



KARNATAKA STATE CHARTERED ACCOUNTANTS ASSOCIATION^(R)



How to conduct Bank Branch Statutory Audit from Home

Date : Thursday , 30 April 2020

Time : 11:00 AM - 01:00 PM IST

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Approach of the Session....

- Conceptual
- Practical
- Demo

Coverage

Scope of Statutory Branch Audit of Banks

Responsibilities and associated risks of Statutory Branch Audit

Physical Audit V System Based Audit & a mix of both

Audit Documentation in CBS environment

SOPs for Bank Audit

Handy Excel tools & techniques

Scope of Statutory Branch Audit of Banks

Scope



Audit Reports

MOCs

Certifications

Returns

Preparation of Audit reports

1. Main Audit report
2. Tax Audit Report + Annexures
3. LFAR + Annexures
4. Memorandum of Changes
5. Financial Statements
6. Change in Asset Classification
7. Other Returns
8. Returns
9. Term Deposits
10. Term loans & Bills purchased
11. Certification of
12. Financials and related schedules
13. Interest Subvention Certificates
 - Women SHGs
 - Natural Calamities
 - Post harvest
 - Short Term Production credits – Jewel loans
 - Prompt payment

Certification of

- **Interest Subsidy**
 - Education
 - Karnataka Govt. Subsidy
- **Sector specific**
 - Handloom
 - TUFS – Jute/Textiles
- **Advances & Loans**
 - Average Aggregate Advances
 - Farm credit to Agricultural Activities & MSE
 - Granted to PSU
 - Exposure to sensitive sector
 - Borrowal 2 Crore and above
- **Committee certificates**
 - Ghosh
 - Jilani
 - Mitra
- **Claim certificates**
 - DICGC
 - CGTMSE
 - Credit Guarantee
 - Position of ECGC Claims

Certification of

- **Confirmation**
 - Fixed Assets
 - Inter branch Fixed Assets
 - IT Assets
 - AUC (Asset under custody)
 - Cash in hand and Balances with Bank
 - Possession of Bills
 - Jewel Loans Balances
 - Balancing of Books of Accounts
 - Holding of Securities of Borrowal Accounts
 - Foreign Currency Exposure
 - Suspense & Sensitive GLs
 - Country wise Funs Exposure
- **Miscellaneous**
 - Bad Debts Written Off
 - Invoked BGs & Devolved LCs
 - Claims against bank not acknowledged as Debts
 - Statement of Capital contracts to be executed
 - Future lease rent payable
 - Guarantees/LOC/LOU

Certification of

- **Classification of Advances**
 - Nature wise/Sector wise/Security wise
 - Performing Assets
 - Classification of NPA – Sub Std/DBT/Loss (Account-wise and Consolidated)
 - Provisions Consolidation
 - Upgraded Accounts
 - Movement of NPA
 - New NPAs on which unrealised interest was reversed during the quarter
 - Reclassifications as suggested by Branch Auditors (Linked to MOC)
 - Revised Statement of NPAs
- **Restructured Advances**

Responsibilities

- Financial Statements
- True & Fair
- Free from material misstatements
- Appropriate Reporting & Disclosures
- Main Audit Report
- Tax Audit Report
- Long Form Audit Report
- MOC
- Items impacting financials
 - Income heads
 - Expenditure heads
 - Provisions
 - Liabilities
 - Assets
- Items impacting asset classification
 - Re-classification of advances
- Items impacting other returns

Risks

Risks

- **Inherent Risk**
 - Susceptibility to material misstatement (individually or aggregate basis) before considering relevant controls
- **Control Risk**
 - **Risk of non-prevention**
Controls procedure could not prevent the occurrence
 - **Risk of non-detection**
Controls procedure could not detect and incidentally corrections could not be executed

Challenges

- **Time constraints**
(15 days (approx) to conclude 3 branches)
- **Voluminous data**
Multiple sources and enormous data
- **Availability of Multiple reports**
- **Non provision of requisite information by the branch**

Mitigation

- Tech driven audit procedures
- Up-skilling on reading the reports (**Walk through**)
- Focus on exception reports
- HO/RO – IT systems division support to take the reports of all branches
- Excel tools for sample selection & analysis
 - Sort
 - Filter
 - V-lookup
 - Pivot Table
 - Sum if/Count If/ Date If
 - Formulae
 - CONCATENATE
 - IF CONDITION
 - MID/RIGHT/LEFT
- Other Excel features
 - Text to columns
 - Data validation
 - Remove duplicates
 - Highlight duplicates
 - Macros for repetitive tasks
 - Conditional formatting

Myths

- Completely system driven
- All data is integrated in CBS
- No scope for errors as it is system driven
- Sufficient controls exists and hence errors are prevented or detected automatically

Counter considerations

1. What is the role of humans?
2. Multiple Software exists & whether everything is integrated on real time basis?
3. Garbage in Garbage Out.... If wrong inputs are fed then corresponding processing and outputs will be wrong.
4. Presence & functioning of Controls needs to tested to ensure prevention and timely detection of errors and corresponding rectification thereof.

Audit should focus on areas prone to human intervention!!!

Audit Assurances in Bank Audit

Audit Assurance in Bank Audit

1. Audit completed in accordance of Standard on Audit issued by ICAI
2. Statements are free from Material Mis-statement
3. Statements show true & Fair view of the affairs of the branch
4. Assessment made on 'Risk of material misstatement of the financial statement, whether due to fraud or error'
5. Transactions are with in the Branch Powers
6. Returns are Adequate and are in agreement with Books
7. Necessary information and Explanations required for the audit has been obtained
8. Auditors confidence on the over all IT Environment.

Audit - Workflow

SOURCES OF DATA

PHYSICAL / SYSTEM

Physical - Internal

- Registers
- Cash register
- Security items stock register
- Inspection register
- Locker Operation register
- Fixed Assets register
- Stock Statements register
- Documents Accepted register
- Equitable mortgage register
- Acknowledgement of Debts (AOD) register
- Insurance due date register
- Cheque Book/DD issue register
- Payorder issued/payable register
- Cheque returned register
- CC/OD renewal register
- Attendance Register
- Job rotation register
- Staff training register

Physical - External

Audit Reports

1. Previous year Statutory Audit Reports
2. Concurrent Audit
3. Information System Audit
4. Risk Based Internal Audit
5. Income Audit/Revenue Audit
6. Quarterly review

Other reports

- RBI Inspection reports

Separate software

- LC/BG Software
- Locker Tent
- TDS
- GST
- Profession Tax
- Asset management system
- Net Banking
- Mobile banking
- HR
- Word
- Excel

CBS

- Soft copy of Financials **with GL codes**
- All loan reports
- CC/OD reports
- Principal – Interest payment reports
- NPA reports
- Exception reports
 - Time barred debts
 - Insurance expired
 - Manual debits report
 - Unusual Cash deposits/withdrawals
 - Dormant Accounts operated during the year
 - Limits due for renewal
 - SMA2 (Special Mention Accounts 2 list)

Sample Excel File (Reports used for Demo)

