

## **Policy of Empanelment of CA Firms/LLPs and Selection of Auditors**

### **A. Empanelment of CA firms/LLPs**

Chartered Accountant firms (firms) and Limited Liability Partnerships (LLPs) in India with at least one full time <sup>[1]</sup> FCA Partner/FCA Sole Proprietor can apply for empanelment with this office for the purpose of appointment of auditors of Companies as per Section 139 (5) and 139(7) of the Companies Act 2013 and of Statutory Corporations/Autonomous Bodies as per the provisions of their respective Acts.

The criteria for empanelment and selection of statutory auditors have been arrived at after due consultation with the Institute of Chartered Accountants of India.

All the empanelled firms/LLPs are awarded points. The point score is calculated based on various parameters which are enumerated below. In addition, in certain circumstances, the firms/LLPs are not empaneled or empaneled but not considered for appointment as auditors which are also explained below:

S.No.	Parameters	Points	
<b><u>Quantitative Parameters</u></b>			
1.	<b>Points <sup>[2][3]</sup> for full time CA partners/sole proprietor (Only upto 20 full time CA partners in terms of their seniority as per their association with the firm/LLP)</b>		
1(a)	Full time FCA Partners/sole proprietor	3 points each	The first 5 full time CA partners will get the points mentioned in the adjacent column and remaining 15 full time CA partners will get half of these points
1(b)	Full time ACA Partners	2 points each	
1(c)	Association of full time CA partners/sole proprietor with the same firm/LLP (considered with reference to the Formation Date or actual joining date of CA partner/sole proprietor whichever is later)	1 point for each full time CA partner/sole proprietor above 5 Years and upto 10 Years	
		2 points for each full time CA partner/sole proprietor above 10 years	
2.	<b>Points<sup>[2]</sup> for full time CA Employees (Only 20 full time CA employees will be awarded points)</b>	One point each for 5 full time CA employees and half point each for remaining 15 full time CA Employees	
3.	<b>Experience of the firm/LLP</b>	0.5 points for every calendar year - Maximum 10 points.  Counted from the date of constitution of the firm/LLP with one full time FCA or date of joining of the firm/LLP by the existing CA partner/sole proprietor having the longest association with the firm/LLP whichever is later.  (Such date will be considered as Formation Date of the firm/LLP)	

4.	<b>Turnover of the firm/LLP from Audit Services only (as distinct from other activities e.g. consultancy) <sup>[4]</sup></b>	Maximum 10 points	
<b><u>Qualitative Parameters</u></b>			
5.	<b>Firm/LLP peer reviewed by ICAI<sup>[5]</sup></b>	Maximum 25 points	
6.	<b>Audit experience<sup>[6]</sup></b>	Maximum 40 points	
7.	<b>Points<sup>[2][3]</sup> for additional qualifications/continuous skill upgradation of the full time CA Partners/sole proprietor (Maximum 25 points)</b>		
7(a)	<div>i. Diploma in Information Systems (DISA) from ICAI ii. Certified Information System Auditor (CISA) from ISACA, USA iii. Certified Public Accountant (CPA) from AICPA, USA iv. Certified Internal Auditor (CIA) from IIA, USA v. Certified Fraud Examiner (CFE) from ACFE, USA</div>	1.25 points each	One full time CA Partner/sole proprietor will be awarded points for one qualification only. Maximum 20 full time CA partners will be awarded points
7(b)	<div>Certification courses from ICAI in i. IND AS ii. Forensic Accounting and Fraud Prevention iii. Public Finance &amp; Government Accounting iv. Concurrent audit of Banks v. Anti Money Laundering Law vi. Forex and Treasury Management vii. Goods and Service Tax</div>	1 point each	
8	<b>Points<sup>[2]</sup> for additional qualifications/continuous skill upgradation of the full time CA Employees (Maximum 20 points)</b>		

