

PNB blames concurrent auditor for not flagging off SWIFT transactions

Reconciliation of SWIFT messages with trade module of the core banking system was not followed and the concurrent auditor did not point out this irregularity, the lender said

State-owned Punjab National Bank has blamed the concurrent auditor at its Brady House branch in Mumbai for not detecting the Rs 129-billion scam related to fraudulent letters of undertaking (LoUs) issued to the Nirav Modi and Mehul Choksi groups of companies.

In its submission to investigative agencies and the government, PNB said LoUs were fraudulently issued for seven years, transmitting through SWIFT, an international messaging system, on a standalone basis.

“The reconciliation of SWIFT messages with the trade module of the core banking system was not followed and the concurrent auditor did not point out this irregularity,” PNB informed the government.

The Reserve Bank of India (RBI) has also not conducted forensic audits of all SWIFT communications and messages of banks so far. However, the RBI is scrutinising “select banks” to assess their operational control framework, Minister of State for Finance Shiv Pratap Shukla told the Rajya Sabha on Tuesday.

The LoUs were issued for companies belonging to Nirav Modi and Mehul Choksi to foreign branches of Indian banks without a sanctioned limit and without making entries in the trade finance module of PNB due to which the transactions went undetected.

The Central Bureau of Investigation (CBI) has arrested PNB’s former employee Bishnubrata Mishra who worked as a concurrent auditor for the Brady House branch between 2011 and 2015. The agency is also investigating Mohinder Kumar Sharma, who was the internal chief auditor of the branch and was supposed to verify daily transactions and report irregularities to the bank.

The RBI, in a statement last month, had termed the fraud as an “operational risk arising on account of delinquent behaviour by one or more employees of the bank, and failure of internal controls.”

After the fraud came to light, PNB initiated the process of hiring new concurrent auditors for the bank.

The bank has now ensured that the tenure of concurrent auditors will initially be for one year and will be extended for two years based on performance of the auditor.

Concurrent auditors examine financial transactions at the branch level and generate a daily report. They are considered to be a part of a bank's early warning system to ensure timely detection of irregularities and lapses. At PNB, concurrent auditors are usually former employees of the bank with experience of 20 years in the banking sector.

The RBI had issued fresh guidelines in July 2015 asking the management of all banks to “bestow serious attention” to the process of appointing concurrent auditors. It had also directed banks to

review the effectiveness of the concurrent auditing system once a year and take “necessary measures to correct lacunae”.

According to the RBI guidelines, concurrent auditors have to ensure transactions are within the policy parameters of the bank’s head office and also examine whether transactions violate RBI rules.

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