

## 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/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 based upon the experience of the firm/LLP, number of Chartered Accountant (CA) partners and their association with the firm/LLP, number of CA employees, as detailed below:

S.No.	Criteria	Points	
1.	<b>Experience of the firm/LLP</b>	1 point for every calendar year - Maximum 15.  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 partner having the longest association with the firm/LLP whichever is later. (Such date will be considered as Formation Date of the firm)	
2.	<b>Points <sup>[2][3]</sup> for full time CA partners (Only upto 20 full time CA partners in terms of their seniority as per their association with the firm/LLP)</b>		
2(a)	Full time FCA Partners	5 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
2(b)	Full time ACA Partners	3 points each	
2(c)	Points for association of full time CA partners with the same firm/LLP (considered with reference to the Formation Date or actual joining date of CA partner whichever is later)	3 points for each full time CA partner above 15 years.	
		2 points for each full time CA partner above 10 years.	
		1 point for each full time CA partner above 5 Years and upto 10 Years	
3.	<b>Points <sup>[2][3]</sup> for Qualifications of the full time CA Partners (Maximum ten points)</b>		
3 (a)	1. DISA certification from ICAI 2. CISA certification from ISACA, USA	2 points each	One full time CA Partner will be awarded points for one qualification only. Maximum 5

3 (b)	1. Certification in IND AS from ICAI 2. Certification in Forensic Accounting and Fraud Prevention from ICAI	1 point each	full time CA partners will be awarded points
4.	<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	
5.	<b>Points<sup>[2]</sup> for Qualifications of the full time CA Employees (Maximum five points)</b>		
5(a)	1. DISA certification from ICAI 2. CISA certification from ISACA, USA	1 point each	One full time CA Employee will be awarded points for one qualification only. Maximum 5 full time CA employees will be awarded points
5(b)	1. Certification in IND AS from ICAI 2. Certification in Forensic Accounting and Fraud Prevention from ICAI	0.5 point each	
6.	<b>Turnover of the firm/LLP from Audit Services only (as distinct from other activities e.g. consultancy) <sup>[4]</sup></b>	Maximum 5 points	

#### **Deduction of points**

##### **i. Refusal of Audit**

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. In case, the firm refuses the allotted audit for the second time, the firm would not be empanelled from the subsequent year<sup>[5]</sup>.

##### **ii. Professional Misconduct**

The point score of the firm/LLP will be reduced by 10 percent each for sole-proprietor, partner/s and 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.

##### **iii. Unsatisfactory performance**

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.

#### **B. Allotment of Audits**

- **Selection of firms/LLPs for appointment as auditors where audit fee is up to Rs 1.50 lakh**

The selection is made by correlating the point score earned by each firm/LLP of Chartered Accountants towards empanelment with the size of the audit fee.

- **Selection of firms/LLPs for appointment as auditors where audit fee is more than Rs.1.50 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 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 or ISA qualification from ICAI.

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

(b) Allotment of Major Audits is based not only on the point score, size of the firm/LLP considering the number of CA partners, and their association with the firm/LLP, number of Chartered Accountant employees, and the Zone in which the firms'/LLPs' head office is located but also on the factors such as sectoral experience, service tax paid by the firm/LLP on assurance services, 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.

- **Rotation of Audits**

i. The total period of appointment of a firm/LLP as auditor shall be for four 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.

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[1] Full time CA partner **does not include** a person who is

(a) a partner in other firms/LLPs

(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 Partner whose compensation<sup>§</sup> from the firm/LLP during previous financial year is below the following limit:

Head office of the firm/LLP located in Delhi, Mumbai, Chennai, Kolkata, Bangalore and Hyderabad:

ACA partner

Rs. 2.70 lakh

FCA partner Rs. 4.50 lakh

Head office of the firm/LLP located at other Places:

ACA partner Rs. 1.80 lakh

FCA partner Rs. 2.70 lakh

**§ Compensation will be sum total of share of profit, remuneration and interest on capital received by the partner from the firm/LLP. Compensation received by the partners who join during the financial year, will be extrapolated to arrive at the deemed compensation for the complete financial year. Compensation criteria of FCA partner will apply on partners who become FCA during the financial year.**

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

Firms/LLPs having more than 14 partners	1%
Firms/LLPs having 10 to 14 partners	3%
Firms/LLPs having 5 to 9 partners	5%
Firms/LLPs having less than 5 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 partners who joins during the 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 partners to arrive at total compensation.**

(d) A partner whose professional income from sources other than the firm (except as permitted by ICAI) is more than the compensation from the firm/LLP.

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

(a) a partner in other firms/LLPs

(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.

[3] In case of merger, the proprietor/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 partner/s would be deemed to have joined the firm/LLP from the date of merger. The benefit of earlier association of the merging 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.	Metro Stations (Mumbai, Delhi, Chennai, Kolkata, Bangalore, Hyderabad)		Non-Metro Stations (Other Stations)	
	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	Above 5.00	5	Above 3.00	5

[5] This will be implemented from the empanelment year 2021-22 and onwards for the refusal received after notification of this policy.