8(a)	i. Diploma in Information Systems (DISA) from ICAI ii. Certified Information System Auditor (CISA) from ISACA, USA iii. Certified Public Accountant (CPA) from AICPA, USA iv. Certified Internal Auditor (CIA) from IIA, USA v. Certified Fraud Examiner (CFE) from ACFE, USA	1 point each	One full time CA Employee will be awarded points for one qualification only. Maximum 20 full time CA employees will be awarded points
8(b)	Certification courses from ICAI in i. IND AS ii. Forensic Accounting and Fraud Prevention iii. Public Finance & Government Accounting iv. Concurrent audit of Banks v. Anti Money Laundering Law vi. Forex and Treasury Management vii. Goods and Service Tax	0.5 point each	

### **Professional Track Record**

9	<b>Professional Misconduct by a member as per ICAI</b>	The point score of the firm/LLP will be reduced by 10 percent each for sole-proprietor, CA partner/s and CA employee/s who is/are held guilty of professional misconduct during the previous year under the Chartered Accountants Act 1949. Apart from deduction of points, the firm/LLP would not be given any credit for the said Chartered Accountant/s.
10	<b>Unsatisfactory performance as auditor of a PSU</b>	The point score will be reduced by 10 percent, in case the performance of the firm/LLP was found unsatisfactory and the firm/LLP was issued an advisory by this office to be more careful in future in the immediate preceding year.
11.	<b>Refusal of Audit/s allotted by CAG</b>	<p>The point score of the firm/LLP, will be reduced by 10 percent, in case, in the immediate preceding year, the firm/LLP had refused the audit assigned to it by this office, for reasons other than being disqualified to act as auditor of the assigned audit under the provisions of any Act /statute or conditions issued by this office etc.</p> <p>In case, the firm/LLP refuses the allotted audit for the second time, the firm/LLP would not be empanelled from the subsequent year for a period of 5 years.</p>
12.	<b>Firm/LLP reprimanded by Quality Review Board</b>	The point score of the firm/LLP, will be reduced by 10 percent, in case, in the immediate preceding year, the firm/LLP has been issued an advisory by the Quality Review Board.
13.	<b>Firm/LLP reprimanded by National Financial Reporting Authority</b>	In case, in the immediate preceding year, the firm/LLP has been:

		<p>a) issued/imposed an advisory / Caution/ Penalty(Monetary) – Deduction of 10 percent points</p> <p>b) debarred with/without penalty – Not to be empanelled for the period for which debarred.</p>
14.	<b>Debarment of firm/LLP by any Regulator or Government Authority</b>	In case a firm/LLP is debarred by any Regulator or Government Authority, such firm/LLP will not to be empanelled for the year/s for which debarred by such Regulator or Government Authority.
15.	<b>Conviction in cases filed by CBI/ED and cases pending with these agencies</b>	<p>CA Partner/CA employee convicted in cases filed by CBI/ED – Firm/LLP with which the said CA Partner/CA employee is associated, will not be empaneled.</p> <p>In respect of pending cases where charge-sheet has been issued or the case is under-trial against the firm/LLP/CA partner/CA employee –Firm/LLP will not be allotted any audit.</p>

## **B. Allotment of Audits**

### **Selection of firms/LLPs for appointment as auditors where audit fee is up to Rs 5.00 lakh**

The selection is made by correlating the point score of each firm/LLP with the audit fee of the auditee unit.

### **Selection of firms/LLPs for appointment as auditors where audit fee is more than Rs.5.00 lakh (Major Audits)**

(a) Criteria for short-listing eligible firms/LLPs of CAs for allotment of Major Audits are as under:

(i) The firm/LLP should have at least 6 full time CAs (out of which 5 should be full time CA partners and one could be a full time paid CA employee), which is indicative of capacity to handle big audits .

(ii) At least one full time CA partner should have an association of 10 years or more with the firm/LLP and at least 3 full time CA partners of the firm/LLP should have an association of 5 years or more with the firm/LLP and the remaining two full time CA partners should have an association of one year or more with the firm/LLP, to demonstrate stability over time.

