

Icai wants RBI to name PSU bank auditors

The Institute of Chartered Accountants of India (Icai), the apex body of accounting professionals, wants the Reserve Bank of India (RBI) to appoint statutory auditors in state-run banks. The accountants' body has sought the government intervention on this.

Till 2005, RBI was directly involved in the appointment of auditors, but now the boards of public sector banks (PSBs) appoints auditors in consultation with the central bank.

The move assumes significance in the backdrop of the recent spat between the Icai auditors' body and the nation's largest lender, State Bank of India (SBI), on a sharp rise in the lender's provisions in the March quarter. During the quarter, SBI had set aside Rs.6,059 crore as provisions towards pension liabilities, 82% higher than what it had provided for in the year-ago quarter. Icai had sought clarifications from SBI on the sudden rise in its provisions and the role of auditors.

"If appointments are left to bank managements, there may be a tendency to take short-cuts in these regards with possible ultimate deleterious effects on the financial health of the PSBs," Icai president G. Ramaswamy said. "This process compromises the independence of auditors and gives an incentive for promotion of vested interest in the appointment of auditors."

Icai, however, did not respond to a specific question on why it is silent on the appointment of auditors in private sector banks.

Queries sent to RBI seeking its view on the matter remained unanswered.

Bankers, experts and consultants criticized Icai's move, saying this is unlikely to make any major difference in the quality of auditing. Also, any changes in these aspects should equally apply to private and foreign banks as well, as they also deal with public money, they said.

"Icai should question the entire banking sector," Santosh Singh, an analyst with job (to Espirito Santo Securities, said. "After all, it is not the regulator's appoint auditors). Also, whoever is compensating auditors is bound to do that in future, also."

Until 2005, the appointment of auditors in state-run banks was overseen by an appointments committee with representation from RBI, Icai and the Comptroller and Auditor General of India.

In December 2005, the finance ministry offered all PSBs an option to appoint statutory auditors by their boards though the norms of empanelment, and remuneration of these auditors continues to be prescribed by RBI.

Those who did not opt for this started doing so from December 2008 when RBI to a large extent dissociated itself from the appointment process.

“In many cases, auditors do not see eye-to-eye with bank managements (on issues such as) like NPA (non-performing assets) provisioning, implementation of prudential norms, etc., and this is the reason auditors are at all appointed. There must always be somebody who will not look at the business from the point of view of the management, and who will look and act at it from the point of view of good governance,” Ramaswamy said.

SBI had questioned Icai’s standing to question the banking major. “If they feel that something is wrong with the bank’s auditing, Icai should ask their own members,” a senior SBI official had said in August.

Senior bankers express a similar view, saying the regulator-appointing auditors for PSBs were not effective in the past and the current practice should be retained.

“That (RBI appointing auditors) was done earlier and the power was later given back to banks. It obviously didn’t have the desired effect,” said P.K. Anand, executive director at Punjab and Sind Bank.

“The real issue is not independence, but the quality of auditing, which has seen deterioration in many cases in the recent past,” said the partner at a global consultant, who did not want to be named.

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