UNDERSTANDING THE SOFTWARE

FINACLE/FLEXICUBE

Navigation of Screens

Menus

Reports

Few Important Reports- Flexicube

Sl.No.	Description of Reports	Report Code in Flexi cube
1.	Loan Balancing Report – Term Loans	LN707
2.	Product wise/ Customer wise Listing – Term Loans	LN632
3.	Loans Trial Balance	LN615
4.	Account wise Overdue Report	LN690
5.	List of Loan Accounts opened & closed	LN631
6.	OD Account Detailed report	CH129
7.	OCC Balancing report	CH606
8.	Account wise Listing NPA class for OCC Accounts	CH601
9.	Excess allowed over the limits/drawing power	CH602
10.	Negative balances in SB accounts / TODs / Credit card transactions verification	CH621
11.	Unchecked transactions	GL 616
12.	Stock Statement Summary Reports	BAM74

Few Important Reports- Flexicube

Sl.No.	Description of Reports	Report Code in Flexi cube
13.	Sign-on reports & Sign-off reports	SM 5008
14.	Debit balance accounts without interest rate (Filter 0% using this report)	LN632
15.	Direct GL entry exception reports	GL 003

Flexicube - Business Objects (BO Reports)

Sl.No.	Description of Reports	Report Code in Flexi cube
1.	Detailed Minor Subsidiaries Balancing Report	120018
2.	Detailed Balancing Report – Deposits	120007
3.	Overdue Matured Deposits	170002
4.	List of NPA Accounts	280027
5.	Sector wise Balancing Report	280037
6.	Day Book Cum Trial Balance	20170406_162
7.	Debits to income head account GEN CHARGES MONITORING REPORT BO REPORT	220014
8.	Time barred demand promissory notes	PRR 12 BO
9.	Loans and advances credit balances	124934
10.	EOD (End of Day) Exception Reports	350001 TO 350006 AND 350010

Few Important Screens & Navigation - Flexicube

	Description of Reports	Report Code in Flexi cube
1.	GL Extract of the Party	LN604
2.	Deposit accounts	TD021
3.	Checking Party Ledger Accounts for Loans	LN10
4.	Master view of Repayment schedule and ROI for Term loans	LN522
5.	Master view of Repay sch and ROI for CC/OD	CHM07
6.	Account trans for SB/CC/CA/OCC	CH031
7.	Generate GL report	7775
8.	View the report	7778
9.	Generate a GL	GL008

Few Sample GL codes

	Description of GL	GL code
1.	GC - MISC- OTH FURNISH DET IN ANX	420083090
2.	GC - MISC- WRITE OFF EXP ADV	420083140
3.	GC - LEGAL EXPCASES OUT OF COURT	420082010
4.	GC - MISC- WRITE-OFF FOR ADVANCES	420083110
5.	GC - GENERATOR AND LIGHTING EXPENSE	420020300

Few Important Screens & Reports Credit Operations - Finacle

	Description of Reports	Report Code in Finacle
1.	Inquiry into scheme parameters for loans	HLAGSPI
2.	Fee Charged	HLFEEI
3.	Fee Waived	HLAWFEE
4.	Repayment Schedule Enquiry	HLRPSI
5.	Repayment Schedule Report	HLARSH
6.	Loans Overdue Position Inquiry	HLAOPI
7.	Loans Overdue Demand Reminder/Report	HLAODR
8.	Payment History	HLPAYH
9.	Prepayment History	HLPREPH
10.	Loans Collection and Position Report	HLAPOSR

Few Important Screens & Reports

Exception reports - Finacle

	Description of Reports	Report Code in Finacle
1.	Financial Transaction Inquiry (Deleted transactions list)	HFTI
2.	Approval & Ratification by the Higher authority – Cross Check	HTEI
3.	Exceptions Overridden by a particular officer (Business Rules overridden) – Reason for overriding Various fields for analysis Eg – Date; Approving officer etc.	HEXCPRPT
4.	Exception Reports – Discretionary Powers	HEXCDM
5.	Customer Limit details	HCULMTI
6.	Preferential Interest details inquiry	HINTTI
7.	Interest Adjustment Register Maintenance	HIARM
8.	Interest Report for Accounts	HAINTRPT
9.	Customer Interest Report (Customer wise details)	HCUIR

Few Important Screens & Reports Interest & Charges - Finacle

	Description of Reports	Report Code in Finacle
1.	Event based Charges – Account Opening, Closing, BG etc Customer Charges Inquiry	HCCI
2.	Inquiry of Fee Details	IFD
3.	Charges Income Report	HCHGIR
4.	Concession in charges – Summary details of a Customer – both fund based & non fund based	HCUSUM
5.	Interest Version Slab Maintenance	HIVSM
6.	Account Interest details Enquiry	HAITINQ

Few Important Screens & Reports

Miscellaneous - Finacle

	Description of Reports	Report Code in Finacle
1.	Bank Guarantees Issued Documentary Credit Contingent Liabilities	HGI DCQRY
2.	Asset Classification	HASSET
3.	Non fund facilities Creation View Individual reporting	HLNM HLTL HLNDI
4.	Asset Classification – change in classification	HASCAL
5.	List all the transactions in the account – For eg- Dr natured account there are Cr entries For eg- Cr natured account there are Dr entries	HACLINQ

USE OF EXCEL

HANDY TOOLS & FEATURES

Excel Formulas

- Import of Data from CSV to Excel
- Split data Text to Columns
- Conditional Formatting
 - Identify Duplicate
 - Highlight Exceptions
- Date Formatting
 - Over come MM/DD/YY
- Pivot Tables
- If Formula
- Concatenation
- Graphs
- Sum If
- VLOOKUP

