

Bank Audits and Chartered Accountants

A healthy banking industry is the backbone of sustainable socio-economic growth of an economy. As such, banking is a high priority area for Governments and is an important tool to prioritise socio-economic development through allocation of precious finance for implementation of its ambitious schemes.

By lending credibility to their financial statements, audits and auditors have an extremely important role to play in building a resilient banking industry. Further, society now also expects bank auditors to help strengthen the governance practices in the banking industry. The challenge for the Accounting Profession lies in seamlessly integrating these expectations in their role as statutory auditors.

Thus, audit quality, as in any other audit, is of great significance. To help our members carry out statutory audits in the banking industry, an industry that deals with large amounts of public monies and is highly sensitive to reputation risk, the Council of the Institute at its recently cleared the 2015 Guidance Note on Audit of Banks. This Guidance Note contains comprehensive guidance on the various critical aspects of the banking industry and the financial statements of a bank that the members need to be wary of while conducting bank/bank audits. It also provides guidance on application of various Standards on Auditing in bank audits. Standards on Auditing (SAs) are a pre-requisite to ensure audit quality. Obtaining adequate understanding about the risks present in the banking system as well as in the internal and external environments in which a bank operates is essential. As a corollary, auditor's understanding of the bank's systems and processes in place to identify and address those risks would help the auditors to focus on critical areas, design appropriate audit procedures, decide optimum time and resource allocation, timely execution of work and avoid any last minute surprises.

Importantly, since a banking company would also be governed by the provisions of the Companies Act, 2013, (to the extent they are not contrary to the Banking Regulation Act 1949), they would also need to report in terms of provisions of the Section 143 of the Companies Act, 2013. Accordingly, the 2015 Guidance Note on Audit of Banks also contains illustrative formats of the auditor's report of a banking company that meets these requirements in addition to the reporting requirements of the Banking Regulation Act 1949. As a corollary, the 2015 Guidance Note also provides a separate illustrative format of an engagement letter for use by the auditors of a banking company.

Today, the auditors' commitment to audit quality and their close coordination with those charged with governance in the banks, particularly, the audit committees, has assumed added importance. Compliance with the Standards on Auditing not only helps ensure quality in audits, it also helps audits transform from a mere statutory compliance into a real value-added function. In fact, they can help build a stronger symbiotic between the statutory auditors and audit committees and contribute to effective governance. For example, the information generated during the risk assessments and internal control evaluations carried out by the statutory auditors can be of use to the Audit Committees in discharging their responsibilities relating to review of risks facing the entity, including financial statement risks.

Similarly, in addition, the other very important aspects from the perspective of the Audit Committees of banks include the 'statutory auditor's use of professional skepticism. The auditor procedures with respect to audit of disclosures such as compliance with Accounting Standards, overall presentation of financial statements, adequacy of disclosures in providing necessary information to the users also have special significance.

At this juncture, it may also be worthwhile to remember that true and fair view is a dynamic concept. Its content evolves in response to changes in, *inter alia*, accounting and business practice.

Effective statutory audits and good governance in banks, therefore, are a collective responsibility/effort of the statutory auditors and those charged with governance in the banks, particularly, the audit committees. A regular and closer interaction between them can go a long way in ensuring that.

On a broader front, the ICAI has been persistently taking up the cause of branch audits as a nationally important issue related to the country's financial health. The ICAI has been pushing for reduction in the threshold limit for extensive Bank branch audits back to ₹6 crore with 1/3 of rest of the branches with advances of less than ₹6 crore. The present threshold limit is ₹20 crore with 1/5th of the rest of the branches with advances of less of ₹20 crore every year. The increased threshold limit is not at all in the long term interest of the banks and the nation in view of possibility of public sector banks getting exposed to a higher risk by not covering majority number of branches and advances, thereby leaving a scope for undetected material misstatements including frauds. It also affects the fair reporting on the state of affairs in Public Sector Banks. ■

-Editorial Board ICAI – *Partner in Nation Building*