



AUDIT REPORT & REPORTING

RBI CONCERNS THAT NEED TO BE ADDRESSED

Role of Statutory Auditors in Identification of Non-Performing Assets (NPAs)

Expectations from Statutory Auditors to display a greater degree of skepticism and independence in assessing asset classification, especially large-value accounts

Certification and reporting of fraud or suspicious activity

- In terms of extant RBI guidelines, auditors are required to report any suspicious/fraudulent activities, which comes to their attention during audit



RBI CONCERNS CONTD...

1. Non Compliance of SA 505 External Confirmations in respect of not receiving confirmation requests directly by the audit firm.
2. Non compliance of SA 530 Audit Sampling in respect of not clearly documenting application of sampling procedures.



RBI CONCERNS CONTD...

Audit Working Papers – Preparation and maintenance

- i. IMF-World Bank recommendation to RBI on RBI having explicit authority to access working papers of auditors
- ii. RBI is examining multiple methods to review the work of auditors, including having access to working papers



OVERVIEW OF AUDIT STANDARD FRAMEWORK

- I. Standard on Quality Control (SQC)**
- II. Standards on Auditing**
- III. Standards on Review engagements (SREs)**
- IV. Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (SAEs)**
- V. Standards on Related Services (SRS)**
- VI. Guidance notes (GN)**



SUMMARY STATISTICS - FRAUDS (OF RS 1 LAKH AND ABOVE) REPORTED DURING THE LAST 5 FYs

Year	All banks	
	No. of Frauds	Amount Involved (Rs. in Crore)
2013-14	4306	10170.8
2014-15	4639	19455.1
2015-16	4693	18698.8
2016-17	5076	23933.8
2017-18	5916	41167.0



FRAUD CONCERNS BY REGULATOR

- **Delayed Recognition and Reporting of Frauds**
 - Advances related frauds often seasoned for 3 to 4 years as NPAs
 - Time between first bank and last bank in consortium reporting fraud
 - Ideally within six months from date first entity reports the account as fraud
 - Complicity of bank officials and third parties with the borrower
 - Reluctance to conduct the meeting of the lenders
- Not referring to CRILC



FRAUD CONCERNS BY REGULATOR

- Delay in filing complaint with CBI/Police
- Very poor credit and fraud risk governance
- **Professional Service Providers**
 - Advocates, chartered accountants, valuers, independent engineers
 - Reporting and dissemination of names of such third party professionals by IBA

(RBI had advised IBA to put in place an enhanced web-enabled TPEs-reporting and disseminating system. IBA has implemented the same w.e.f. December 1, 2018).

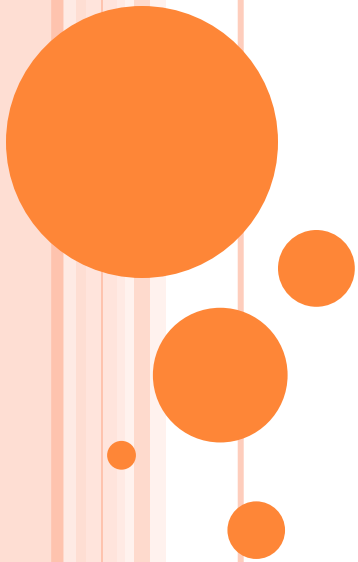


SOME EARLY WARNING SIGNALS (EWS) (MAY 7, 2015)

- Critical issues highlighted in the stock audit report
- Poor disclosure of materially adverse information
- Frequent change in the scope of the project
- Liabilities appearing in ROC search report, not in annual report
- Not routing sales through consortium member bank
- LCs issued for related parties without underlying trade transaction
- Raid by Income tax /sales tax/ central excise duty officials
- Significant reduction in the stake of promoters or pledging of shares



CYBERSECURITY AND IT RISKS IN BANKS – ROLE OF AUDITORS



EXPECTATIONS FROM STATUTORY AUDITORS

Comments from SA are not expected on conduct of intrusive assessment of bank's system, but based on the records submitted by the bank – CISO, Internal Audit, External audits (like VA/PT)

- Reviewing bank's response/actions taken to the advisories/alerts/circulars will suffice
- Review of the org structure for assuring the implementation of controls or measures suggested as part of circular/adv/alerts
- Reviewing third party assurance report
- Reviewing the notes put up to Information Security Committee, ITSC on major issues – committee minutes and actions
- Reviewing the Role of CISO circular
- Review of the steps taken for assuring that controls gaps - identified, critical or reoccurring gaps are reported to appropriate top committees and controls are sustained



EXPECTATIONS FROM STATUTORY AUDITORS

CONT.....

