible firms by way of rotation.

6) From the financial year 2006-07, the marking system to determine the inter-se seniority of audit firms has been made applicable only to the “new” audit firms and the “experienced” audit firms are not being subjected to the marking system. “Experienced” firms which are re-inducted from rest, etc. or appearing afresh are placed in the seniority list as per the earliest date on which the firm was put on the list of existing auditors and in case of rested auditors the earliest date on which the firm was rested. “New” firms added to the SCA panel in subsequent years are placed strictly as per the seniority after subjecting the firms to the marking system. A firm will be subjected to marking system only at the time of its placement in the panel of SCAs.

7) While subjecting the “new” firms to the marking system, additional points accruing to a firm on account of merger with another firm will be given effect only after two years of the merger.

8) PSBs will select SCAs for the vacancies arising in respect of each bank from the list of eligible audit firms forwarded by RBI and recommend to RBI the names of both the continuing auditors and new auditors selected for filling up the vacancies for prior approval, before the actual appointment of SCAs.

## **B. Statutory Branch Auditors**

SBAs appointed prior to 2006-07 will be completing their tenure of five years while those appointed during 2006-07 and afterwards will have a 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.

(i) While allotting branches, banks are advised to select auditors located in centres in which their offices are situated or branches located in centres which are in close proximity to their offices. Banks are also advised 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.

(ii) 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 five / 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 five / four years of continuous branch audit will be subjected to the principle of rotation.

(iii) 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.

As in the case of SCAs, while continuing the practice of appointing one audit firm (as branch auditor) to one public sector bank, the banks will clearly advise the audit firms selected for consideration of appointment that one audit firm can take up audit assignment (branch audit) in one PSB only and also should give their consent in writing for consideration of appointment in the bank concerned for the particular year and the subsequent continuing years. 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.

(iv) The list of eligible auditors/audit firms received from the Institute of Chartered Accountants of India (ICAI) will be subjected to scrutiny to identify/ remove audit firms against whom adverse remarks/disciplinary proceedings are pending. RBI, thereafter, will forward the full and final list of all eligible auditors/audit firms to PSBs.

(v) The PSBs will be required to select suitable auditors / audit firms in such a manner as to enlist the required number of branch auditors to carry out the statutory audit of branches during the year. As in the case of SCAs, in order to adhere to the concept of one PSB for one audit firm, banks will obtain written consent from the auditors/audit firms selected by them for consideration of appointment as branch auditors.

(vi) After the selection of branch auditors, PSBs will be required to recommend the names of both continuing and new branch auditors to seek the approval from RBI before their actual appointment.

### **C. General Guidelines applicable to both SCAs and branch auditors**

Government of India have suggested that in order to protect the independence of the auditors/audit firms, banks will have to make the appointments of SCA/branch auditors necessarily for a continuous period of three and four years respectively. Banks do not have any authority to remove the audit firms during the above period without prior approval of the Reserve Bank of India.

For details, kindly visit [http://www.rbi.org.in/Scripts/bs\\_viewcontent.aspx?Id=946](http://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=946)

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