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New bureau to dissolve state-run banks' power to choose auditors

By *Rajat Arora* & *Dheeraj Tiwari*, ET Bureau | Dec 14, 2015, 03.00 AM IST

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NEW DELHI: The government is likely to empower the proposed Bank Board Bureau to select audit firms for public sector banks as part of its larger initiative to strengthen their corporate governance practices.

At present, individual public sector banks (PSBs) choose their auditors themselves from a list of approved firms by the Reserve Bank of India (RBI). "We have received representations from various stakeholders and they have also suggested that there should be more transparency. This is something Bank Board Bureau (BBB) can definitely look at," said an official aware of the deliberations.

The government had earlier announced that BBB will start functioning from April 1, 2016 and take over the selection process for state-run banks.

The idea of BBB is to create independent, high performing boards that help PSBs to work out a differentiated strategy in both business and human resources areas, the official said. In 2014, the government had delegated the power of selection and appointment of statutory central auditors (SCAs) to individual state-run banks in order to give them more autonomy. The Comptroller & Auditor General (C&AG) provides a list of auditors available with them and PSBs can make selection out of the list with approval of RBI.

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A senior official said the apex accountants body Institute of Chartered Accountants of India (ICAI) has also favoured moving selection of auditors to the new bureau in view of rising cases of non-performing assets, or NPAs, in public sector banks.

"If the bank is given the power to choose an audit firm, it may exert pressure on it. It is a better proposition if the audit firms are appointed by the regulator or any independent body," the official said, adding that this may also help to curb frauds as have happened in the recent past. As per data from the finance ministry, gross NPAs of state-run banks rose 25.19 per cent year-on-year to Rs 3.14 lakh crore in September 2015, constituting 5.64 per cent of total advances.

The actual number of audit firms to be appointed during a fiscal is decided by the bank board. As per RBI guidelines, an A category bank cannot have more than six SCAs.

In case of the country's largest bank, State Bank of India, the number of SCAs cannot not be more than 14.

The RBI guidelines state that only those audit firms that have minimum seven full time chartered accountants, of which at least five should be full time partners exclusively associated with the firm, can be employed by a bank for audit work.

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