Short cuts

Popularly Used formulae short Cut

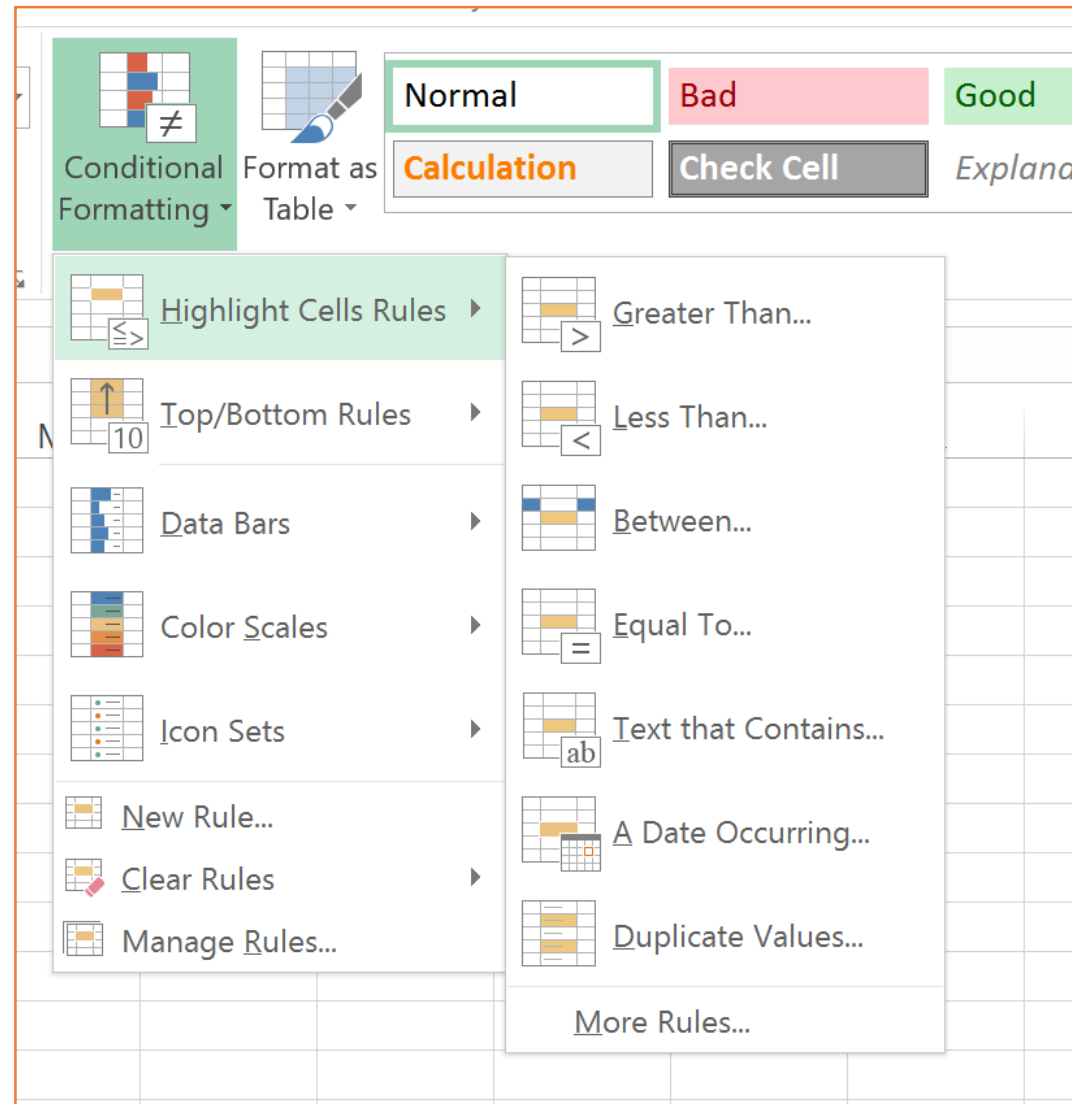
- Text 2 col : Alt + D + E
- Insert : Alt + I+ W
- Delete : Alt + E + D
- Freeze : Alt + w + f +f
- Filter : Alt + D +F
- Format cell : Ctrl + 1
- Apply format : Paste Special – Format / Value Alt + E +S
- Falsh Fill : Ctrl + E
- Pivot : Alt + D + P
- Group &Ungroup : Alt + Shift + Right Arrow Key
- Data Validation : Alt + D + L

CONVERTING TEXT TO EXCEL

Excel feature – Text to columns

- Banking software may generate
 - Excel reports
 - Text files
 - PDF files
- Excel reports are required for data analysis
- Steps to convert text to columns in excel
 - Dump report into excel – (Ctrl + A, Ctrl + C of Txt file and Ctrl + V @ cell A1)
 - select A and click on data tab
 - select txt to columns
 - select fixed width/delimit - next - adjust column lines to avoid data split
 - select adjust date to DMY - on all data columns
 - eliminate useless data

Conditional Formatting



PIVOT TABLE

Loan Code	Product Code	2Lacs and Above		less than 2lacs		Total	
		# Cust	# Amt	# Cust	# Amt	Total #	Total Amt
⊕ 10400				1	29,551	1	29,551
⊕ 10500		12	92,92,543	43	20,48,452	55	1,13,40,995
⊕ 10600		1	5,00,000	6	4,59,150	7	9,59,150
⊕ 10700				2	54,923	2	54,923
⊕ 10800		1	5,80,555	1	1,41,190	2	7,21,745
⊕ 11000				5	86,893	5	86,893
⊕ 11100				3	67,494	3	67,494
⊕ 11200				5	3,01,963	5	3,01,963
⊕ 11500		48	2,93,31,573	62	70,17,420	110	3,63,48,993
⊕ 11600		80	5,71,87,045	22	18,18,943	102	5,90,05,988
⊕ 14200				25	3,60,898	25	3,60,898
⊕ 20700				1	8,188	1	8,188
⊕ 21700				1	20,000	1	20,000
⊕ 24600		12	2,47,85,621	11	8,29,044	23	2,56,14,665
⊕ 24800		1	16,82,589			1	16,82,589
⊕ 25100		21	1,03,04,695	229	1,29,72,276	250	2,32,76,971
⊕ 33000		46	1,50,16,371	196	1,66,76,471	242	3,16,92,842
⊕ 45100		7	38,58,129	13	5,05,800	20	43,63,929
⊕ 45200		2	4,82,641	10	(1,24,286)	12	3,58,355
Grand Total		231	15,30,21,764	636	43,27,43,69.51	867	19,62,96,133

IF FORMULA

- IF (<CONDITION>,<VALUE IF TRUE>,<VALUE IF FALSE>)
- Example: Sample Accounts for Review
- If(OS > DP, “Check Account”, “ Ignore”)

V LOOKUP

Start	End	Category	Secured	Unsecured
13-11-1985	31-03-2013	D3	100%	100%
01-04-2013	31-03-2015	D2	40%	100%
01-04-2015	31-03-2016	D1	25%	100%
01-04-2016	31-03-2017	Substandard	15%	25%
01-04-2017	27-12-2019	Standard	0.25%	0.25%

Date	Category	
01-06-2015	D1	=VLOOKUP(J7,C2:G7,3,1)
01-06-2016	Substandard	

BRANCH PROFILE SNAPSHOT

Branch Profile Snapshot

- Broad perspective of the bank's business
 - Advances
 - Deposits
 - Non fund based exposure
 - Forex transactions
 - Special Activity
 - Branch's Advances profile/Deposits profile – Demo (by AS)
- Files required
 - All Loans report with various parameters
 - Scheme code with Scheme description
 - Useful Excel Tools
 - Pivot Table
 - V-lookup
 - Sort & Filter

FINANCIAL STATEMENTS

OPENING BALANCES

Financials



Checks and Verification

- Hard Copy/Soft Copy of Financial Statements
 - Total checks
 - Schedules and Sub schedule reconciliation
- Verify
 - Opening balance verification
 - Closing TB of last year with Opening TB of Current year
 - Mergers & Take overs of banks
!!! – Impact on OBs – Sample check of migrated data

- Files required
 - Closing TB as on 31st March 2019
 - Opening TB as on 1st April 2019
- Useful Excel Tools
 - V-lookup – Forward and Reverse

GROUPS & GLs



- Files required
 - Financial Statements with Schedules and Sub Schedules with GL codes
- Audit Procedures
 - Convert to T shaped financials
 - Map to Schedules and Sub schedules
 - Ratio Analysis
- Sample Excel

EXPENSES

Financials



Verification - Expenses

- GL wise verifications – Expenses (Walk through of the FS)
- Interest paid on deposits (Demo)
 - Whether the ROI is as per the product/ Sample Interest Calculation checks
 - Sample selection - Deposit Balancing reports with ROI, Scheme Code, Date etc
 - Excel feature to be used - Multi level - Sorts
- Employee Costs – Check if any dummy employees exists
- Rent Taxes and Lighting
 - Whether payments in cash?
 - Whether IT TDS @ 10% is made? (if exceeds Rs. 2.4 lakhs) (Sec 194I of Income Tax Act)
 - Whether GST TDS @ 2% is made? (if exceeds Rs. 2.5 lakhs – 1% CGST and 1% SGST)(Sec 51 of CGST Act) (if stand taken so)

