



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA



Ref. DoS.CO.ARG/S8213/08.91.001/2022-23

March 06, 2023

The Chairman/Managing Director/Chief Executive Officer
All Public Sector Banks

Madam/Dear Sir,

(i) Revised Guidelines for Appointment / Re-appointment of Statutory Branch Auditors of Public Sector Banks

(ii) Norms on Business Coverage under Statutory Branch Audit of Public Sector Banks

Presently, the Reserve Bank of India accords prior approval for the appointment/ re-appointment of statutory branch auditors (SBAs) of Public Sector Banks (PSBs)¹ as required by various applicable statutes. Based on a review of the matter, it has now been decided to grant general permission to PSBs for appointment/ re-appointment of SBAs subject to the requirements mentioned herein.

Eligibility Criteria

2. In order to be eligible for appointment/ re-appointment as SBA, an audit entity (i.e., audit firms or sole proprietorship auditors) shall meet all the following conditions:

- a) The audit entity satisfies all the criteria laid down in section 141 of the Companies Act, 2013.
- b) The audit entity or any of its partners have not been barred from exercising duties as auditor by any regulatory body including the RBI, Securities and Exchange Board of India, the Comptroller and Auditor General (C&AG), Government of India, the National Financial Reporting Authority (NFRA) and the

¹ For the purposes of this circular, the term 'Public Sector Banks' refers to the State Bank of India and 'corresponding new banks' as defined in sub-sections (nc) and (da) of Section 5 the Banking Regulation Act, 1949.

Institute of Chartered Accountants of India (ICAI).

- c) The audit entity is not undertaking audit engagements, either as SBA or Statutory Central Auditor (SCA), of any other PSB for the period of appointment.
- d) In case the auditor has previously completed four consecutive years as SBA of the bank, at least four years have elapsed after the completion of the last audit engagement as SBA of the same PSB.
- e) In case the auditor has been appointed as an SCA of the bank in the past, at least six years have elapsed after the completion of the last audit engagement as SCA of the same PSB (irrespective of tenure of previous engagement).
- f) None of the partners of the audit firm or the proprietor of the audit entity are Directors in the same PSB.
- g) The audit entity does not have any common partner(s) with any other SBA of the same PSB and that they are not under the same network² of audit firms.
- h) The audit entity meets the criteria for bank audit experience, number of partners, standing, etc., as laid down in **Annex 1** for the audit engagements for the year ending March 31, 2023, and **Annex 1A** for audit engagements for the year ending March 31, 2024, and onwards.

3. As hitherto, the ICAI shall forward a list of eligible audit entities as per norms prescribed by RBI. The same shall be reviewed to identify continuing / non-continuing auditors, etc., and forwarded by the RBI to PSBs for selection.

4. The bank shall satisfy itself that the audit entity meets the requirements of paragraph 2 above before making any appointment/ re-appointment as well as during the audit engagement. Further, before appointing the audit entity, the bank shall seek its irrevocable consent to take up the audit engagement for a period of four consecutive years. Further, the audit entity shall also undertake not to accept appointment as SCA or SBA of any other PSB, if appointed.

Role of the Board and its Audit Committee

5. The Board of the bank shall lay down a policy for engagement of SBAs covering their eligibility criteria, appointment, re-appointment, removal, business coverage

² As defined in Rule 6(3) of the Companies (Audit & Auditors) Rules, 2014

and selection of branches for statutory branch audit. The methodology approved by the Board for business coverage and selection of branches shall, *inter-alia*, consider bank-specific characteristics, degree of centralisation of processes, need to address fraud risk and credit risk, adverse reports from internal/ concurrent auditors, whistle blower complaints and unusual patterns/ activity shown by internal MIS reports. It should also ensure that a representative cross section of rural, semi-urban, urban and metropolitan branches are covered, including branches that are not subjected to concurrent audit. This methodology shall be reviewed and updated regularly.

6. PSBs shall allot the top 20 branches (to be selected strictly in descending order of outstanding advances) to the SCAs and shall ensure that at least 15 per cent of the gross advances of the bank are covered by branches under SCAs.

7. The actual selection of branches as well as the allocation of SBAs shall be done as per the Board approved methodology and approved by the Audit Committee of the Board (ACB).

8. It shall be ensured that selection and allocation of branches to SBAs is made in a transparent, fair and judicious manner. Not more than two branches shall be allotted to each SBA.

9. The Board approved policy for selection and appointment of auditors shall be placed on the official website of the bank. PSBs shall also disclose on their website the extent of business coverage under statutory branch audit for the respective year and the previous year with effect from FY 2023-24.

Appointment/ Re-appointment and Removal

10. Prior to appointment/ re-appointment, the names of the audit entities selected shall be uploaded to the RBI's Auditor Allocation System (AAS) to ensure that any audit entity which is preferred by multiple PSBs is allocated only to one PSB on 'first-come, first-served' basis by the AAS. Post appointment/ re-appointment, the banks shall report to RBI (through AAS) the list of SBAs appointed, along with details of allocation of branches thereof.