(iii) The firm/LLP itself should have been in existence for 10 years or more, to prove that it is a well established firm/LLP.

(iv) At least one of the full time CA partners of the firm/LLP must possess CISA qualification from ISACA, USA or DISA qualification from ICAI.

(v) The firm/LLP should have audit experience of five years of audits assigned by CAG.

(b) In addition to correlating the point score earned by each firm/LLP with the audit fee of the auditee unit, factors such as audit experience of the firm/LLP, capability of handling big audits, past performance, eligibility of the firm/LLP to conduct a particular audit, location of the firm's/LLP's branch offices etc. are also considered in selection of auditors for Major Audits.

## **Rotation of Audits**

- i. The total period of appointment of a firm/LLP as auditor shall be for three financial years provided the firm/LLP continues to be eligible for the said audit, its point score has not reduced by more than 25 per cent over the previous year's point score and the firm/LLP has not been debarred from appointment in the year by this office.
- ii. A firm/LLP who retires/surrenders from audit of a Maharatna Company, shall not be entitled for allotment of audit of any Maharatna Company for a period of four years after such retirement/surrender.
- iii. In case of a Maharatna/ Navratna Company, a firm/LLP after retiring/surrendering is not considered for the same Company for a period of five years.

[1] Full time CA partner/sole-proprietor **does not include** a person who is

(a) a CA partner in other firms/LLPs or a sole proprietor

(b) Employed full time/part time elsewhere, practicing in their own name or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under Section 2(2) of the Chartered Accountants Act, 1949.

(c) i) A CA Partner/sole-proprietor whose compensation \$ from the firm/LLP during previous financial year is below the following limit:

Category of CA partner/sole-proprietor	Empanelment Year 2023-2024		Empanelment Year 2024-2025 and onwards	
	Head office of the firm/LLP located in Delhi, Mumbai, Chennai, Kolkata, Bengaluru and Hyderabad	Head office of the firm/LLP located at other Places	Head office of the firm/LLP located in Delhi, Mumbai, Chennai, Kolkata, Bengaluru and Hyderabad	Head office of the firm/LLP located at other Places
(Compensation - Rs. in lakh per annum)				
FCA	4.50	2.70	6.00	3.60
ACA	2.70	1.80	3.60	2.40

\$ Compensation will be sum total of share of profit, remuneration and interest on capital received by the CA partner/sole-proprietor from the firm/LLP. Compensation received by the CA partners who join during the previous financial year, will be extrapolated to arrive at the deemed compensation for the complete financial year. Compensation criteria of FCA will apply on CA partners/sole-proprietor who becomes an FCA during the previous financial year or thereafter till 1<sup>st</sup> January of year of filing application for empanelment.

(c) ii) A CA partner whose individual percentage share in the total compensation<sup>@</sup> during the previous financial year is less than:

Firms/LLPs having more than 14 CA partners	1%
Firms/LLPs having 10 to 14 CA partners	3%
Firms/LLPs having 5 to 9 CA partners	5%
Firms/LLPs having less than 5 CA partners	8%

**@Total compensation will be sum total of share of profit, remuneration and interest on capital from the firm/LLP. Compensation received by the CA partners who joins during the previous financial year, will be extrapolated to arrive at the deemed compensation for the complete financial year and then will be added to the compensation of other CA partners to arrive at total compensation.**

(d) A CA partner/sole-proprietor whose professional income from sources other than the firm/LLP (except as permitted by ICAI) is more than the compensation (sum total of share of profit, remuneration and interest on capital) from the firm/LLP.

Full time CA employee **does not include** a person who is:

(a) a partner in other firms/LLPs or is a sole-proprietor

(b) Employed full time/part time elsewhere, practicing in their own name or engaged in practice otherwise or engaged in other activity which would be deemed to be in practice under Section 2(2) of the Chartered Accountants Act, 1949.

[2] Sole proprietors/CA partners/CA employees will get points if they were exclusively associated with the firm/LLP throughout the calendar year immediately preceding the year of empanelment. Association with the firm/LLP prior to Formation Date will not be considered for any purpose.

