

(d) There is no proposal with the Government to reduce the current account deficit to zero balance account.

**Role of RBI in bank audit**

1501. SHRI RAM KUMAR KASHYAP: Will the Minister of FINANCE be pleased to state:

(a) whether RBI has any responsibility for controlling the operations of banks in India, if so, the details thereof;

(b) the role of RBI in conducting audit and inspection of banks;

(c) the guidelines concerning issuance of Letter of Undertaking (LoU) and the level of officer authorised to issue LoU; and

(d) whether the issuance of LoUs by Punjab National Bank ever came to the notice of auditors and if so, the reasons for not reporting the same in their reports?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI SHIV PRATAP SHUKLA): (a) and (b) The Reserve Bank of India (RBI) regulates and supervises public sector and private sector banks. Under the provisions of the Banking Regulation Act, 1949, it can, *inter alia*:

- (i) inspect the bank and its books and accounts (section 35(1));
- (ii) examine on oath any director or other officer of the bank (section 35(3));
- (iii) cause a scrutiny to be made of the affairs of the bank (section 35(1A));
- (iv) give directions to secure the proper management of the bank (section 35A);
- (v) call for any information of account details (section 27(2));
- (vi) determine the policy in relation to advances by the bank (section 21);
- (vii) direct special audit of the bank (section 30(1B)); and
- (viii) direct the bank to initiate insolvency resolution process in respect of a default, under the provisions of Insolvency and Bankruptcy Code, 2016 (section 35AA).

Further, in respect of nationalised banks and the State Bank of India (SBI), under the provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Acts of 1970 and 1980 ("Bank Nationalisation Acts") and the State Bank of India Act, 1955 ("SBI Act") respectively, *inter alia*:

- (i) RBI's nominee Director is a member on:—
- (1) the nationalised bank's Management Committee of the Board, which exercises the powers of the bank's Board with regard to credit proposals above specified threshold (section 9(3)(c), and paragraph 13 of the Nationalised Banks (Management and Miscellaneous Provisions) Schemes of 1970 and 1980 made by the Government under the Bank Nationalisation Acts), and
  - (2) the Executive Committee of the Central Board of SBI, which may deal with any matter within the competence of the Central Board subject to the SBI General Regulations, 1955 and Central Board's directions (sections 19(f) and 30 of SBI Act, and regulation 46 of the SBI General Regulations, 1955);
- (ii) RBI approves the appointment and fixes the remuneration of the bank's auditors (section 10 of Bank Nationalisation Acts and section 41 of SBI Act); and
- (iii) RBI can appoint additional Directors on the nationalised bank's Board and State Bank of India's Central Board (section 9A of the Bank Nationalisation Acts and section 19B of SBI Act).

(c) RBI, *vide* circular dated 1.11.2004, conveyed general permission to banks authorised to deal in foreign exchange to issue LoUs in favour of overseas suppliers, banks and financial institutions, up to a specified transaction amount and period, for import of capital and non-capital goods, subject to RBI's prudential guidelines. The circular did not specify the level of officer authorised to issue an LoU. As per information received from Punjab National Bank (PNB), the level of the officer authorised to issue LoU was as per the Board-approved internal guidelines and policy of the bank. RBI discontinued the practice of issuance of LoUs *vide* circular 13.3.2018.

(d) PNB has apprised that while issuing LoUs, message through the SWIFT messaging system was required to be conveyed after entering the corresponding transaction in the Core Banking System. PNB has further apprised that in case of the fraudulent issuance of LoUs in the bank's Brady House Branch, SWIFT message were sent without putting corresponding entry in the Core Banking System and the concurrent auditors did not report deviation in this regard, for which the bank has initiated disciplinary action against the concurrent auditors of the branch.