

Preface to Fourth Edition

*“The second vice is lying. The first is running in debt.” – Benjamin Franklin.
(1706-1790)*

More than two centuries later, the biggest corporate fraud in Indian history at Punjab National Bank revealed that fraudsters have both vices in abundance. The scam has however left the public at large including the regulator, bankers & government with a lot of unanswered questions. How the great bank heist, which remained undetected for seven years, was pulled off by the diamantaire is still a mystery. Whether the investigating agencies would be able to do a Sherlock Holmes and nab the culprits at the earliest or would they remain locked in the maze of information for years to come remains a million dollar question.

Ever since the fraud came to light, stakeholders have been questioning the efficacy of banks' operational controls, role of the regulators and the quality of the auditing fraternity at large. Like frauds in the past, the press and the public at large will ponder over the issue till such time a bigger news breaks out. Post that, I presume all stakeholders including the regulators and auditors would gear up to build stronger controls against frauds of the nature discovered. That the fraudsters would sooner or later find a new avenue to circumvent existing regulations and controls to create personal wealth is a truth which has been repeating itself from times immemorial. Fraudsters and regulators have been playing this Spy Vs Spy game since long and will continue to do so in future too.

While the Auditor's role comes in for close scrutiny from all stakeholders each time frauds or scams surface, we as a fraternity wonder whether we are to be blamed each time such financial frauds are discovered. Definitely not, unless

it is proven that the auditor did not audit in terms of the applicable technical standards.

We need to introspect too, atleast on one count. Are softwares making us complacent by giving our fraternity an unfounded confidence? Can we continue to audit “around the computers” instead of “through the computers” in the current digital era? A composite audit by us consisting of an IT audit and financial audit is definitely the need of the hour.

I have tried to address the primary issue which arises out of the PNB scam i.e. non-integration of CBS/finacle with the Swift messaging system by suggesting certain audit procedures which would mitigate such risks.

Over the past decade, the RBI had issued various circulars to set guidelines for resolution of stressed assets under various schemes. However, these schemes, it was felt had overlapping guidelines which resulted in issues on interpretation of the provisions contained therein and in some instances, banks/borrowers were reportedly taking advantage of the provisions in deferring the inevitable. These guidelines were often misused and success stories of resolutions through such schemes were often far and wide.

As part of the resolution of stressed assets, the Reserve Bank of India released two separate lists of identified borrowers for initiation of insolvency proceedings under the IBC 2016. At a time when industry experts were expecting the RBI to release the third list of identified borrowers for resolution under IBC 2016, it issued a new set of norms for resolution of stressed assets on 12th February 2018 while also withdrawing all the existing regulatory guidelines pertaining to restructuring of loans. This has resulted in fewer options being available to banks seeking to resolve stressed assets.

This RBI guideline sets in a new era of resolution of stressed assets by way of insolvency under the Insolvency and Bankruptcy Code, 2016 (IBC). It is a tough call to take on the future about whether this would help in resolving the stressed assets or would the dismal story of the past decade continue.

I have incorporated specific checklists for SDR, S4A and the latest Revised Framework for Resolution of Stressed Assets to help readers address complex issues related thereto and in helping them in ensuring compliance with the regulatory regulations.

I suggest that readers use this book not only in their role as Statutory auditors of bank branches but also as Concurrent, Revenue and Stock auditors. The

book should be equally useful in helping bankers understand the auditing world.

I need to acknowledge and appreciate the very valuable inputs from CA Sajal Jain, CA Kajal Agarwal, Mr. Baji Kolah and CA Varnika Gupta. I would not have been able to come out with this edition without their continual assistance upto the proof reading stage.

I remain devoted in continuing to focus on providing practical solutions to the on-field issues faced by auditors in their banking assignments and have accordingly tried to restrict the information available in this book. I would more than welcome suggestions by readers over phone or email to help me make this book a more useful companion for all the bank audit resources.

I need to express my sincere gratitude to all my readers for their valuable feedback and hope for their continued patronage.

I would be failing in my duty if I do not mention the continued support of Mr. Mitrapal Yadav, DGM (Editorial) of Taxmann Publications Private Limited in publishing the fourth edition of this book. He has been persistent with his demand on me to pen more books on other subjects with a practical approach. I hope to keep my promise soon.

“You don’t choose your family. They are God’s gift to you, as you are to them.”

- Desmond Tutu

I shall always remain thankful to my guru, Sai Baba for gifting me my family.

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