11. The bank shall appoint the SBA for a period of one year at a time upto a period of four consecutive years, subject to the audit firm meeting the eligibility criteria laid

down in paragraph 2 above. The names of the SBAs appointed shall be reported to the RBI.

12. The bank shall ensure that as a part of the terms of engagement, the SBA shall report any fraud entailing an amount of ₹ 1 crore or more directly to the Fraud Monitoring Group, Department of Supervision, Reserve Bank of India. Further, the terms of engagement shall require reporting of all material irregularities, including frauds, concurrently to the Chairman of the ACB as well as the Managing Director & Chief Executive Officer of the bank.

13. The ACB of the bank shall review the performance of SBAs on an annual basis. Any serious lapses, negligence in audit responsibilities, conduct issues or any other matter considered as relevant as observed by the ACB shall be reported to the RBI within two months from the completion of the annual audit, with the full details of the audit firm.

14. Non-reappointment / removal of SBAs by PSBs before completion of audit tenure of four years will continue to be subject to RBI's prior approval. Such request for prior approval shall be forwarded to RBI with the approval of Board/ACB.

Consolidation of reports of branches not subject to statutory branch audit

15. The Long Form Audit Reports (LFAR) prepared by concurrent auditors, who are practicing Chartered Accountants, shall be consolidated and submitted by the bank to their SCAs for branches that are not subject to statutory branch audit. Any other certificates and reports prepared by the concurrent auditors for such branches shall also be submitted to the SCAs.

General Permission and effective date

16. Accordingly, the RBI permits PSBs to appoint SBAs in compliance with the instructions contained herewith without requiring its prior approval in each case. These directions shall be applicable for appointment of SBAs for audit of accounting periods ending March 31, 2023, and onwards.

17. Business Coverage

(i) For FY 2022-23, statutory branch audit of PSBs shall be carried out so as to cover a minimum of 70% of all funded and 70% of all non-funded credit exposures of the bank.

(ii) For FY 2023-24 and onwards, the PSBs are being given the discretion to determine business coverage under statutory branch audit, as per their Board approved policy, after considering bank-specific aspects relating to business and financial risks, including guidelines contained in paragraphs 5 to 9 and elsewhere in this circular.

18. With the issue of these instructions, the previous instructions/guidelines listed in **Annex 2** stand repealed.

Yours faithfully,

Sd/-

(Sivakumar Bose)
Chief General Manager
Annex: As above

Eligibility norms for the empanelment of audit firms to be appointed as Statutory Branch Auditors of Public Sector Banks for audit engagements for the year ending March 31, 2023³

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 Public Sector Bank (PSB) or of a Private Sector Bank (PVB)	8 years
II.	3	2	6	The firm or at least one of the partners should have preferably conducted branch audit of a PSB/PVB 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 PSB/PVB 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 PSB/PVB will be treated at par with the partnership firm after deducting their 3 years seniority from the date of their establishment).				

* 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.

³ Same as norms contained in Guidelines dated January 7, 2021

Eligibility norms for the empanelment of audit firms to be appointed as Statutory Branch Auditor of Public Sector Banks for audits of the year ending March 31, 2024, and onwards

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)
Category 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 public sector bank (PSB) or of a private sector bank (PVB).	8 years
Category II	3	2	6	The firm or at least one of the partners should have conducted branch audit of a PSB /PVB for at least 5 years.	6 years (for the firm or at least one partner)
Category III	2	2	4	The firm or at least one of the CAs should have conducted branch audit of a PSB /PVB for at least 3 years	5 years (for the firm or at least one partner)
Category IV					
Partnership firm	2	2	2	Not necessary	3 years
Proprietorship concern	2	1	2	Not necessary	6 years
Proprietorship concern	1	1	2	The proprietor should have conducted branch audit of a PSB /PVB for at least 3 years	6 years

* 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
- She/He should not be employed full time / part time elsewhere
- She/He should not be practising in her or 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

Professional staff (excluding typists, stenographers, computer operators, secretary/ies and subordinate staff, etc.) implies audit and articled clerks with knowledge in book-keeping and accountancy and are engaged in audit

@ The standing of an audit firm would be reckoned from the date of its establishment. For a proprietorship, the period for which the proprietor has been holding a Certificate of Practice issued by the ICAI shall be reckoned for standing.

List of instructions/ guidelines repealed*

Sr. No.	Circular No.	Date	Subject
1.	As hosted on RBI website	January 7, 2021	Norms on eligibility, empanelment and appointment of Statutory Branch Auditors in Public Sector Banks from the year 2020-21 and onwards
2.	DoS.CO.ARG.No.S3955 / 08.91.001/2021-22	March 17, 2022	Norms for selection of branches for Statutory Audit for the FY 2021-22 and onwards

*Notwithstanding such repeal, any action taken, purported to have been taken or initiated under the instructions/ guidelines hereby repealed shall continue to be governed by the provisions of the said instructions/ guidelines.