

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES
LOK SABHA

UNSTARRED QUESTION NO. †3941

TO BE ANSWERED ON THE 10TH AUGUST 2018/SHRAVANA 19, 1940(SAKA)

Action on Bank Auditors

†3941. SHRI BHARAT SINGH:

Will the Minister of FINANCE be pleased to state:

- (a) whether the Reserve Bank of India (RBI) has prepared any guidelines to take action on bank auditors so as to put a check on scam in private and public sector banks;
- (b) if so, the details of the guidelines issued by the RBI; and
- (c) the extent to which scam in banks are likely to be checked after issuance of these guidelines?

ANSWER

Minister of State in the Ministry of Finance
(SHRI SHIV PRATAP SHUKLA)

(a) to (c): RBI has apprised that recently it has put in place a graded enforcement action framework for statutory auditors (SAs) in respect of lapses observed in statutory audit of commercial banks. As part of the framework, lapses such as misstatements of banks' financial statements, wrong certification, wrong information in the Long Form Audit Report, and any other violations/lapses vis-à-vis RBI directions/guidelines regarding the role and responsibilities of SAs in relation to banks are covered. As per RBI, in case of violations/lapse identified by any other regulator/enforcement agency/judicial or government authorities etc., such firms may be denied audit provided the case is of serious nature where public interest is involved and it is established *prima facie*, that the firm is culpable either by RBI or by the said entities and such violation/lapse is brought to RBI's notice. Further audit assignment to such audit firms as are blacklisted by the above entities and brought to RBI's notice may be denied until the time their name is cleared by them. Communication of any enforcement action on an audit firm (including issuance of Cautionary Advice) to the Institute of Chartered Accountants of India (ICAI, the professional body of the audit community), as and when such action is taken and placement in public domain of the fact of such communication to ICAI by RBI are also envisaged. With regard to arrangement of enterprise-wide risks of a bank, which include risk of fraud, RBI has apprised that there are three lines of defence *viz.*, line functions that assume, own and manage the risk, the risk monitoring function that specialises in overseeing the risk-taking and risk management by the said line functions and provides guidance and support, and the audit function. As a result of the RBI-issued framework, occurrence of fraud would be checked to the extent of improvement in the audit function.
