Challenge of Bank Audit and the Role of CAs

It needs no reiteration that the Banking Industry is the backbone of any economy as it helps channelise idle capital to fruitful economic activities. A healthy banking industry is at the core of sustainable socio-economic growth and financial stability in the economy. It is an important tool to prioritise socio-economic development through allocation of precious finance for implementation of various schemes and, hence, set the tone for overall development of the economy. The banking industry is also crucial as it deals with mammoth amounts of public monies and is highly sensitive to reputational risk. As such, the banking sector has been a high priority area for the Government.

In this scenario, it is of utmost importance to ensure that the banking system stays healthy, safe and sound. Thus, the statutory bank audit, the season of which is round the corner, is a very important annual exercise for the Indian auditing profession, which has been entrusted to perform this nationally important task. This year, the Bank Audit assignments assume added importance in view of the growing non-performing assets in banks, the recent demonetisation and the national push for digitisation in the banking industry including mobile and app based banking. According to RBI data, NPAs of banks have almost doubled in the last more than a year. From ₹3,40,556 crore in September 2015, bad loans have risen to ₹6,68,825 crore in September 2016. Further, with an estimated ₹15 lakh crore back in the banking system post demonetisation, the compliance with KYC norms and RBI's Master Directions need to be strictly ensured.

Thus, by lending credibility to banks' financial statements, auditors have an extremely vital role to play in building a resilient banking industry. Be it the Government, the regulators or the society, the expectation from the auditors is that they not only perform well in their conventional role of ensuring credibility of the banks' financial statements but also help strengthen the governance practices in the banking industry. The challenge for the Auditing Profession lies in seamlessly integrating these expectations in their role as statutory auditors.

Audit quality, as in any other audit, is of great significance in bank audit assignments. To help members carry out statutory audits in an effective manner in the banking industry, the ICAI is working on bringing out a Revised 2017 edition of Guidance Note on Audit of Banks. This Guidance Note aims to give comprehensive guidance on the various critical aspects of the banking industry and the financial statements of banks that the auditors concerned need to be aware of, particularly in the wake of demonetisation. The Guidance Note will also provide 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.

In the current scenario, the auditors' commitment to audit quality and their close coordination with those charged with governance in the banks, particularly the audit committees, has assumed all the more 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.

Similarly, another very important aspect from the perspective of the bank audit is 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.

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 more frequent and closer interaction between them can go a long way in ensuring that. This time around, while it would be fruitful if the statutory auditors engage more than regular dialogue with the Audit Committees and others at the various stages of their audit, beginning from planning and ending at reporting; it is also equally essential that banks ensure that there is adequate opportunities and environment for the statutory auditors to have uninhibited and frank discussions on crucial issues with the former.

By the time this issue of the journal reaches you, most of the members would be planning an effective strategy for execution of the statutory audit of bank and branches, as the case may be. Given their training and capabilities, the Chartered Accountants are sure to perform this important assignment proficiently and diligently, adhering to the Central banker's guidelines. The stakeholders in the society are closely watching the role of auditors of banks to report any nonconformity impacting the banks' stability and incurring losses of the public money. ■

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