

Expectations of Central Statutory Auditors from Bank Branch Auditors



Audit of Banks is a very challenging task for Chartered Accountants. Banks in India also work in a vastly controlled environment where the Reserve Bank of India (RBI) is managing the Banking Sector through Notifications and Circulars. In the past, many banks used to have the meeting of Central Statutory Auditors with Branch Auditors of various Regions. The quality of reporting by the branch auditors was expected to be substantially improved by this exercise based on which the Long Form Audit Report was issued by the Central Statutory Auditors regarding their impression on the overall working of the bank. There are huge expectations by the Regulator (RBI) from the Auditing Fraternity. The Branch Auditors are expected to work hand in hand with Central Statutory Auditors in completion of the task with the stamp of quality expected of the members of the Institute of Chartered Accountants (ICAI). Therefore, it is imperative for all the Central Statutory and Branch auditors to work in tandem for keeping the flag of ICAI flying high.

Introduction

Audit of Banks is a very challenging task for Chartered Accountants. The Banks work with highly technology driven platform such as Core Banking Solutions. Banks in India also work in vastly controlled environment where the Reserve Bank of India is managing the Banking Sector through

Notifications and Circulars. RBI is micromanaging not only procedures and practices of the banks' business, but even their profitability by directing the minimum provisioning to be made against the stressed assets. The RBI micromanages banking in India not only by stating what is to be done, but by also insisting on how it is to be done.

Every auditor should know its customer as per the requirement of Auditing Standards. Currently, the banks have challenges in keeping the cost of operation low (which is done by increase in current account and saving account balances *i.e.*, CASA), to keep the Non-performing assets in limit (which is done by way of Debt Restructuring), to check



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Bank Audit

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frauds (especially electronic frauds), to improve upon new age banking (online Banking, Retail Banking, Insurance, Credit Card Business), to follow stringent capital adequacy norms (Basel-III) and also being a part of inclusive growth policy as a social responsibility (Jana Dhana Yojana and priority sector lending).

Statutory Bank Audit is a part of Internal Control mechanism with high expectation of the RBI regarding positive and crucial role of Chartered Accountant in managing the Risks in the Banking business. In this task, the Central Statutory Auditors and Branch Auditors together form a team to ensure the quality of the delivery.

In the past, many banks used to have the meeting of Central Statutory Auditors with Branch Auditors of various Regions. Such meetings were very useful for branch auditors to clear their doubt about the recent circulars of RBI and respective Banks. They were also useful to the Central Statutory Auditors for conveying the key concerns they want the branch auditors to understand regarding the bank under audit by them as a team. The quality of reporting by the branch auditors was expected to be substantially improved by this exercise based on which the Long Form Audit Report was issued by the Central Statutory Auditors regarding their impression on the overall working of the bank. Unfortunately, such meetings have been dispensed with in the recent years by the banks as a cost cutting exercise.

Role of Central Statutory Auditors vis-à-vis Branch Auditors

Let us now understand the difference between the role of Central Statutory Auditors as against the role of Statutory Branch Auditors of any bank.

The Central Statutory Auditors together are supposed to audit top 20 branches including Treasury and Foreign Exchange Branches. They are responsible for consolidation of accounts of branches including Foreign Branches, head office, its divisions and circles. Their work also includes the certification of consolidated financial statement of the bank along with its subsidiaries. Central

Auditors are responsible for checking provisions for non-performing assets, depreciation, income tax and employee benefits. They also certify CRAR (Capital to Risk weighted Asset Ratio), CRR (Cash Reserve Ratio), SLR (Statutory Liquidity Ratio) and certificates for Corporate Governance, Net-worth and other compliances. Examining the reconciliation of banks investments, reconciliation with other banks, compilation of certificates issued by Branch Auditors and data received from un-audited branches regarding LFAR (Long Form Audit Report) and Tax Audit Report, are additional tasks which are required to be performed by the Central Statutory Auditors.

The role of the Branch Auditors is not only to do the balance sheet audit of the branches allotted to them. They need to calculate various ratios with the figures for the year and across the years to identify various areas of the branch finances that need urgent attention. The Branch Auditors' roles include certifications required by RBI, audit under Income tax Act, issue of Statutory Audit report along with Ghose and Jillani Committee recommendations report. Branch Auditors are also responsible for giving overall impression about the branches' working, in the form of Long Form Audit Report.

