

Bank Branch Audit

The Indian Banking industry has evolved over a long period of time to acquire indomitable position in the economy. It would not be exaggeration to state that the banking system is lifeline and its fruits are enjoyed from large corporate houses to the individual villagers staying in geographically obscure places. The spread of banking system is very wide encompassing every nook and corner of the country.

The system plays a catalytic role in activating and sustaining economic growth and is quintessential part of ecosystem of the Indian economy. The banking system is inherent and integral part of many government initiatives helping in the inclusive growth and implementing various developmental schemes. One such recent initiative, Jan Dhan Yojana – a mass financial inclusion program targeting the individuals who are otherwise deprived of banking benefits has so far brought Rs 1,12,815 crore to productive channels through deposits from 37.95 Crore beneficiaries. Banking system is also used as an intermediary to deliver benefits and subsidies bringing transparency in the system and plugging gaps in delivering help to the needy.

As the financial year is reaching its conclusion, it is time for the audit of banks. The importance of banking system in the economy puts exceptional responsibility on the shoulders of bank auditors to deliver high quality services. Traditionally, the main business of banks was to accept deposits and offer loans. The desire to grow, competition, technological thrust, fading geographical boundaries have pushed banks into taking plethora of additional activities. They directly or through separate structures offer variety of financial products. Thus making the audit task complex, intriguing and highly specialised. The auditors also have challenge of limited time available to audit a single branch. Thus they need to be well prepared with complete understanding of the framework governing the banking industry. The auditors need to understand the laws including the Reserve Bank of India Act, 1934, Banking Regulation Act, 1949 and other relevant Acts. Indian central bank, Reserve Bank of India issues a number of circulars and directions that are relevant for the auditors. The auditors need to be well versed with

the Standards and Guidance Notes issued by the Institute of Chartered Accountants of India. Last but not the least auditors need to go through the relevant internal circulars and manuals of auditee banks.

Indian banking system is highly regulated. In spite of the best efforts there have been major bank crises in Indian banking industry including in some of the cooperative banks in recent times. The banks are also facing challenge of Non Performing Assets, however, silver lining is that NPAs are receding. Incidentally, these banking setbacks erode public trust in the overall system, which is not good for economy.

The internal functioning of the banks has become technology driven with the implementation of Core Banking Solution. While technology can help in automatizing processes, bring speed and reduce human discretion, it also brings new dimensions in the problems that may be faced by the banks. The internal control systems cannot be overly relied as the problems below the calm waters can be of uncontrollable magnitude. Auditors can identify potential risk areas and weak internal controls. The Reserve Bank of India in its recent report on 'Trend and Progress of Banking in India - 2018-19' has observed that: *The slowdown in global and domestic growth impulses in the recent past impinged on credit demand. The asset quality, capital adequacy and profitability of scheduled commercial banks improved after a long period of stress, although challenges emerged from other areas like non-banking financial companies and co-operative banks. Going forward, issues such as resolution of stressed assets, weak corporate governance, and frauds need to be addressed to reaffirm a robust financial sector that minimizes systemic risks.*

Bank Audit is an opportunity for the auditors to promote culture of good governance and help the regulators and government. At macro level, the task of auditing of banks can help the Reserve Bank of India to have a closer look at the functioning of the banks and simultaneously identify critical areas that need greater supervision or regulation.

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