

Annexure I

RBI Norms on empanelment of Statutory Central Auditors:-

1. The audit firm shall have a minimum of 7 full time chartered accountants, of which at least 5 should be full time partners exclusively associated* with the firm. Of these five full time exclusively associated* partners, one each should have minimum continuous association with the firm at least for 15 years and 10 years, two with a minimum continuous association of 5 years each and one with a minimum continuous association of one year. The remaining two could be either exclusively associated* partners or CA employees. There should be at least one year continuous association for both exclusive partners and CA employees. 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.)

* The definition of 'exclusive association' will be based on the following criteria:

- The full time partner should not be a partner in other firm/s
- He should not be employed full time / part time elsewhere.
- 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
- 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. The number of professional staff (excluding typists, stenographers, computer operators, secretary/ies and sub-ordinate staff etc.), consisting of audit and articled clerks with knowledge in book-keeping and accountancy and are engaged in outdoor audit should be 18.



3. 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.
4. 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 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.)
5. 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.)
6. At least two full time partners of the firm or its paid full time Chartered Accountants must possess CISA /ISA qualification.
7. In case of merger and demerger of firms, merger effect will be given after 2 years of merger while demerger will be effected immediately.

Notes:

1. C&AG will empanel the Audit Firms based on the above parameters as on January 1 of the relevant year and send the panel to RBI.
2. If any audit firm empanelled by C&AG with the position as on January 1 undergoes change in its constitution after empanelment date, the audit firm will take all necessary steps to become eligible within a reasonable time and in any case, audit firm should be complying with above norms [Point No. 1 to 7] on eligibility, empanelment and selection of Statutory Central Auditors in Public Sector Banks hosted on RBI web site before the following events:
 - a. Appointment of the audit firms by the PSBs as SCAs. For this, the audit firm while giving consent to PSB for appointment may ensure that it complies with the norms.
 - b. Before commencement of Annual Statutory Audit for Financial Year ending 31st March and till the completion of annual audit.
 - c. Quarterly Review of Accounts as on June 30, September 30 and December 31 every year till its completion.

In case any audit firm (after appointment) does not comply with any one of the norms (on account of resignation, death etc. of any of the partners, employees etc), it may promptly approach the Bank with full details. The Bank in turn may approach RBI.



Annexure II

Procedure prescribed by the RBI for appointment of Statutory Central Auditors:-

1. The number of SCAs to be appointed in PSB will be as under:
 - i. **Category "A" Banks** (Large Banks viz. Bank of Baroda, Bank of India, Canara Bank, Punjab National Bank, Central Bank of India, IDBI Bank 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 and Vijaya Bank) shall not have more than 4 SCAs.

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

2. The cooling off period after completing the term of three years as SCA will be of three years.
3. 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.
4. The Government has decided that from the financial year 2014-15, selection and appointment of SCAs is delegated to individual Public Sector Banks.
5. The procedure that will be followed for selection of SCAs by the PSBs is as under:
 - a. The eligible list of firms furnished by C&AG every year will be subjected to scrutiny by RBI for identifying the continuing, rested and non-continuing firms and excluding audit firms against whom adverse remarks/disciplinary proceedings are pending or who have been denied audit
 - b. RBI will verify that the firm has minimum bank audit experience of 15 years from its records.
 - c. RBI will prepare separate list of rested, continuing and non continuing eligible audit firms after excluding the name of firms who have been denied audit by RBI/C&AG and the firms who have declined the offer of appointment given by Public Sector Banks. The list of non continuing eligible audit firms will be further split up into list of experienced audit firms and new audit firms.



An 'Experienced' firm is one which has a Statutory Central Audit experience of any of the Public Sector Banks and 'New Firm' is one who does not have such experience.

