

## **Norms on eligibility, empanelment and appointment of Statutory Branch Auditors in Public Sector Banks from the year 2020-21 and onwards**

### **A. Norms for selection of branches of Public Sector Banks (PSBs) for Statutory Audit**

1. The norms for selection of branches of PSBs for statutory audit from the year 2020-21 onwards will be based on the following guidelines:

- i. Statutory branch audit of PSBs should be carried out so as to cover 90% of all funded and 90% of all non-funded credit exposures of a bank. The selection of branches for statutory audit shall include a representative cross section of rural/semi-urban/urban and metropolitan branches, predominantly including branches which are not subjected to concurrent audit. CPUs/LPUs/and other centralised hubs, by whatever nomenclature called, would be included for branch audit every year. The selection of branches shall be finalised by each PSB with the consent of their Statutory Central Auditor/s.
- ii. In respect of those branches, which are subject to concurrent audit by chartered accountants and not selected for branch audit, LFARs and other certifications done by concurrent auditors will be submitted to the Managing Director & CEO of the bank. The banks in turn will consolidate/compile all such LFARs and other certifications submitted by the Concurrent Auditors and submit to Statutory Central Auditor/s as an internal document of the bank.

### **B. Procedure for appointment of Statutory Branch Auditors**

2. The following procedure will be adhered to for appointment of Statutory Branch Auditors (SBAs) in 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 who have been denied audit.
- iii. RBI will, thereafter, forward the final list of all eligible auditors/audit firms to PSBs for selection of the required number of branch auditors/audit firms. Banks will be required to clearly advise the selected audit firms that each audit firm can take up audit assignment (branch audit) in one PSB only. The audit firm

should give its consent in writing for consideration of appointment in the bank concerned for the particular year and the subsequent continuing years.

- iv. The consent given by an audit firm is irrevocable and no request from audit firms for changing the bank, after giving its consent will be entertained.
- v. 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.

### **C. General guidelines applicable to appointment of Statutory Branch Auditors**

3. SBAs will have a maximum tenure of four years in a particular bank. 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 concept of compulsory rest for two years for audit firms located in the specified centres, after completion of four years of continuous branch audit, followed till FY 2019-20 has been done away with. Instead, the branch auditors across all the centres of the country, on completion of four years of continuous branch audit, will be subjected to the policy of rotation i.e. they may be considered for appointment as SBAs of any other PSB. However, the audit firms will not be eligible to be re-appointed as SBAs, in the same bank where they completed their audit assignment prior to rest/rotation, at least for one cycle of four years.

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. Banks are advised to allot branches, to the extent possible, to the audit firms taking into consideration their category and audit experience in such a way that specialised and larger branches are audited by bigger/experienced audit firms.

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.

7. All PSBs are required to have a Board approved policy for appointment of statutory auditors and the same shall be hosted on the bank's website. 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 shall be placed before the ACB/Board of bank for its concurrence before it is forwarded to RBI for final approval.

8. 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.

9. 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.

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

11. The audit firms retiring as Statutory Central Auditors from a PSB shall not be eligible to be appointed as SBAs of the same PSB during the prescribed cooling period for SCAs from that particular PSB.

#### **D. Eligibility norms for the empanelment of audit firms to be appointed as Statutory Branch Auditors in PSBs**

12. The eligibility norms are given in the [Annex](#).

**Eligibility norms for the empanelment of audit firms to be appointed as statutory branch auditors for Public Sector Banks (2020-21 onwards)**

<b>Category</b>	<b>No. of CAs exclusively associated* with the firm (Full time)</b>	<b>No. of partners exclusively associated*with the firm (full time) (Out of 2)</b>	<b>Professional staff*</b>	<b>Bank audit experience</b>	<b>Standing of the audit firm*</b>
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>
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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\* The definition of 'exclusive association', 'professional staff', and 'standing of the audit firm' will be the same as defined in the norms for empanelment of Statutory Central Auditors of Public Sector Banks.