

RBI UPDATE

**Guidelines for Appointment of SCA/SAs
of Commercial Bank(excluding RRB),
UCBs and NBFCs(including HFCs)**



**RBI Guidelines for Appointment of Statutory Central Auditors/
Statutory Auditors of Commercial Bank (excluding RRBs), UCBs
and NBFCs (including HFCs) [Applicable FY 2021-22 and
onwards]**

The RBI Circular issued on 27th April 2021 prescribed a set of selection criteria for appointment of Statutory Central Auditors/Statutory Auditors of Commercial banks (excluding regional rural banks), urban co-operative banks(UCBs) and non-banking financial companies(NBFC) including housing finance companies based on quality parameters and independence considerations.

These Guidelines provide necessary instructions for appointment of Statutory Central Auditors/Statutory Auditors, the number of auditors, their eligibility criteria, tenure and rotation, etc. while ensuring the independence of auditors. The Guidelines shall become applicable from FY 2021-22 and onwards. However, urban co-operative banks and non-banking financial companies shall have the flexibility to adopt these guidelines from H2 of FY 2021-22.

As per RBI Circular, auditors must be rotated every three years with a cooling off period of six years before the next appointment, while joint audits by more than one auditor have been mandated for NBFCs with assets of ₹15,000 crore or more. That apart, auditors will also not be allowed to work for more than eight NBFC clients concurrently. NBFCs can implement the new set of guidelines from the second half of FY 2021-22. However, they are optional for non-deposit taking NBFCs with assets of less than ₹1,000 crore.

Eligibility Criteria for Appointment as SCA/SA

Assets Size of Entity as on 31 st March of Previous Year	Above Rs 15000 crores	Above Rs 1000 crores but up to Rs 15000 crores	Upto Rs 1000 crores
Minimum No. of Full Time Partners(FTP)s associated with the firm for a period of at least three (3) years	5	3	2
Out of total FTPs, Minimum No. of Fellow Chartered Accountant(FCA) partners associated with firm for the period of at least three years	4	2	1
Minimum No. of Full Time Partners/Paid CAs with CISA/ISA Qualification	2	1	1*
Minimum No. of Year of Audit Experience of the Firm	15	8	6
Minimum No. of professional staff	18	12	8

*Not mandatory for UCBs/NBFC with assets size of upto Rs 1000 crores

The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the SCAs/SAs for the Entities or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as SCAs/SAs.

During the tenure as SCA/SA, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest, and Entities may take their own decision in this regard, in consultation with the Board/ACB/LMC. A conflict would not normally be created in the case of the following special assignments (indicative list):

- (i) Tax audit, tax representation and advice on taxation matters,
- (ii) Audit of interim financial statements.
- (iii) Certificates required to be issued by the statutory auditor in compliance with statutory or regulatory requirements.
- (iv) reporting on financial information or segments thereof

Tenure and Rotation

To protect the independence of the auditors/audit firms, Entities will have to appoint the SCAs/SA for a continuous period of three years, subject to the firms satisfying the eligibility norms each year.

Cooling Period

An audit firm would not be eligible for reappointment in the same Entity for six years (two tenures) after completion of full or part of one term of the audit tenure.

One audit firm can concurrently take up statutory audit of a maximum of

- a.** four (4) Commercial Banks [including not more than one PSB or one All India Financial Institution (NABARD, SIDBI, NHB, EXIM Bank) or RBI]
- b.** eight (8) UCBs
- c.** eight (8) NBFCs

Non-banking financial companies (NBFCs) are worried that the Reserve Bank of India's (RBI's) new guidelines on hiring statutory auditors will make it difficult for them to find professionals who fit the bill, especially in the middle of the year. While the new guidelines issued on 27 April find favour with a section of auditors, others empathize with the sentiments of NBFCs. The central bank's move may be in the right direction to improve audit quality but may be too stringent for many entities.

The RBI circular, issued on April 27, to tighten the auditing process is facing resistance from NBFCs which had a free run till now. While the central bank move is aimed at preventing frauds, hidden bad loans, cosy relationships between companies and auditors and cleaning up the auditing system after the fiasco involving IL&FS, Yes Bank and DHFL, NBFCs are now lobbying through industry bodies for a roll-back. Industry body Finance Industry Development Council (FIDC) has already written to the RBI, saying that the current form of the circular requires

mid-year change in auditors for FY22, which is disruptive for most of the NBFCs and will cause avoidable hardships to both NBFCs and audit firms.

The revised Guidelines being issued will ensure that Statutory Auditors are appointed in a timely, transparent and effective manner. This is expected to improve the quality of financial reporting by the aforesaid Entities and also improve the audit quality.

For detailed guidance on this aspect, please refer the below link:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI258A67AD30976F44929FA2AB2B41DC805D.PDF>

Disclaimer

The information contained herein is in summary form of Guidelines for appointment of statutory Central Auditors/Statutory Auditors of Commercial Bank (excluding RRBs), UCBs and NBFCs (including HFCs) issued by Reserve Bank of India vide Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 21, 2021 and is based on information available in public domain. While the information is believed to be accurate to the best of our knowledge, we do not make any representations or warranties, express or implied, as to the accuracy or completeness of this information. Reader should conduct and rely upon their own examination and analysis and are advised to seek their own professional advice. This note is not an offer, invitation, advice or solicitation of any kind. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies upon it.