- Other administrative expenses
 - Whether payments in cash?
 - (Voucher verification & authorization based on materiality)
 - Whether TDS is applicable – either under 194C/194J etc.
 - Whether GST TDS is applicable and stand taken by the bank regarding the same and a copy of internal circular of the stand taken
- Depreciation checks
 - Whether block of assets is proper
 - Whether rate application is proper
 - Whether Addition and disposal of assets have been handled properly w.r.t depreciation

- GL wise verifications – Expenses (Walk through of the FS)
- Legal Expenses
 - Whether such expenses have due authorization and corresponding work progress
 - Whether RCM under GST has been made
- Repairs and Maintenance
 - In case of substantial amounts if physical verification is relevant
 - Authorization and mode of payment
 - TDS if any
- Unusual heads - A thorough review
 - Unclassified Expenditure
 - Miscellaneous
 - Suspense heads
- Provisions – Sub heads
 - For expenses – check if they match with the monthly values
 - Excess written back (if any) – reasons for the same
- Write Offs – Proper authorization & documentation
 - Bad debts
 - Sundry Assets
- Previous year comparison could be made through Ratio analysis at GL level and large variances could be further checked...

INCOMES

- GL wise verifications – Income (Walk through of the FS)
- Interest earned on Advances – Demo – Sample selection
 - Whether the ROI is as per the product/ Sample Interest Calculation checks
 - Sample selection - Deposit Balancing reports with ROI, Scheme Code, Date etc
 - Excel feature to be used - Multi level – Sorts
- Discount earned on Advances
- Commission
 - BG – Financial/Performance
 - LC
 - DD/Cheque
 - NEFT/RTGS/IMPS
- Locker Rent + All other charges

Extract Charges Reports with account number and
Run a v look up with the loans opened during the year.

Also check exception reports of charges not debits – Other
Audit/Inspection reports could be checked if such uncollected
charges has been recovered subsequently.



- GL wise verifications – Other Income (Walk through of the FS)
- Interest on Investments (if any) – Generally at HO level else corresponding documentation check
- Interest earned from deposits in other banks – Balance confirmation & cross check with the values updated in the account
- Profit/Loss on Sale of Assets
 - Check the invoice (Whether netting off of exchange transactions done)
 - Depreciation effect – as a block of asset
 - GST implications
- Review of unusual heads
 - Unclassified
 - Miscellaneous
 - Suspense Accounts

LIABILITIES

- GL wise verifications – Liabilities (Walk through of the FS)
- Current Accounts
 - Sample cases of parameter feeding while opening the account
 - Any TODs & transfer to deposits – Window dressing
 - Unusual withdrawals/deposits
 - Dormant accounts if any
 - Credit balances in OD/OCC accounts (Adjustment from All loans report – Reconciliation item)
- Matured Deposit Accounts
 - List of Accounts – LFAR Annexure
- Other Demand deposits
- Savings Bank Accounts
 - KYC check
 - NRE Accounts – TDS check
- Term Deposit Accounts
 - KYC check
- Borrowings from other banks
 - Confirmations
- Bills re-discounted
 - List to be obtained and checked



- GL wise verifications – Liabilities (Walk through of the FS)
- Other liabilities
- Bills Payable (Obtain a list & check if they are existing/continuing)
- Inter Office Adjustment – (Balance confirmation)
- Interest payable – (Ratio Analysis - Average check)
- Margin Accounts –
- Various Suspense Accounts – Ageing report – Date-wise transaction report
- Claims/Subsidy - List wise details
- Other items of liability – break up
- Unclassified liabilities - break up

CONTRA LIABILITIES & CONTRA ASSETS

- Contra Liabilities/Assets (Walk through of the FS)
- Bills for collection - Listing & Break up
- Forward Exchange contracts – Corresponding documents
- Bank Guarantees & Non fund based facilities – Corresponding documents
 - BG issued not updated in the system
 - Expired BG not removed from the system
 - Impact on provisioning
- Other Contra Accounts - Listing & Break up

ASSETS

Cash Verification

Physical Source

- Cash Register
- ATM Balance Print

Reconciliation matters

ATM Suspense
Cash Variance

Audit Documentation

- Line item-wise Reco for ATM suspense (Might require inclusion in MRL)
- Reasons for Physical Cash discrepancy (if any)

Physical Verification

- Cash in Hand
- Cash at ATM
- Authentication by key holders & verified by manager
- Whether limit exceeded
- Whether adequate insurance available (Generally HO level)

System Cross check

Closing Cash balance report as per system

- Branch
- ATM

Check with the Value as per Balance Sheet Schedule

Reporting Implications

LFAR

MOC (if variation exceeds the limit specified)

Balance at Bank

- Balances with Other Banks/RBI/Foreign banks
 - Confirmation from the corresponding banks
 - Statement of Account
 - Foreign Banks – Conversion rate check

Security Items Verification

Physical Source

- Security Items Register
- DDs
- Pay-orders
- Cheque Books
- Bond papers
- Challans

Physical Verification

Physically verify and match the series with the closing balance

System Cross check

System report to be obtained

- Opening Balance
 - Inwards
 - Outwards
 - Closing balance
- To match the physical stock

Reconciliation matters

- Physically not found but in system (Eg: Destroyed Security items not updated in system)
- Physically found but not in system (Eg: Updated in manual register but not in system)
- Old & redundant security items retained (to be obtained permission and destroyed as per the due procedure)

Audit Documentation

Missing Series List
Excess Items List

Reporting Implications

Annexure to LFAR
(Annexure No. 35 in the sample list of Annexures)
Report – Control lapse

Fixed & IT Assets Verification

Physical Source

- Assets Register
- IT Assets
- Other Fixed Assets

Physical Verification

Physically verify the assets and also whether in working condition and calls for any impairment

Extra Assets beyond books

Also an observation of assets physically present but not in the register would add value!!!