Reserve Bank will be giving Public Sector Banks:-

- i) List of continuing firms (i.e. the list of audit firms who have not completed three years of audit
 - ii) List of eligible, non continuing audit firms in two parts viz. experienced audit firms and new audit firms.
- d. The allotment of vacancies of SCA's shall be in the ratio of 60:40 between 'Experienced' and 'New' audit firms. As regards ratio of 60:40, banks will round the number to the nearest round number and choose auditors from the 'Experienced' and 'New' firm list.
Further, the allotment of audit work in the ratio of 60:40 among experienced and new audit firms is only for fresh vacancies arising this year and not for continuing auditors. Accordingly, if there is only one fresh vacancy in the Bank the same will go to an experienced firm only, based on the ratios to the nearest whole number, as hitherto.
- e. The Office of the Comptroller & Auditor General of India (C&AG) will provide a graded panel. The audit firms in case of both the panels i.e. experienced as well as new firms, will be ranked (highest to lowest) based on the points given by C&AG. The banks will select the statutory auditors as per norms from the two panels.

For Category 'A' banks, cut off limit for selection of audit firms will be 4 times of vacancy in that category while for Category 'B' banks, cut off limit will be 8 times of vacancy. Category 'C' banks will have the liberty to choose audit firms from the entire panel.

The cut offs for category 'A' and 'B' banks, both for experienced as well as new firms, is indicated by RBI vide its forwarding letter DBS.ARS.No. 2352/08:01:003/2018-19 dated 2nd November, 2018.

Accordingly, Bank Category wise vacancies for the year 2018-19 and segregation of vacancies into experienced and new firms as per the ratio of 60:40 and respective cut offs up to the number in C & AG graded panel for each category of banks for selection of their SCAs as per stipulated framework is as under:

Category	No of Banks	No of vacancies (2018-19)	Allotment of Audit Work in the ratio of 60:40 among experience and new audit firms		Category wise cut off limit	Audit firms ranked (from highest to lowest) based on teh point given by CAG from which the banks have to select the statutory auditors	
			Experienced	New		Experienced	New
A	8	18*	15	3	4 times of	From 1 to	From 1 to



					the vacancy	62**	13***
B	7	14	9	5	8 times of the vacancy	From 1 to 74****	From 1 to 42*****
C	6	7	4	3	-	Liberty to choose the audit firms from the entire panel	
Total	21	39	28	11	-	-	-

* Includes 9 vacancies of SBI – All experienced firms to be appointed.

** In case of Category `A' Banks for Experienced firms the cut off is to be applied at four times of the vacancies (i.e. Serial No 60). However, the firm at Serial No. 61 and 62 have the same points as the firm at Serial No 60. The cut off for Experienced firms for Category A Banks is, therefore, applied at Serial No 62.

*** In case of category A Banks for New Firms, the cut off is to be applied at four times of vacancies (i.e. Serial No. 12). However, the firm at Sr No. 13 has the same points as the firm at Sr. No. 12, the cut off for New Firms for Category A Banks is applied at Sr No. 13.

**** In case of category B Banks for Experienced Firms, the cut off is to be applied at eight times of vacancies (i.e. Serial No. 72). However the firm at Sr No. 73 and 74 have the same points as the firm at Sr No. 72, the cut off for New Firms for Category B Banks is applied at Sr. No. 74.

***** In case of category B Banks for New Firms, the cut off is to be applied at eight times of vacancies (i.e. Serial No. 40). However the firm at Sr No. 41 and 42 have the same points as the firm at Sr No. 40, the cut off for New Firms for Category B Banks is applied at Sr. No. 42.

- f. While making final selection, the PSBs will take into consideration the following points:-
- As far as possible, the Bank should have at least two audit firms having their Head Office from the same place where the banks' HO/CO is located. This condition is applicable for the combined pool of continuing and fresh auditors.
 - Audit firms are not selected in the PSB from where they last retired (after completing the full term) before going under rest.
 - The firms whose partner/s are on the Boards of PSBs are not appointed as auditors for the same PSB.
 - In case of SBI, only experienced audit firms are considered as SCAs.
 - An audit firm is eligible to be appointed as a Central/Branch auditor of only one PSB during a particular year.
 - The Bank will make parameters for short listing the audit firms.
 - If any partner of a Chartered Accountant firm is a non official director in any PSB, no partner of the same firm be appointed as Statutory Central Auditor in any PSB.
 - No subcontracting of audit work is allowed and only such team members are allowed for auditing who are either partner or employed with the firm or undergoing article training as per ICAI record.