[3] In case of merger, the proprietor/CA partners of the merging firm/firms/LLP/LLPs will be assigned points after one calendar year of merger. For the first five calendar years after merger, the merging CA partner/s would be deemed to have joined the firm/LLP from the date of merger. The benefit of earlier association of the merging CA partners with the merging firm/LLP will be accorded to the merged firm/LLP only after five calendar years from the date of merger.

[4] Basis of points for Turnover of the firm/LLP from Audit Services only (as distinct from other activities e.g. consultancy):

Sr No.	Head office of the firm/LLP located in Mumbai, Delhi, Chennai, Kolkata, Bangalore, Hyderabad		Head office of the firm/LLP located at other Places	
	Rs. in crore	Points	Rs. in crore	Points

1	Upto 1.00	No points	Upto 0.60	No points
2	>1.00 ----2.00	1	>0.60 ---1.20	1
3	>2.00 ----3.00	2	>1.20 ---1.80	2
4	>3.00 ----4.00	3	>1.80 ---2.40	3
5	>4.00 ----5.00	4	>2.40 ---3.00	4
6	>5.00 ----6.00	5	>3.00 ---3.60	5
7	>6.00 ----7.00	6	>3.60 ---4.20	6
8	>7.00 ----8.00	7	>4.20 ---4.80	7
9	>8.00 ----9.00	8	>4.80 ---5.40	8
10	>9.00 ----10.00	9	>5.40 ---6.00	9
11	Above 10.00	10	Above 6.00	10

[5] Basis of points for Peer Review Certificate from ICAI:

<b>Sr. No.</b>	<b>Firm/LLP holding valid peer review certificate from ICAI on</b>	<b>Points</b>
1	1 <sup>st</sup> January of the year of filing of online application	5
2	1 <sup>st</sup> January of the year preceding to year referred in sr. no. 1	4
3	1 <sup>st</sup> January of the year preceding to year referred in sr. no. 2	4
4	1 <sup>st</sup> January of the year preceding to year referred in sr. no. 3	3
5	1 <sup>st</sup> January of the year preceding to year referred in sr. no. 4	3
6	1 <sup>st</sup> January of the year preceding to year referred in sr. no. 5	2
7	1 <sup>st</sup> January of the year preceding to year referred in sr. no. 6	2
8	1 <sup>st</sup> January of the year preceding to year referred in sr. no. 7	1
9	1 <sup>st</sup> January of the year preceding to year referred in sr. no. 8	1

	<b>Maximum Points</b>	<b>25</b>
--	-----------------------	-----------

[6] Basis of points for audit experience

S.No.	Type of Audit	Points per assignment	Maximum points to be awarded
1	Statutory Audits - Corporate		
	Turnover above Rs. 40 crore but less than or equal to Rs.100 crore	3 points	20
	Turnover above Rs.100 crore but less than or equal to Rs.250 crore	4 points	
	Turnover above Rs.250 crore	5 points	
2	Statutory Audits – Branch		
	Turnover above Rs.40 crore but less than or equal to Rs.60 crore	1 point	10
	Turnover above Rs.60 crore but less than or equal to Rs. 100 crore	2 points	
	Turnover above Rs. 100 crore but less than or equal to Rs. 250 crore	3 points	
	Turnover above Rs. 250 crore	4 points	
3	Internal Audit (Turnover of the auditee more than Rs.40 crore)	2 points	5
4	Audit of Government Schemes (Expenditure certified above Rs.40 crore)	2 points	5
Maximum points scored by any firm/LLP in each of the above four categories will be equated to the maximum points stipulated for the respective category and points scored by other firms/LLPs in that category will be discounted accordingly.			
For the year 2023-2024, points will be awarded on the basis of UDIN data of ICAI for the years 2020-2021 and 2021-2022. This will eventually be scaled to 5 years by 2026-2027 by gradually adding one year on annual basis.			