System Cross check

Soft copy of the Assets list

- Opening Balance
- Inwards
- Outwards
- Closing balance
- Transfer from one branch to another
- Depreciation cross check with the values in financial systems

Reconciliation matters

- Physically not found but in system
- Physically found but not in system

Audit Documentation

Missing Series List
Excess Items List

Reporting Implications

Annexure to LFAR
(Annexure No. 34 in the sample list of Annexures)
MOC – If impairment of assets beyond the threshold

Other Assets

Financials

- Inter Office Adjustments (Walk through of the FS)
- Transactions list/Exception reports
- Any unusual entries to be checked
- Interest receivable
- Listing & average check
- Advance payments
- Lease advance (Rent agreement copy & balance verification)
- Other advances - Ageing check – List of transactions date wise
- Receivables

Verification – Other Assets

- Sundries - Ageing check – List of transactions date wise
- Other receivables – Ageing check – List of transactions date wise – Documentation
- Pension Accounts – Ageing check – List of transactions date wise
- Suspense Accounts
- Break up – Ageing – Date-wise listing
- ATM suspense – MRL /disclosure if unusual
- Other items of Assets
- Security deposits – compare with previous year; check new transactions & check documents
- Staff advances – Break up and check whether given to staff

Advances

Financials

- Maximum time spent on Advances verification
- The process involves a lot of human intervention
- Sanction ticket/letters issued mostly manual
- Renewal letters manual
- Parameter feeding errors
- Non updation of data – Stock statements, debtors

Advances

- Equated monthly installments V. Equal monthly installments
- Terms as per paper V. system
- Master file and Current file
- Adequacy of the security
- DOCUMENTATION VERIFICATION CHECKLIST !!! – SAMPLE EXCEL (CA.SRIPRIYA)

- Sample selection – Loans – Demo
 - Sanction during the year – Date filter
 - Opened and Closed during the year
 - Materiality – Sanction limit filter
 - ROI variation cases in the same scheme code
- Sample selection – OD/OCC - Demo
 - Sanction limit & Balance Outstanding
 - Possible Out of order accounts

- Other reviews – Demo
 - Scheme code wise data separation
 - Jewel Loan renewal verification
 - Multi Agri Jewel Loan rate check (Conditional formatting)
 - End use/diversion check
 - Short Review Identification
 - Limit expiry dates

NPA Check

NPA Check

- Same PAN Multi –Cust-code Check – Demo
- Last year NPA report and vlook up to NPA date to compare with the NPA date of current year
- Other NPA related analysis
 - Principal & Interest payment report

Income recognition

IRAC - Analysis

Policy

- PA – Accrual
- NPA – Receipt Basis
- Exceptions
 - advances against Term Deposits, National Savings Certificates (NSCs), Indira Vikas Patras (IVPs), Kisan Vikas Patras (KVPs) and Life policies
 - Central Government Guaranteed Accounts

Asset classification

Assets

Performing

Non-Performing

Substandard –
NPA first 12
Months

Doubtful

Loss -
Uncollectable

D1 :
Substandard
12 months

D2 : D1 for
two years

D3 : Doubtful
beyond three
years

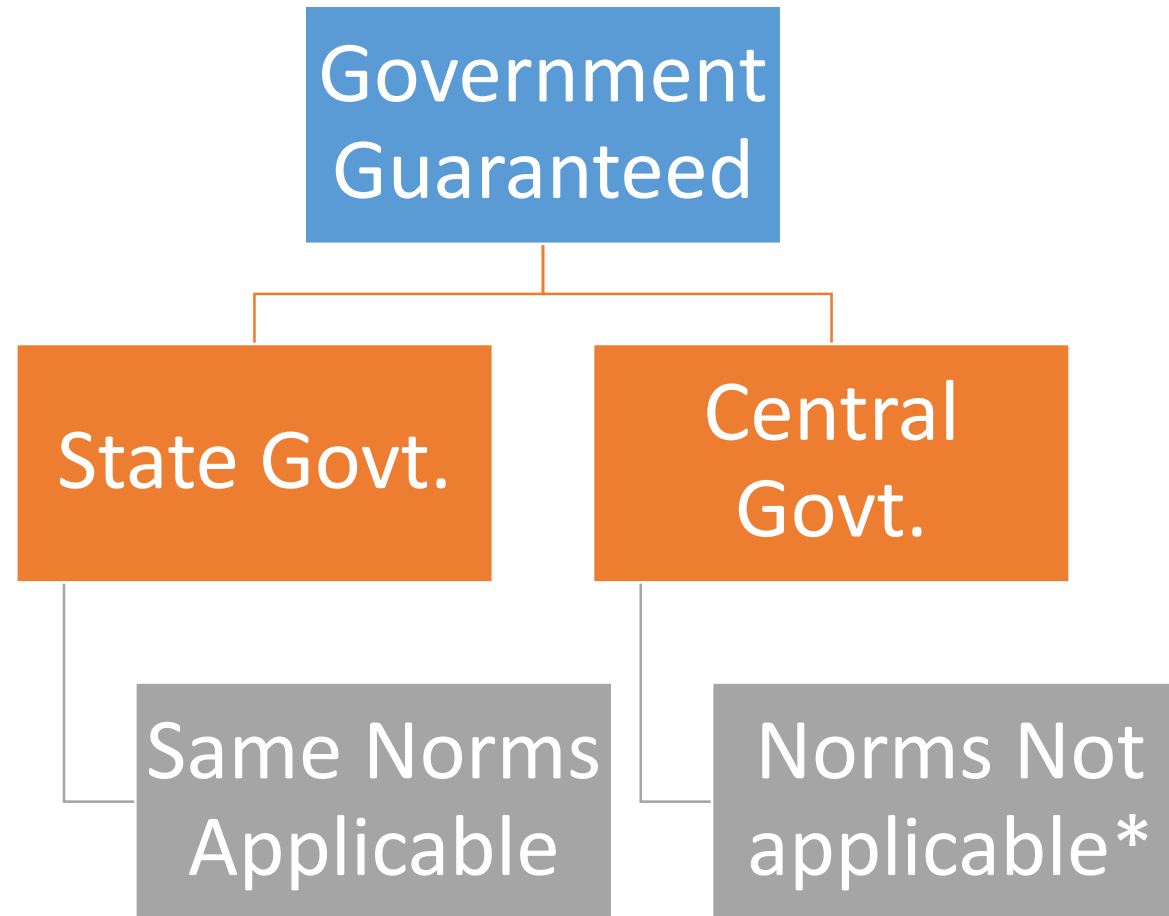
Non performing Assets

- TERM LOANS: interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- Overdraft/Cash Credit : the account remains 'out of order'
- Bills : the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- Agriculture
 - Short Duration Crops : the instalment of principal or interest thereon remains overdue for two crop seasons.
 - long duration crops : the instalment of principal or interest thereon remains overdue for one crop season.

Out of Order

- if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days.
- Outstanding balance < sanctioned limit/drawing power, BUT there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period

Govt Guaranteed Assets – NPA Norms



- * Norms Applicable only when the government repudiates its guarantee when invoked
- income shall not be recognised if the interest or instalment has remained overdue >90 days or 000

Ignore - Accounts with temporary deficiencies

- The classification of an asset as NPA should be based on the record of recovery.
- Do not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature –
 - non-availability of adequate drawing power
 - stock statement not regular
 - balance outstanding > limit temporarily,
 - non-submission of stock statements and non-renewal of the limits on the due date, etc..

