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Market Watch

# Bank auditors have to be more vigilant

BY SUGATA GHOSH, ET BUREAU | DEC 11, 2019, 06.42 AM IST

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MUMBAI: Auditing banks is becoming one of the trickiest and most demanding jobs.

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Auditors, according to a [Reserve Bank of India \(RBI\)](#) advisory to several banks this week, will have to carry out a more intensive examination of large-value accounts, the nature of security provided by borrowers as well as financial statements of borrowers. The regulator believes this will lend greater insight into determination of [non-performing assets \(NPAs\)](#) and other areas of concern like frauds.

Under the new framework, statutory auditors, in verifying whether an NPA has been correctly identified by the bank, should not confine to the objective tests laid down but “display a greater degree of scepticism and independence” in scrutinising banks’ exposure to big borrowers.

These instructions, among others, will be included by all private and foreign banks in the annexure to the letter of appointment of auditors, said sources.

“Auditors are the first line of check. Some of the losses of banks could have been contained if they were more vigilant -- at least that’s what the regulator seems to think,” said an industry person. Earlier this year, RBI had said that there would be quarterly meetings between bank auditors and the central bank to detect early warning signals.

An RBI spokesperson declined to speak on the subject.

In giving a declaration on the absence of indebtedness of relatives of partners or proprietors of a firm, the auditor may be required to go a little beyond than what is currently laid down in the law. Before appointing statutory auditors, banks, according to RBI, should ensure that in addition to the requirements of Section 141(3)(d) of the Companies Act (relating to indebtedness and disqualification of auditors), the “spouse, dependent children and wholly or mainly dependent parents, brothers, sisters or any of them, of any of the partners/proprietors of the firm or the firm/company in which they are partners/directors are not indebted to the bank”.

# Widening Ambit



**Bank Auditors** have a tenure of 4 years

**Auditors have** come under glare amid losses by banks 

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**Now, auditors have to go well beyond traditional role**

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**They have to spot brewing frauds, weakness in loan a/cs** 



The [statutory auditor](#) will have to ensure that qualifications, if any, made in audit report or financial statement should be “quantified wherever possible, if the same are material, in clear and unambiguous term.” As soon as the audit work is completed, an auditor is advised to report “serious irregularities” to the top management of the bank as well as to the senior supervisory manager of RBI’s department of supervision. In case of non-observance of any serious lapses, a ‘nil’ report may have to be submitted by statutory auditors.

If matters involving members of a bank’s senior management who are part of the [audit committee](#) of the board are spotted during the course of audit, the findings should be immediately reported to the bank’s board of directors and RBI.

Some of the banks have reported divergence in asset quality in recent times. However, bankers say this is often an outcome of hardening of stance by RBI inspectors amid a regulatory paranoia in the wake of frauds. In case of frauds of Rs 1 crore or more, auditors may have to report such irregularities directly to RBI’s central fraud monitoring cell.

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