



14th March, 2018

Dr. Urjit R. Patel
Governor,
RESERVE BANK OF INDIA,
C/o CGM and Secretary
Secretary's Department,
Reserve Bank of India,
16th floor, Central Office Building,
Shahid Bhagat Singh Marg,
Mumbai - 400 001

Dear Sir/s

RE: Statutory branch audit of branches of Indian PSU banks- In wake of recent developments/ irregularities in Punjab National Bank

In wake of recent developments/irregularities noticed in the banking industry, we as professionals' associations would like to draw your attention to the following issues which, if attended to effectively and with a sense of urgency, would go a long way in bringing about substantial improvement in the present situation in the banking industry :

1. (a) Environment created after change in policy of appointment of branch statutory auditors (giving autonomy to bank management) has not yielded desired results for the banking industry. Our regulatory body, the Institute of Chartered Accountants of India (ICAI) has been opposing this change from the very beginning.

(b) The appointment of branch statutory auditors should be made latest by end of February. For instance, for F/Year 2017-18 the appointment should have been made latest by 28th of February 2018. Moreover, the instructions

circular/booklet issued by the Head Office to the branches for annual closing of accounts should be sent to the branch statutory auditors along with the appointment letters.

(c) Presently bank branches with advances of less than Rs. 20 crores are not subjected to annual independent audit. Instead of advances, only the branches with total business (deposits+advances) of less than Rs. 20 crores should be excluded from annual independent audit. Moreover, advances for this purpose should include both funded and as well as non-funded advances. It may be added that for concurrent audits and for various other purposes the branch categorisation is based on total business and not just advances. Also, presently only 1/5th of the remaining branches (branches with advances of less than Rs. 20 crores) are subjected to annual independent audit. We recommend that 1/3rd of the remaining branches (branches with business of less than Rs. 20 crores, including non-funded advances) should be also subject to annual independent audit along with the rider that all branches should be audited at least once every 3 years.

2. Pressure exerted on the auditor on the pretext of reporting deadline (period at disposal of the branch auditor being squeezed from 15 days to merely a week-reporting being expected to be completed by end of 1st week of April) has been hampering both quality and depth of audit. Branch auditor should be given a period of at least 15 days which should start only after the full set of financial statements/annual returns is made available to the auditor. There is a mad rush and competition among the PSBs to be the earliest to declare their results and this is the main reason for the peer pressure.
3. Pressure being exerted on the branch auditors to issue CLEAN REPORTS (with NIL MOC) by RO/ZO top officials is uncalled for and should be avoided.
4. MOCs with material relevant changes, at times at a later stage are ignored/dropped without any valid reason and without any dialogue with branch statutory auditor who had initiated the MOC. This practice needs to be curtailed. We suggest that all the suggested changes in the MOC which are not considered at the time of finalisation of accounts at the Head Office should be listed in a statement and that statement should be placed before the Audit Committee for its consideration and comments
5. Due care is not being taken at branch level to respond properly to the Letter of Engagements issued by branch auditors. This is taken by the branch management as an unnecessary requirement, not realizing this is essential for

the proper conduct of branch audit and is also prescribed in the Standards on Auditing issued by ICAI, which the members of ICAI are governed by and must follow compulsorily.

6. Prior to commencement of branch statutory audits, it is important to organise meetings between the Bank Management, Central Statutory Auditors and Branch Statutory Auditors. Only a few banks are organising these meetings and even in most of such cases the meetings are not organised properly and with the seriousness that they deserve.

The above is some of our suggestions which if considered will go a long way in substantial improvement in allotment process, auditors' independence, ensuring quality of reporting and substantial improvement in effective conduct of bank audits.

We remain,

Yours sincerely



Gyanesh Verma
President,
Lucknow Chartered Accountants' Society



Kunal Ashvin Shah
President,
Ahmedabad Chartered Accountants' Association



Raghavendra T.N.
President
Karnataka State Chartered Accountants' Association



Narayan R. Pasari
President
Bombay Chartered Accountants' Society

CC to:

1. The Board of Directors of all PSU banks;
2. Secretary (Financial Services), Ministry of Finance, Government of India;
3. The Governor, Reserve Bank of India