Provision

NPA - Norms

Category	Norm	Provision
Loss		100%
Doubtful	Unsecured portion	100%
Secured Portion	Up to one year	25%
	One to three years	40%
	More than three years	100%
Substandard	Partially secured	15%
	Unsecured	25%

PA - Norms

Norm	Provision
Farm Credit to agricultural activities and Small and Micro Enterprises	0.25 %
Advances to Commercial Real Estate (CRE)	1%
Residential Housing Sector	0.75%
All other loans and advances	0.40%
Home Loan Teaser Rates	2%
Later period	0.4%
Restructured, MSME	5%

Other areas to focus

Advances - IRAC

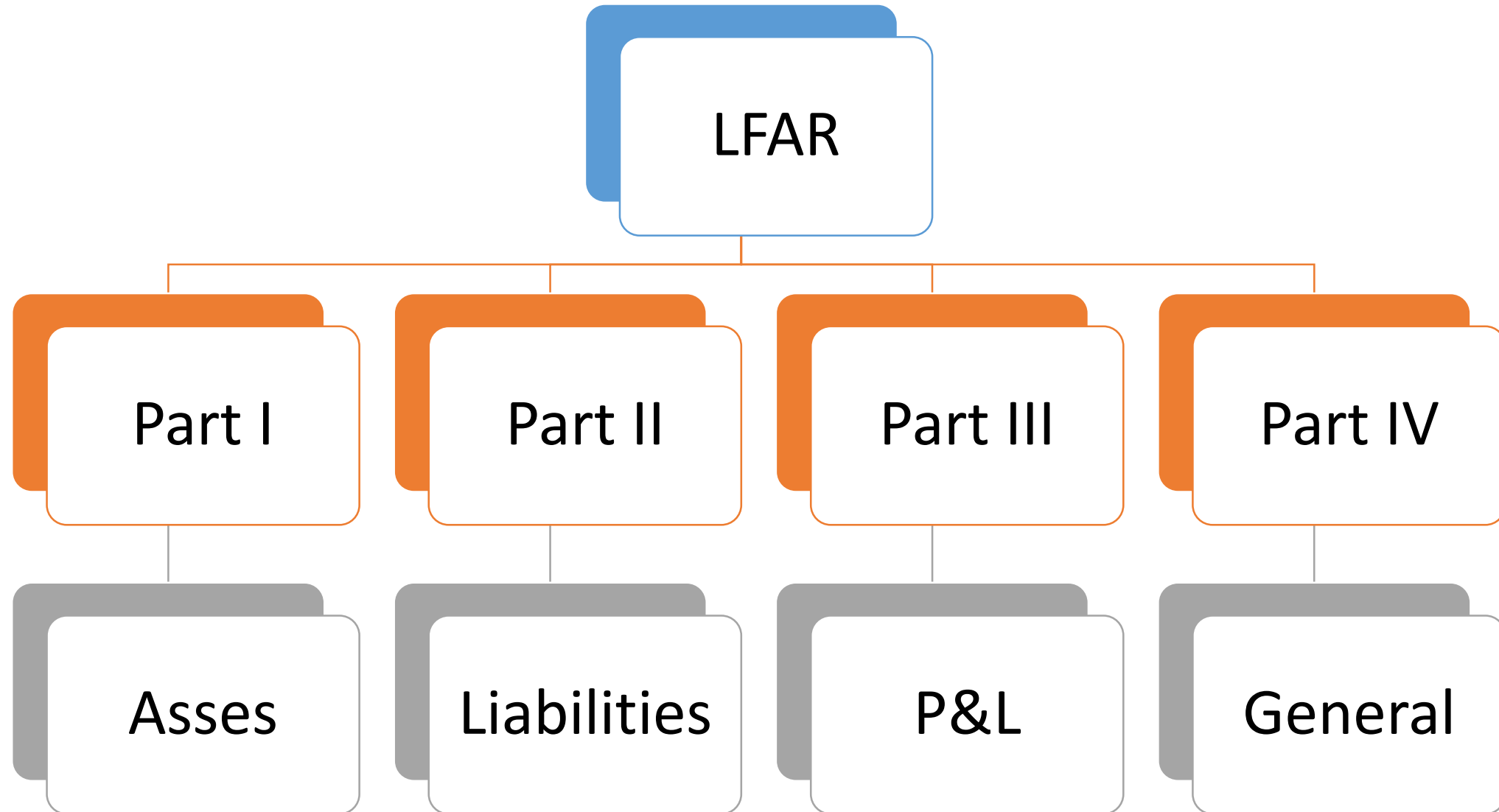
- IRAC
 - not 'automated' always. Caution – only status is entered
 - Add In Module in some cases
- Security Valuations and NPA Dates
- Agricultural NPAs – a dicey issue
- Reversals of NPA to PA are poorly handled
- Exception reports
 - Borrower Group Report
 - advances above limit, Sanction Power
- Conduct a Sample Check before relying

