



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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DBS. CO.FrMC.BC.No. 11/23.04.001/2010-11

June 30, 2011

The Chairmen & Chief Executive Officers of
All Scheduled Commercial Banks (excluding RRBs) and
All India Select Financial Institutions

Dear Sir,

Efficacy of Concurrent Audit

1. A study of large value frauds, including frauds under housing loan segment, reported by banks to Reserve Bank of India was undertaken to understand the gaps in the control mechanism which contributed to perpetration of those frauds particularly when the branches were also under concurrent audit. It was observed that large number of frauds were perpetrated on account of submission of forged documents by the borrowers which had been certified by professionals' ie valuers/advocates/chartered accountants.

2. The reason for failure on the part of concurrent auditors may be attributed to the new/innovative/complex nature of financial products or transactions. Further, banks have assigned audit responsibility to their own staff without ensuring that they are suitably trained to undertake the audit responsibility.

3. In order to contain the frauds, the banks may put in place a system wherein the concurrent audit would look into the following and report on the following aspects:

- i) Wherever documents of title are submitted as security for loans, there should be a system where documents of title are subject to verification regarding their genuineness, especially for large value loans. In case of loan against the security of land, the banks may also seek reports from the local revenue authorities regarding the title deeds before sanction of loan.

- ii) Wherever a Chartered Accountant certificate, property valuation certificate, legal certificate, guarantee/line of credit or any other third party certification is submitted by the borrower, the bank should independently verify the authenticity of such certification by directly communicating with the concerned authority issuing the certificate; indirect confirmation may also be resorted to, ie. indicating to the issuer that in case there is no response by a certain deadline, it would be assumed that the certificate is genuine.
- iii) Aspects such as internal discipline, staff rotation, checks and balances, etc. should be ensured by the bank.
- iv) In cases where it is established that the certification given by a chartered accountant, lawyer, registered property valuer or such third party is wrong, IBA should put in place a process to issue a 'Caution List' regarding the certifier to all banks. In this connection, banks may ensure compliance to our circular DBS.CO.FrMC.BC.3 /23.04.001/2008-09 dated March 16, 2009 in the matter.

4. Please acknowledge receipt.

Yours faithfully,

(A.Madasamy)

Chief General Manager