Auditor's Responsibilities Relating to Restructuring of Advances

1. Attention of the members carrying out audit of financial statements of banks for the year ended March 31, 2009, is drawn to *Reserve Bank of India's circular no. DBOD.BP.BC.No.105/21.04.132/2008-09 dated February 4, 2009 on Prudential Guidelines on Restructuring of Advances by Banks*. The said circular:

   - Applies to advances to which Special Regulatory Treatment was extended in terms of RBI's circular no. DBOD.BP.BC.93/21.04/132/2008-09 dated December 8, 2008 and also were Standard Assets as on September 1, 2008;

   - Extends the date of receipt of application for restructuring from January 31, 2009 to March 31, 2009; and

   - Clarifies that "the general framework of Restructuring of Advances by banks continues to be governed by the circular dated August 27, 2008".

2. In view of the above, the members may note that mere receipt of an application for restructuring does not by itself makes the advance(s) referred to above qualified to retain its classification as "Standard Asset(s)". Such retention can be done only if the following criteria are met:

   - The conditions subject to which the benefits of restructuring under Special Regulatory Treatment can be availed in terms of the circular no. DBOD.BP.BC.No.37/21.04.132/2008-09 dated August 27, 2008 read with paragraph 4(c) of RBI's circular no. DBOD.BP.BC.No.104/21.04.132/2008-09 dated January 2, 2009 are met; and

   - The restructuring package is implemented within a period of 120 days of taking up of restructuring package.

3. In case of advances where the above conditions are not fulfilled then in terms of paragraph 6.2 of RBI's circular no. DBOD.BP.BC.No.37/21.04.132/2008-09 dated August 27, 2008 on Prudential Guidelines on Restructuring of Advances by Banks read with paragraph 3.1.2 of the said Circular, the usual asset classification norms would continue to apply. Accordingly, an adequate provision in respect of such accounts needs to be made in the financial statements of the bank. Where the bank has not made such a provision in the financial statements, the auditor should consider the impact of such non-provisioning on his audit opinion in terms of the principles laid down in Standard on Auditing (SA) 700, *The Auditor's Report on Financial Statements*.

4. Where the member, in accordance with the requirements of SA 700, decides to issue a modified audit opinion in respect of the above, his audit report should clearly bring out matters such as the fact of non-provisioning, the amount involved, the impact of such non provisioning on the relevant items of financial statements, reference to the relevant circular(s) of the Reserve Bank of India.

5. Further, the member would also need to consider the need for giving a suitable comment in this regard in his Long Form Audit Report. For example, in case of a bank branch, the Long Form Audit Report requires the auditor to provide details of such advances where the auditor disagrees with the branch classification of the advance(s) into standard/ sub-standard/ doubtful/ loss assets, along with the reasons therefore.

6. In addition to the above, it may also be worthwhile to reiterate that while carrying out statutory audit of the financial statements of banks, the members should ensure compliance with the applicable Standards on Auditing as well as the Guidance Note on Audit of Banks issued by the Institute of Chartered Accountants of India

(Source : www.icai.org)