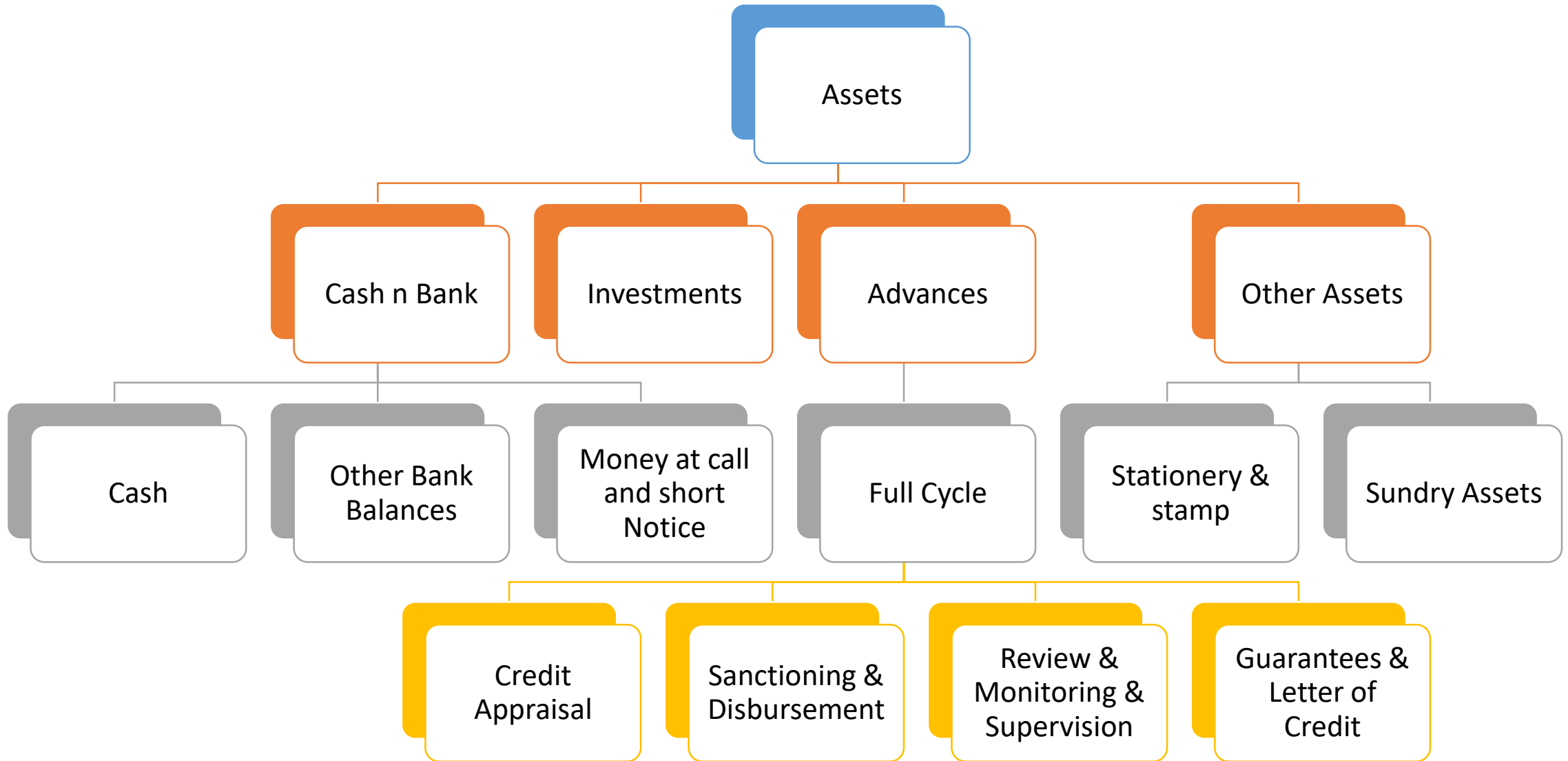
LFAR and its Annexures

Genesis

- The statutory audit report is prepared on the financial statements of the Bank as per the parameters given in the Banking Regulation Act, 1949.
- However, this report does not necessarily communicate the lacunae in the operations and internal control system at the bank.
- Hence RBI advised Public Sector Banks to obtain Long Form Audit Report (LFAR) from the auditor since 1985.
- LFAR is a separate report to be submitted to the Management in the format, prescribed by the RBI.
- The format of LFAR was revised in the year 2003 and the present format is effective from 31st March 2003

Broad Over View





LFAR & Annexures

- Rate of interest charged less/more than base rate decided by the Bank (Demo)
- Non-Compliance of terms (Manual & System check)
- Book debts not certified by chartered accountants (Manual)
- Stock Statements not submitted regularly (Manual, System check & Demo)
- Certificate of End Use of Funds certified By Chartered Accountant not available (Manual)
- Drawing power has not been calculated at all or not properly calculated (Demo)
- Instances where excess drawings were permitted over the sanctioned limit/delegated powers (Demo)
- Mandatory Credit Rating Not Done (Manual)
- Diversion of Funds (Demo)
- Periodic Property/Site/Unit inspection report not available (Demo)

- ROC charge not created/search report not available (Demo)
- Legal Audit not done (Manual)
- Incomplete/Defective Documentation (Manual)
- Insurance policy obtained is inadequate (Manual & System reports)
- Insurance Policy (of Asset/Inventory hypothecated) not obtained / not renewed (System reports)
- Valuation report is old i.e., more than 3 years (Manual)
- Latest audited financial statements not on record i.e. 31.03.2020 (Manual)
- Particulars of Time barred debts as on 31.03.2020 (System reports)

- NOC from Existing lenders for ceding Charge in Favour of *** Bank not available (Manual)
- Renewals Pending from 6 months to 1 year (Demo)
- Renewals Pending beyond 1 year (Demo)
- Short reviewed for period beyond six months (Demo)
- Quarterly/Half yearly statements not obtained (Manual)
- Accounts of non-corporate borrowers not audited where sanction/outstanding is beyond 10 lakhs. (Manual)
- Stock Audit not conducted (applicable in respect of advances above Rs. 5 crores) (Manual)
- Deficiencies noticed in appraisal, monitoring and supervision (Manual & System check)
- List of Accounts of Borrowers where there is diminishing in the value of security (Demo)
- Details of Accounts where the relevant Controlling Authority of the bank has authorized legal action for recovery of Advances (Manual)
- List of Overdue/Matured Term Deposits (System reports)
- Major/adverse comments/issues not addressed by the branch arising out reports from previous auditors, concurrent auditors, stock or internal auditors or special audit or inspection report of RBI (Verification of Soft copy reports)



- Whether identification and classification of advances as Standard/Sub-standard/Doubtful/Loss assets is as per RBI circular and instructions as per HO. If not, then details of accounts where there are deviations. (Demo)
- List of Account where lien is not marked on Physical Term Deposit Receipts (Manual & System check)
- Deficiency in FD/RD/SB/ Opening Forms (Manual & System check)
- Discrepancies in Fixed Assets/IT Assets (Verification of Soft copy reports & Physical Verification of Assets)
- Security Items - Series found physically but not entered in Security Register at the time of our verification (Verification of Soft copy reports)
- Multiple Customer codes issued to Same PAN holders (Demo)
- Other matters – (Residuary and varies from case to case)

GENERAL

1. BOOKS AND RECORDS

- In case any books of account are maintained manually, does general scrutiny thereof indicates whether they have been properly maintained, with balances duly inked out and authenticated by the authorized signatories?
- In respect of computerized branches:
 - Whether hard copies of accounts are printed regularly?
 - Indicate the extent of computerization and the areas of operation covered.
 - Are the access and data security measures and other internal controls adequate?
 - Whether regular back-ups of accounts and off-site storage are maintained as per the guidelines of the controlling authorities of the bank?
 - Whether adequate contingency and disaster recovery plans are in place for loss/encryption of data?
 - Do you have any suggestions for the improvement in the system with regard to computerized operations of the branch?

Audit approach – Books & Records

- Inquire
 - Obtain a list of records maintained manually. Study the system how entries are being posted from manual records to system records.
- Collect latest IS Audit report.
 - Verify compliance with audit observations. Satisfy yourself with complete working of computer system at the branch.

2. RECONCILIATION OF CONTROL AND SUBSIDIARY RECORDS

- Have the figures, as at the year end, in the control and subsidiary records been reconciled? If not, the last date upto which such figures have been reconciled should be given under the respective heads, preferably in the following format:

Account	Date	General Ledger Balance (₹)	Subsidiary Balance (₹)	Last Date on which Balanced

Audit approach – Reconciliation

- General
 - In CBS this would automatically tally, hence its of less relevance if the branch is computerized in all areas.
- Audit Working
 - Obtain a list of subsidiary ledgers maintained in respect of manual ledgers.
 - Verify the subsidiary ledger balance tallies with General Ledger Balance.
 - Differences any to be reported in the format given.

3. INTER BRANCH TRANSACTIONS

- Does the branch forward on a daily basis to a designated cell/Head Office, a statement of debit/credit transactions in relation to other branches?
- Does a check of the balance in the Head Office Account as shown in the said statement during and as at the year-end reveal that the same is in agreement with the Head Office Account in the general ledger?
- Are there any outstanding debits in the Head Office Account in respect of inter branch transactions?
- Does the branch expeditiously comply with/respond to the communications from the designated cell/Head Office as regards unmatched transactions? As at the year-end are there any unresponded/uncomplied queries or communications? If so, give details.
- Have you come across items of double responses in the Head Office Account? If so, give details.
- Are there any old/large outstanding transactions/ entries at debits as at year-end which remain unexplained in the accounts relatable to inter-branch adjustments?

Audit Approach – Inter branch transactions

- Verify
 - Obtain Confirmation of Balance
 - Verify the MIS returns submitted by branch to HO.
 - Report the same if the same is not reconciled / not submitted.
- For unattended entries
 - Of the debit balances pending in IB. Provision to be made if required.
 - Unresponded / uncomplined queries, double responses in HO a/c, old outstanding entries to be reported.

