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35,742 ▲ 168.05

நிஃப்டி 50

10,802 ▲ 53.05

கோல்டு (எம்சிஎக்...)

30,621.00 ▼ -29.00

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RBI regulations on auditors put banks in a spot

BY [SACHIN DAVE](#) & [SALONI SHUKLA](#), ET BUREAU | JUL 05, 2018, 11.43 PM IST

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Days after the [Reserve Bank of India](#) issued its own regulations around auditors, several banks and NBFCs have approached PwC and other audit firms, seeking clarity on likely implications of a clause that could bar audit firms accused of irregularities from servicing financial institutions.

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The central bank on June 29 came out with a framework for statutory auditors and what actions could be taken against the audit firms in case of a lapse.

“In case of violations/lapse identified by any other regulator/enforcement agencies—judicial or government authorities—the [RBI](#) would deny audit to such firms,” it said.

The rule is set to hit one of the biggest Indian audit firms, Sharp and Tannan, that was named in an ongoing investigation by Economic Offence Wing.

Banks, including HSBC, JP Morgan, Deutsche Bank, Paytm Payments Bank, IndusInd Bank and Ujjivan Small Finance Bank, have approached PwC and statutory auditors, seeking clarity on the issue and wondering if these auditors need to be replaced.

“Should banks replace auditors in the upcoming annual general meeting or can they replace them by next year?” said the audit head of a company. “The problem now is, you have three separate regulators trying to regulate auditors. This is just too much regulation,” he said on condition of anonymity.



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A strict interpretation of the RBI rule could mean most of the top audit firms may not be able to audit any bank or NBFC going ahead, industry experts said.

“If the RBI circular is interpreted strictly, auditors of companies that were either debarred by state governments or where the promoters have escaped India won’t be able to conduct audits of banks,” a senior partner with a foreign firm told ET. “Similarly auditors of insolvent companies or auditors who have been implicated in other audit-related service misdemeanour could be debarred.

That could mean no top firm would be able to audit any bank or NBFC,” the person said. Most of the firms are looking at how RBI would deal with PwC as that is expected to set the tone for other firms, said an insider. Price Waterhouse (PW), an affiliate firm of PwC India, was barred by market regulator Sebi from auditing any listed company for two years.

PwC has challenged the order in Securities Appellate Tribunal, but no final decision has been taken yet. “Banks that use Price Waterhouse and are listed in India have sought clarification from RBI, but no answer has been received yet,” one of the people aware with the matter said.

“Many, like (for example) IndusInd has gone ahead and moved an AGM notice for change of auditor from PwC to EY. They are playing safe as they don’t want issues later. Foreign banks on the other hand are waiting for the RBI response as there is no pressure of an AGM vote,” the person said.

Email queries sent to PwC, Sharp and Tannan, Paytm and Ujjivan Small Finance Bank did not elicit any response as of press time Thursday. HSBC, Deutsche and JP Morgan declined to comment.

People in the know said interpretation of the RBI circular and the regulations could also mean that the firms cannot be barred till it’s proven that they were responsible of a negligence or connivance.

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