

## Let RBI appoint auditors of private banks, says ICAI

Accounting regulator has urged the government to let the Reserve Bank of India appoint auditors of private banks, citing the inherent conflict of interest when auditors are chosen by the bank management.

The Institute of Chartered Accountants of India (ICAI) has in a letter to the finance ministry and the ministry of corporate affairs urged ICAI has urged the government to allow independent regulator such as the Reserve Bank of India to appoint of auditors of private banks.

"Basic ethics of corporate governance mandates monitoring of auditors by a non-biased third party. The current system of choosing auditors amongst themselves without even consulting audit committees has to end immediately," a top ICAI official told ET.

The institute had flagged the issue earlier as well pointing out that auditor independence is particularly relevant for banks as they raise deposits from public.

The trigger for renewed request comes after the government has decided to select auditors for state run banks.

"Not being state run banks should not keep the government from monitoring these banks. At the end of the day it is the money of the common man which gets lost during run on banks," the official added, requesting anonymity.

Though each bank has an audit committee responsible for appointment of auditors, in practice the final selection is usually done by the top management.

An official from a private sector bank, however, dismissed the concerns as being overdone.

"We are listed firms, besides the banking regulator we are also under scrutiny from other regulators such as SEBI," he said.

Experts also maintain that an appointment by an independent regulator or a government constituted committee will also address the alleged overstatement of profits by banks.

"One just needs to see the huge divergence between NPA reported by bank auditors and that by the central bank. Obviously something is amiss and needs to be looked at urgently," explained Amarjit Chopra, past president, ICAI.

As per the RBI's annual report 2011-12, corporate debt restructuring increased substantially in the fourth quarter of 2011-12, taking such loans at the end of the year to about 5% of the loan book of the scheduled commercial banks, up from 3.9% a year ago.

In the case of state run banks, the government is strengthening the audit procedures by reducing multiple audits and synchronise audits with computerisation.

"Multiplicity of audits is resulting in waste of resources and audit fatigue. We are for effective internal audit and concurrent audit which should work as a strong deterrent," said a finance ministry official.

*(Economic Times)*