Audits / Inspections/frauds

- 4. Audit & Inspection

- Is the branch covered by concurrent audit or any other audit / inspection during the year?
- In framing your audit report, have you considered the major adverse comments arising out of the latest reports of the previous auditors, concurrent auditors, stock auditors or internal auditors, or in the special audit report or in the Inspection Report of the Reserve Bank of India? State the various adverse features persisting in the branch, though brought out in these audit/inspection reports.

- 5. Frauds

- Furnish particulars of frauds discovered during the year under audit at the branch, together with your suggestions, if any, to minimize the possibilities of their occurrence.

Audit Approach – Audit/inspections/frauds

- Confirm whether the branch is subject to concurrent audit/inspection audit etc. Report if the same is not carried out during the year. Consider major observation pointed out in these reports to form an opinion on the accounts of the br.
- Frauds
 - Check whether the br. is maintain record for frauds detected by the br. Furnish the particulars of frauds in LFAR.
 - All the frauds suspected are to be reported to the Central office without much time gap and in turn to RBI.

6. MISCELLANEOUS

- Does the examination of the accounts indicate possible window dressing?
- Does the branch maintain records of all the fixed assets acquired and held by it irrespective of whether the values thereof or depreciation thereon have been centralized? Where documents of title in relation to branch or other branches are available at the branch, whether the same have been verified?
- Are there any other matters, which you as branch auditor would like to bring to the notice of the management or the Central Statutory Auditors?

Audit approach – Miscellaneous

- Window Dressing
 - Verify any window dressing being done by verifying movements in GL balances in first week of April.
- FA Register
 - Verify the documents available at the br. for the assets acquired during the year with FA register maintained. Any legal issues in title deeds to be reported in LFAR.
- Additional Notes
 - Mention any points which you would like to bring to the notice of Management and Central statutory auditors.

Specialised Branches

- Questionnaires to be prepared for following branches as per LFAR formats
 - Branches dealing in Foreign Exchange Transactions.
 - Branches dealing in very large advances
 - Branches dealing in recovery of NPA & Asset Recovery Management .
 - Branches dealing in clearing house operations, normally referred as Service Branches.

Special Points to Note

- Avoid Abbrevative answers – Yes / NO / NIL / NA
 - Answers should be self explanatory.
- Due care when copying from PY/else where
- Build Schedules / workings papers
- Integrate the workings as part of the Branch Audit report
- Carry checklist of what to do / how to do / what to report.

LIABILITES

Part II. Liabilities

- DEPOSITS

- Have the controlling authorities of the bank laid down any guidelines with respect to conduct and operations of Inoperative Accounts? In the cases examined by you, have you come across instances where the guidelines laid down in this regard have not been followed? If yes, give details thereof.
- After the balance sheet date and till the date of audit, whether there have been any unusual large movements (whether increase or decrease) in the aggregate deposits held at the year-end? If so, obtain the clarifications from the management and give your comments thereon.
- Are there any overdue/matured term deposits at the end of the year? If so, amounts thereof should be indicated.

Audit Approach : Deposits

- Review Any operation in in-operative accounts
- Unusual movement in the balances after the Balance sheet date
- Report Value of Overdue/matured deposits

2. Bills Payable, Sundry deposits, etc.

- The number of items and the aggregate amount of old outstanding items pending for three years or more may be obtained from the Branch and reported under appropriate heads. Does the scrutiny of the account under various sub-heads reveal old balances? If so, give details in the following format:

Year	No. of Items	Amount (₹)	Remarks

- Does your test-check indicate any unusual items or material withdrawals or debits in these accounts? If so, report their nature and the amounts involved.

Audit Approach : Bills Payable + Sundry Deposits

- Does the scrutiny of account under various sub-heads reveal odd balances?
- Report the number of items and aggregate of amount of old outstanding item spending for 3 or more years
- Check amount received against suite filled accounts

CONTINGENT LIABILITIES

- Contingent Liabilities other than
 - Guarantees,
 - Letters of credit,
 - Acceptances,
 - Endorsements
- NOT acknowledged by the Branch

Audit approach – Contingent Liabilities

- Verify and find out from the records whether the branch is having proper controls for recording all the contingent liabilities.
- Collect the following details from the branch and verify the same has been provided under the contingent liabilities.
 - List of cases filed against branch by any person in consumer court or any other court.
 - List of any litigation cases pending against the branch for claims made by any government departments.
 - Collect representation from the branch that all the contingent liabilities have been disclosed fully.

ASSETS

CASH

Balance Held

- Does Branch carry cash balances, which vary significantly from the limits fixed

Insurance

- Adequacy for Cash on Hand & Cash in Transit

Security

- Does Joint Custody exist

Verification

- Periodical checking by other staff

Audit Approach - Cash

- Limit Held

- Verify the cash retention limit, comment on the instances of excess cash beyond retention limit & the same has been report to HO.
- Obtain cash limits fixed for ATM Machines, verify any cash fed more than limit has been reported to higher authorities.

- Insurance

- Ask who is getting cash insured.
- Verify adequate insurance cover of Cash on hand, cash in ATMs and cash in transit .
- Verify insurance cover is in force.

Audit Approach - Cash

- Joint Custody
 - Collect prescribed guidelines with regards to custody of vault cash / ATM cash.
 - Normally cash vault / ATM machines are operated joint custodians. Ensure from records whether same has been followed.
 - Verify the custody of keys of Vault/ATM machines are with the staff as mentioned in key register.
 - Confirm whether duplicate keys of cash vault/ ATM machines are deposited with other branches as per guidelines.

Audit Approach - Cash

- Physical Verificaiton
 - Collect prescribed procedure for physical verification of cash and confirm the same has been adhered to.
 - Normally cash is being physically verified & signed by the joint custodians at the end of the day, the same can be verified from daily cash register and deviations any to be reported
- Foreign currency – All above points are applicable to foreign currency also.
- Additional Points
 - Auditor also can comment on identification and disposal of soiled notes, counterfeit notes, stapling of notes, use of ultra violet lamps, Note counting machine etc..
 - Obtain a certificate from the bank indicating denomination-wise cash balance as on the date of verification

Bank Reconciliation

- Were balance confirmation certificates obtained in respect of outstanding balances as at the year end and whether the aforesaid balances have been reconciled? The nature and extent of differences should be reported.
- b) Your observations on the reconciliation statements may be reported in the following manner:
 - Cash transactions remaining unresponded (give details)
 - Revenue items requiring adjustment/write-off (give details)
 - Old outstanding balances remaining unexplained/unadjusted.
 - Give details for
 - - Outstanding between six months and one year
 - - One year and above
- c) In case any item deserves special attention of the management, the same may be reported.
 -

Audit Approach - Bank Reconciliation

- BRS

- Verify whether the branch has any balances with other banks.
- Obtain confirmatory letter from the bank or branch wherever applicable.
- Ensure whether BRS is prepared periodically.
- Verify BRS on a test check basis.
- Check for unresponded credits/debits found in the BRS and report the same.
 - Pending revenue items like charges etc which requires provision in opinion of auditor can be recommended for providing & also mention SUCH CASES in MOC

3. MONEY AT CALL AND SHORT NOTICE

- Has the Branch kept money-at- call and short notice during the year?
- Concept
 - Money lent for one day is called Money at call and
 - more than one day upto 14 days is called Money at short notice.
- Audit
 - Collect the instructions from HO & confirm the same has been complied.
 - