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RBI asks PSB auditors to step up vigil, spot ‘scams’

BY [SUGATA GHOSH](#), ET BUREAU | UPDATED: MAR 22, 2018, 10.54 AM IST

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MUMBAI: Battling with frauds and dodgy borrowers, the [Reserve Bank of India](#) (RBI) has asked auditors of state-owned banks to watch out for unrealistic cash-flow projections that corporates often make to obtain new loans or rejig old loans to buy time. The regulator, at a meeting last week, also told them to account for the divergence in sticky loans between [RBI](#) inspection report and audited numbers before finalising balance-sheet.

“Many companies agree to ballooning debt repayment terms at the time of loan restructuring. But there are questions whether the future earnings can be robust enough to support such higher debt service obligations,” said a senior chartered accountant who was one of the 40-odd auditors to attend the meeting with senior officials of RBI.

The auditors will have to ensure that balance-sheets not only disclose the differences between the RBI’s observations for the previous financial year and the corresponding audited accounts, but also provide for it in the current year.

“Due to high NPAs and emergence of new wilful defaulters, regulator’s expectations from auditors have increased. RBI wants us to anticipate the inherent weaknesses in the book, step up vigil... But certain issues like ‘gold plating’ of projects may be difficult for statutory auditors to spot,” said another person who was present in the meeting.

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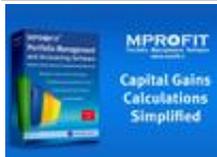
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In the course of the meeting, which was held a month after the fraud perpetrated by jeweller [Nirav Modi](#) and his uncle [Mehul Choksi](#) surfaced, one of the RBI officials outlined the central bank’s fraud monitoring framework. Among the early warning signals pointed out were critical issues highlighted in stock audit report, poor disclosure of materially adverse information, frequent change in the scope of project, not routing sales through consortium member bank, letters of credit issued for related parties, tax raids and significant drop in promoters’ stake.

The meeting was called at a point when a large number of banks are preparing for large one-time loss in the quarter ending March 31, 2018 in line with RBI’s revised guidelines on resolution of stressed assets.



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“Banks, however, will be spared of the new accounting standard (IAS) that was supposed to come into effect from April 1, 2018. In all likelihood it would be postponed... that’s the impression we gathered from the meeting,” said one of the persons quoted above.

The new accounting rule would have called for provisioning against expected credit loss. It’s widely perceived that such a norm could erode the capital of several public sector banks which are already saddled with [bad loans](#).

Another presentation by an RBI general manager made it explicitly clear that all restructured loans will now attract provisioning (and thus impact bank profits).

Till last year, restructured loans under specific schemes were treated as standard or regular loans. Now, it has to be treated as non-performing assets which would call for provisioning of 15% or 25% or even higher given the quality of the asset.

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