

# FREQUENTLY ASKED QUESTIONS

## Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)

(Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 April 27, 2021)

The Circular dated April 27, 2021 on 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs), has been issued by RBI with the basic objectives of putting in place ownership-neutral regulations, ensuring independence of auditors, avoiding conflict of interest in auditor's appointments and to improve the quality and standards of audit in RBI Regulated Entities. These guidelines will also help in streamlining the procedure for appointment of Statutory Auditors across all the Regulated Entities and ensure that appointments are made in a timely, transparent and effective manner.

In view of certain clarifications being sought in the matter, it has been decided to publish Frequently Asked Questions (FAQs) and the necessary clarifications, as given below:

### 1. As per Para 6.4, whether the time gap of one year between any non-audit works by the SCAs/SAs for the Entities or any audit/non-audit works for its Group Entities has to be ensured for all the Entities in the Group or the RBI Regulated Entities in the Group?

The Group Entities refer to the RBI Regulated Entities in the Group, which fulfill the definition of Group Entity, as provided in the Circular<sup>1</sup>. However, if an audit firm engaged with audit/non-audit works for the Group Entities (which are not regulated by RBI) is being considered by any of the RBI Regulated Entities in the Group for appointment as SCAs/SAs, it would be the responsibility of the Board/ACB/LMC of the concerned RBI Regulated Entity to ensure that there is no conflict of interest and independence of auditors is ensured, and this should be suitably recorded in the minutes of the meetings of Board/ACB/LMC.

### 2. As per Para B (iv) of Annex I, if any partner of a Chartered Accountant firm is a director in any Entity, the said firm shall not be appointed as SCA/SA of any of the Group Entities of that Entity. Whether this stipulation is applicable to all the Entities in the Group or the RBI Regulated Entities in the Group?

The Group Entities here refer to the RBI Regulated Entities in the Group, which fulfill the definition of Group Entity, as provided in the Circular. Therefore, if any partner of a Chartered Accountant firm is a director in an RBI Regulated Entity in the Group, the said firm shall not be appointed as SCA/SA of any of the RBI Regulated Entities in the Group. However, if an audit firm is being considered by any of the RBI Regulated Entities in the Group for appointment as SCAs/SAs, whose partner is a director in any of the Group Entities (which are not regulated by RBI), the said audit firm shall make appropriate disclosures to the ACB as well as Board /LMC.

### 3. As per Para 6.4, whether the Entities are required to look back for one year (regarding any non-audit works for the Entities or any audit/non-audit works for the Group Entities) before appointment of an audit firm as SCAs/SAs for FY 2021-22?

Before appointment of an audit firm as SCA/SA of the RBI Regulated Entity, there should be a time gap of minimum one year between this appointment and completion of the assignment of any non-audit works given to the same audit firm in that RBI Regulated Entity or completion of any audit/non-audit works in other RBI Regulated Entities in the Group. This stipulation shall be applicable prospectively, i.e. from FY 2022-23. Therefore, if an audit firm is involved in some non-audit work with the Entity and/or any audit/non-audit work in other RBI Regulated Entities in the Group and completes or relinquishes the said assignment prior to the date of appointment as SCA/SA of the Entity for FY 2021-22, the said audit firm would be eligible for appointment as SCA/SA of the Entity for FY 2021-22.

It is reiterated that the time gap between any non-audit works by the SCAs/SAs for the Entities or any audit/non-audit works for its Group Entities should be at least one year after completion of the audit assignment as SCA/SA.

### 4. Can the existing SCAs/SAs continue if they do not fulfill the eligibility criteria but are yet to complete their original tenure of appointment? Are the Entities required to appoint SCAs/SAs (including as Joint Auditors) immediately or they can be appointed in the ensuing Annual General Meeting (AGM)?

The existing SCAs/SAs of the Entity can continue (including as Joint Auditors) only if they fulfill the eligibility criteria and have not completed the stipulated tenure of three years as SCAs/SAs of the Entity. Till the appointment of SCAs/SAs for FY 2021-22, as per the requirements of the Circular and applicable statutory provisions, the SCAs/SAs for FY 2020-21 can continue for the Limited Review for Q1, Q2, etc.

### 5. As per Para 6.3, whether an audit firm doing audit of any Company/Entity with Large Exposure<sup>2</sup> to the Entity is prohibited from being appointed as SCA/SA of the Entity?

The Circular does not prohibit an audit firm from doing audit of any Company/Entity with Large Exposure to the Entity from being appointed as SCA/SA of the Entity. It only stipulates that this aspect should also be explicitly factored while assessing independence of the auditor. In this regard, the Board/ACB/LMC shall see that there is no conflict of interest and the independence of auditors is ensured.

### 6. As per Para 8.3, whether the limit of audit of four commercial banks, eight UCBs and eight NBFCs for an audit firm in a year is applicable to audit of NBFCs with asset size below Rs. 1,000 crore also?

These limits are applicable in respect of audit of all RBI Regulated Entities, irrespective of the asset size.

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<sup>1</sup>As per the Footnote 13 of Annex 1 of the Circular.

<sup>2</sup>As defined in RBI Circular Ref. DBR.No.BP.BC.43/21.01.003/2016-17 dated December 01, 2016 on 'Large Exposures Framework'