Expectations from Branch Auditors

It is expected by the Central Auditors that the Branch Auditors are well staffed and their team has the adequate training and experience relating to the task in hand. It is expected that they are updated on RBI circulars and are conversant with the audit process as recommended in the ICAI Guidance Note on Audit of Banks. They are expected to read not only the closing circulars but also the internal circulars of the bank concerned. The Branch Auditors should understand the relevant internal controls in the branch especially software controls and manual controls. It is expected that all the important work such as Scrutiny of Advances, Recommendation of NPA Provision, Basel Statements, *etc.*, should be done by Partners or Chartered Accountants on Audit and not by Article clerks. While signing the certificates to be issued to the bank and accepting data for tax audit and LFAR, due diligence should be exercised. Under any circumstances, copying of remarks from the previous reports is completely avoided. It is always better to write answers to all questions in LFAR and Tax Audit Report as if it is being done for the first time.

Identification of Non-Performing Assets by the Branch is a very crucial area where the Central Statutory auditors heavily depend upon the Branch Auditors. The Memorandum of Changes (MOCs) issued by the Branch Auditors are closely looked into by the Central Statutory Auditors. Appropriate notes and reports should accompany such MOCs, which will help the Central Statutory Auditors to take up the case appropriately with the management of the Bank for necessary provisions. Branch Auditors should know that there is neither time nor inclination on the part of the Bank Management to go back to the branch or circle or the Branch Auditor for further explanations in this respect. While looking into advances the Branch Auditors should identify weakness in the accounts, see drawing power calculations, non-regularisation of *ad hoc* limit and genuineness of recoveries resulting into up-gradation of accounts. In a nut-shell, the Branch Auditors should be very vigilant where subjective judgment is required. Statutory Branch auditors should read Concurrent Audit Reports, Inspection Reports, Information System Review Reports, *etc.*, to point out major weaknesses in internal controls so as to help Central Statutory Auditors to draft their LFAR. All this requires proper planning of audit and its meticulous execution. The Branch Auditors should always discuss the qualifications in various audit reports (Statutory, Tax, LFAR, Certificates) with the Branch Management so as to take a considered view into account before making such qualifications. However, Central Statutory Auditors expect the Branch Auditors to be completely impartial and not prone to any pressures while reporting their free and frank opinion.

Challenges before Central Statutory Auditors

The challenges before Central Statutory Auditors relating to Branch Audits are many. The first and the foremost is the quarterly limited review being done without any branch audit requirements. At the year end when the branches are under audit, as per the current policy of the RBI, the branch audit is necessary for those branches having advances of ₹ 20 crore and above, only 1/5th of the remaining branches

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and the business to be covered is to the extent of 90%. This virtually leaves 60% of the branches un-audited. Another problem faced is the Branch Auditors do not complete their work in time. Some of the Branch Auditors have very casual approach to the audit and therefore, quality of overall financial statements of the bank suffers. It is found in several cases that MOCs issued by the Branch Auditor are not well supported by facts and evidences. The Branch Auditors do not give proper explanations for MOCs given. The Branch Auditors do not write detailed explanation about their qualifications in various parts of reports and certificates. Branch Auditors do complain in private but do not contact their Central Statutory Auditors for difficulties faced by them during audit such as—MOC not allowed to be passed, data not available, no sitting arrangements, key staff on leave, statements not prepared and figures not available for completion of Tax Audit Report and LFAR, *etc.* ICAI has started the facility of answering online queries within 24 hours during the statutory audit period *i.e.* from 25th of March to 10th of April every year. However, most of the Branch Auditors do not take advantage of such a support system, thereby struggling in completion of their audit in time. Generally, no discussion is held with the Central Statutory Auditor by the Branch Auditors also for their very serious findings such as frauds. Many auditors do not write their observations in the Statutory Audit Report but state them only in LFAR or Tax Audit Report. The Central Statutory Auditors expects that all these pitfalls need to be avoided by the Statutory Branch Auditors while performing their duties.

Conclusion

There are huge expectations by the Regulator (RBI) from the Auditing Fraternity. The Branch Auditors are expected to work hand in hand with Central Statutory Auditors in completion of the task with the stamp of quality expected of the members of the Institute of Chartered Accountants. Therefore, it is imperative for all the Central Statutory and Branch Auditors to work in tandem for keeping the flag of ICAI flying high. ■

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