Preface to the Fifth Edition

"In India we seem to be getting conditioned to believe that in case there is a financial fraud or a related problem, auditors are the problem."

The word Audit has its origin from the Latin word "Audire" which means listening. However, over centuries it has seen its definition and objectives change radically.

Upto 1700, the kings, emperors, churches and the states ordered for audit with an objective to punish the thieves for the funds changing direction and protecting the assets. During the period 1700-1850, this objective changed to repressing fraud and punishing the authors protecting such assets and then to avoiding fraud and errors and attesting the viability of the Balance Sheet during the period between 1850-1900. There was a paradigm shift from 1940 till 1990 between which the auditing objectives shifted from being fraud centric to remaining limited to attesting the honesty and regularity of historical financial data, quality of internal control and compliance with the accounting and auditing norms.

Today, auditors are being expected by the regulatory and law enforcement agencies to not only be watchdogs, but also bloodhounds. A tough ask as expectations contradict the regulations.

We were yet to recover from the biggest corporate fraud in Indian history at Punjab National Bank before an even bigger one unfolded, the Infrastructure Leasing and Financial Services Ltd. (IL&FS) crisis. More recently, the PMC Bank scam raised a number of questions about the extent to which data had been fraudulently manipulated before being submitted to RBI and about the software containing a specific script to

exclude selected borrowers. Each time a fraud unfolds, new techniques are unveiled and the management and regulators scramble to keep up only to be left scratching their heads over how they got duped one more time.

Benjamin Franklin during his life-time between 1706 to 1790 was quoted as having said that fraudsters had two vices in common, one "running in debt" and the second "lying". Rightly so, things have not changed even today!! If the number of small and large frauds hitting the banking and financial sector today are any indication, the auditors' objective would sooner or later change to what the kings, emperors, churches and the states ordered for audit upto 1700 i.e. to punish the thieves for the funds changing direction and protecting the assets. This is obviously not possible for auditors under the current regulatory framework unless the auditor is a forensic auditor. Banking frauds have been unearthed by the dozen in recent times. Banks reported a total fraud of Rs. 71,543 crore during 2018-19, a 74% increase as against Rs. 41,167 crore in the previous financial year. The number of fraud cases reported by lenders also jumped to 6,801 in 2018-19, compared to 5,916 cases in 2017-18. The Public sector banks, prone to frauds on account of their lack of adequate internal processes, people and systems to tackle operational risks accounted for a bulk of frauds reported during 2018-19, 55.4% of the number of cases reported and 90.2% of the amount involved.

During such uncertain times, as I step out for any assignment today, I am bound to be perplexed. Am I to wear the garb of a forensic auditor even if my reporting responsibilities lie encased in the entities "true and fair" status? Or do I go beyond the audit objectives and agreed upon terms of engagement with the management? Last year, in an interview MCA clarified that auditors have a lot to answer for and they do not expect the auditors to detect a needle in a haystack, but if an elephant is in a room, they ought to find it. Audit procedures as prescribed by ICAI in most cases if not all, would find the elephant, but if the same is camouflaged by a trained fraudster, chances are that a Statutory Auditor may not be able to find it too.

The controversial RBI Circular of 12th February 2018 on "Resolution of Stressed Assets – Revised Framework" resulted in the gross NPAs registering a substantial increase during 2017-18 across the banking sector

more so in the state run banks. The circular however, on being challenged for its controversial provision to commence resolution within one day of default was struck down by the Hon'ble Supreme Court. RBI as a result issued a fresh set of guidelines for resolution of stressed assets on June 07, 2019.

Other than a conceptual difference of the previous circular being "rule based" and the fresh one being "principle based", the major change which the new circular ushered in is the fact that it does not force the banks to file for insolvency under Insolvency and Bankruptcy Code, 2016 (IBC). Instead, banks are now free to adopt a resolution strategy. However, they would need to absorb the impact of additional provision of upto 35% of the total outstanding in case a viable Resolution Plan is not put in place within a time frame.

In this edition, I have incorporated a new Chapter on Frequently Asked Questions or FAQs which to my mind are the best source of finding answers to most queries or issues which members face. Most of them have been compiled from the queries and issues which members raised to me during the course of their branch audits. I have in this process curbed my instinct to weed out elementary issues as I believe these would greatly benefit the first time/less experienced members. Compiling a list of FAQs is an embryonic process. I would, for that reason, request all readers to help me in this process by forwarding to me all issues which they are confronted with on my e-mail, WhatsApp or mobile.

A pre sign off checklist for assignment partners, a checklist for verification of the branch capital adequacy returns, revised guidelines and templates on Agricultural loans, Guidance on Frauds, EWS and RFA are some of the other new additions to this edition. The focus as has been my objective since I first penned this book, is to help readers in providing practical solutions to their on-field issues.

Although, the book predominantly contains guidance for members in their role as Statutory auditors of bank branches, members would also be benefitted by using it during other bank assignments to the extent relevant. The book has been found to be equally useful by bankers.

I need to acknowledge and appreciate the unconditional, untiring and immeasurable efforts of CA Varnika Gupta in meticulously supporting me

in updating this edition. My appreciation also goes out to Mr. Baji Kolah for his treasured banking inputs.

I shall be failing in my duty if I do not thank and acknowledge the continual feedback received from the readers. I will look forward to their continued patronage and welcome critical acclaim and suggestions to help make this book a more useful companion for the bank audit resources.

Mr. Mitrapal Yadav, DGM (Editorial) of Taxmann Publications Private Limited has been very encouraging and supportive in his motivation to pen similar books on other subjects.

I shall always remain thankful to my guru, Sai Baba for his blessings, to my parents for inspiring me each day and to my wife Deepa and darling kids Archita and Rohan, for their unrelenting love and support, without which this book would probably not have seen the light of day.

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