



FACULTY OF JURIDICAL SCIENCES

COURSE NAME : BALLB/BBALLB

SEMESTER : VIIIth

SUBJECT : Banking law

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LECTURE : 10

FACULTY NAME: Mr JP Srivastava

Audit and Inspection of Indian banking company

Audit

The balance sheet and the profit and loss account of a banking company have to be audited as stipulated under Section 30 of the Banking Regulation Act. Every banking company's account needs to be verified and certified by the Statutory Auditors as per the provisions of legal frame work. The powers, functions and duties of the auditors and other terms and conditions as applicable to auditors under the provisions of the Companies Act are applicable to auditors of the banking companies as well. The audit of banking companies books of accounts calls for additional details and certificates to be provided by the auditors.

They include:

Whether or not;

- information and explanation, required by the auditor were found to be satisfactory;
- the transaction of the company, as observed by the auditor were within the powers of the company;
- profit and loss account shows a true picture of the profit or loss for the period for which the books have been audited and any other observations to be brought to the notice of the shareholders; Special responsibility is cast on the bank auditor in certifying the bank's balance sheet and profit and loss account, since that reflects the sound financial position of the banking company.

Apart from the balance sheet audit, Reserve Bank of India is empowered by the provisions of the Banking Regulation Act to conduct/order a special audit of the accounts of any banking company. The special audit may be conducted or ordered to be conducted ,in the opinion of the Reserve Bank of India that the special audit is necessary;

(i) in the public interest and/or

(ii) in the interest of the banking company and/or (iii) in the interest of the depositors.

The Reserve Bank of

India's directions can order the bank to appoint the same auditor or another auditor to conduct the

special audit. The special audit report should be submitted to the Reserve Bank of India with a copy to the

banking company. The cost of the audit is to be borne by the banking company.

Inspection

As per Sec 35 of the Banking Regulation Act, the Reserve Bank of India is empowered to conduct an inspection of any banking company. After conducting the inspection of the books, accounts and records of the banking company a copy of the inspection report to be furnished to the banking company. The banking company, its directors and officials are required to produce the books, accounts and records as required by the RBI inspectors, also the required statements and/or information within the stipulated time as specified by the inspectors.

Government's role:

The Central Government may direct the Reserve Bank to conduct inspection of any banking company. In such cases, a copy of the report of inspection needs to be forwarded to the Central Government . On review of the inspection report, the Central Government can take appropriate action. In the opinion of the Central Government if the affairs of the banking company is not being carried out in the interests of the banking company, public and or depositors, the Central Government may (i) prohibit the banking company to accept fresh deposits (ii) direct the Reserve Bank to apply for winding up of the banking company under the provisions of the Banking Regulation Act. Before taking action, the Government has to give an opportunity to the banking company to explain their stand. Based on the response, the Government can initiate appropriate action as required.

Scrutiny:

Apart from inspecting the books and accounts of the company, the Reserve Bank can conduct scrutiny of the affairs and the books of accounts of any banking company. Like in the case of inspection, the Reserve Bank can handle the scrutiny as required.

MCQs

1. Which of the following is not a kind of audit?

A. Statutory and private.

B. Government and continuous audit.

C. Interim audit.

D. None of these

2. This kind of audit is conducted generally between two annual audits.

A. Internal audit.

B. Interim audit.

C. Final audit.

D. Continuous audit.

3. Voucher relates to _____.

A. Cash receipt.

B. Cash payment.

C. Credit transactions

D. All of the above.

4. Auditing begins where _____ ends.

A. Selling.

B. Inventory valuation.

C. Accounting.

D. Purchases.

5. In the case of a company in which not less than _____% of the subscribed share capital is held whether singly or in combination by certain special institutions and bodies, the appointment or re-appointment of auditors shall be made at each annual general meeting by a special resolution.

a. 25%

b. 30%

c. 20%

d. 15%