List of circulars and advisories issued by RBI (CSITE Cell, DBS) to banks to be referred for comments on the compliance including outstanding observations

- ▶ Review whether bank has conducted audit of Third party vendors (Outsourcing) – If not comment; If yes – review the compliance level to the observations made
- ▶ Review the Role of CISO circular and its compliance – like whether CISO is reporting to ED in charge of risk management, whether he is reporting to Board/Board level committee on quarterly basis; etc.
- ▶ Check for the incidents reported by the bank to RBI (CSITE Cell) and its status of closure at their end – reporting to customers, regulator, RCA, Forensics etc..



RBI GUIDELINES ON CYBER SECURITY

- Basic Cyber Security Framework for Primary (Urban) Cooperative Banks (UCBs)- Dated October 19, 2018
 - Basic security controls recommended over 13 domains.

- Comprehensive Cyber Security Framework for Primary (Urban) Cooperative Banks (UCBs) – A Graded Approach- Dated December 31, 2019
 - In addition to basic controls mentioned in above guideline, RBI has formulated cyber security framework on graded approach.
 - Th UCBs have been categorized into four levels based on their digital depth and interconnectedness to the payment system landscape.





PROVISIONS RELATING TO AUDIT

APPOINTMENT OF AUDITOR – ARTICLE 243 ZM OF CONSTITUTION SECTION 75 (2 A)

- ❖ Every society shall appoint an auditor or auditing firm from panel approved by State Government in its Annual General Body meeting.
- ❖ Society shall file in form of return to the Registrar the name of auditor & his written consent within 30 days from the date of Annual General Meeting.
- ❖ Same auditor shall not be appointed for more than 3 consecutive years.



SECTION 81

- ❖ Audit shall be completed within 4 months from close of financial year.
- ❖ If society has not appointed auditor and failed to file return under sub section (2 A) of 75 or sub section (1 B) of section 79, Registrar shall appoint auditor from panel.
- ❖ No auditor shall accept audit of more than 20 societies excluding societies having paid up capital of less than Rs.1 lakh.



ARTICLE 243 ZM OF CONSTITUTION


- ❖ Registrar shall submit audit report of every Apex society to State Government for being laid before both houses of State Legislature.
- ❖ Audit report shall have
 - ✓ All particulars of defects or irregularities.
 - ✓ In case of financial irregularities & misappropriation or fraud, auditor shall investigate & report modus operandi, entrustment & amount involved.



Rule 69 (3) :- Auditor shall submit audit memorandum in case of banks in form N1 and in case of other societies in form N2.

Rule 69 (3) :- Auditor shall state whether accounting policies adopted by societies are consistent with Accounting Standards laid down by State Government or ICAI.

Rule 69 (3) :- While certifying Profit and Loss account, auditor shall quantify effect of shortfall in various provisions like NPA, OIR, Depreciation etc. over profit or loss and state clearly that after considering effect of all provisions, whether there is profit or loss.



Government of Maharashtra has issued notification regarding AS.

According to notification, Accounting Standards as issued by the Institute of Chartered Accountant of India, New Delhi will be applicable to Co-operative Societies.



BANKS

Various reports required to be issued

- Main Audit report as per ICAI
- Report in standard format for all branches
- L F A R
- Audit memo in form 1 & form 7
- One-page Proforma
- Rating



ISSUES OF AUDIT RAISED BY RBI

- Fraud provision on full amount & not net of security
- Early mortality reasons & analysis
- Recovery accounting to be followed consistently/ as per policy
- Caution for write off in SS accounts
- Legal charges on NPA to be debited to P & L not Borrower



THANK YOU