- ix) The firm shall undertake that there are no adverse remarks/disciplinary proceedings pending/initiated against firm or partner with any regulators/ tribunal/courts. They shall also undertake that the firm is not disqualified in terms of provisions of section 141 of the Companies Act, 2013.
- x) Disqualification of associate firms/sister concern of the audit firm from any internal audit, TEV study, special audit and insolvency work of the Bank and its subsidiaries.
- xi) The audit firm shall confirm that there is adequate knowledge, competence and expertise within the audit engagement team and that the audit will be conducted in compliance with the accepted auditing standards, as well as any applicable laws and regulations.

The above parameters may be approved by the Board.

The Bank will prepare list of shortlisted audit firms in terms of above parameters.

The Bank will obtain the willingness in writing from the shortlisted audit firm(s) to accept the assignment of Statutory Central Audit work.

In the willingness letter, it should be clearly mentioned that there is no commitment on the part of the Bank to allot the Statutory Central Audit work to the auditors and the audit firms are free to give similar willingness to multiple Public Sector Banks, if approached by other Public Sector Banks.

The list of shortlisted audit firms will be placed before ACB. The ACB will approve adequate number of audit firm (s) in order of preference. The number of audit firms approved should be adequate enough to take care of the situation where some firms may not give consent.

Thereafter, the Bank will approach the audit firms to obtain their consent in writing strictly in order of preference. 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 subject to complying with para 3 above. If the approached audit firm does not give consent, the bank will approach the next audit firm in order of preference for obtaining consent till the time the number of audit firms who have given the consent equals to number of vacancies for the particular year.

The consent letter may clearly state that this selection of the audit firms as Statutory Central Auditor is subject to approval of RBI and any force majeure events and, in such cases, the audit firms will not have any claim against the Bank and RBI. The Bank may also clearly mention in the consent letter that appointment is subject to complying with the stipulated norms on eligibility and empanelment issued by RBI from time to time. In the consent letter, the audit firm should declare that consent is given to one PSB only.

It may also be incorporated in the consent letter that 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.

The list of such selected firms (i.e. the firms who have given consent in the manner as stated above) who have given consent for appointment as statutory central auditors in PSBs may be placed before the ACB for its concurrence before it is forwarded to RBI for final approval.

6. Audit firm(s) selected by the PSBs after obtaining consent in writing from the audit firm will be debarred for a period of 3 years for selection if the firm refuses to accept the appointment without a reasonable ground, that is ground not to the satisfaction of RBI.
7. The above norms will be implemented during the selection process of SCAs for the year 2018-19 and onwards.
8. After selection, 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.
9. A feedback on the quality of audit of SCAs may be given by PSBs to RBI after the annual audit of banks.
10. Other guidelines
 - i. In order to protect the independence of the auditors/audit firms, Bank will have to make the appointments of SCA for a continuous period of three years subject to the firms satisfying the eligibility norms each year. Bank cannot remove the audit firms during the above period without the prior approval of the Reserve Bank of India.
 - ii. 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.
 - iii. The audit firms applying for empanelment as SCAs in PSBs will be required to give an undertaking that, in case of selection in PSBs, they would give up the existing SCA assignment, if any, in Private Banks/Foreign Banks/RBI/Financial Institutions such as National Housing Bank, EXIM Bank etc. and they cannot refuse appointment of PSBs once selected. This stipulation however, will not be applicable for the auditors of the banks with no presence in India.

Note: A full time partner does not include a person who is:

- 1) A partner in other firms.
- 2) Employed full time/part time elsewhere, practicing in 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.

