

Taking Bank Audit Challenge in Stride

A healthy banking industry is the backbone of sustainable socio-economic growth of an economy. The credit policy and other banking policy decisions can effectively help economies to channelize credit from areas of abundant credit to areas of deficit credit and, hence, set the tone of sectoral development in the economy. The banking industry is also a conduit for the Governments to ensure social justice and equality through its various social welfare schemes. The banking industry is thus an important tool for any country to keep its citizens belonging to a diverse strata of the society in the mainstream.

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 recently released the Revised 2016 edition of 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 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, auditors' 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 section 143 of the Companies Act, 2013. Accordingly,

the 2016 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.

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 to ensure quality in audits, it also helps audits transform from a mere statutory compliance into a real value-add 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 have also special significance.

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 nationally important issue related to country's financial health. Meanwhile, one area of ICAI concern relates to the procedure of selection of Auditors of Banks. The autonomy given to Banks in the current procedure of appointment of Central Statutory Auditors and Branch Statutory Auditors of Public Sector Banks (PSBs) can lead to impairment of independence. ICAI has been recommending that appointment of these Auditors of Public Sector Banks may be done by an independent authority such as Reserve Bank of India or C&AG or any independent authority. ■

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