

**Norms on eligibility, empanelment and selection of Statutory Branch Auditors in Public Sector Banks from the year 2016-17 and onwards**

**A. Norms for the empanelment of audit firms to be appointed as statutory branch auditors for Public Sector Banks (2016-17)**

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.	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 for at least 5 years.	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).			
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## **B. PROCEDURE FOR APPOINTMENT OF STATUTORY BRANCH AUDITORS IN PUBLIC SECTOR BANKS**

1. The norms for selection of branches of PSBs for statutory audit from the year 2016-17 and onwards will be based on the following:

- i. 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 to the Chairman of the bank and such branches may not generally be subject to statutory audit. The banks in turn will consolidate/compile all such LFARs and other certifications submitted by the Concurrent Auditors and submit to Statutory Central Auditor as an internal document of the bank.
- iii. Going forward, in mutual discussions with Gol 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 of 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 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) In order to protect the independence of the auditors/audit firms, banks will have to make the appointments of branch auditors for a continuous period of four years 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.

(iv) The firms whose partner/s are on the Boards of PSBs are not to be appointed as auditors of the same PSB.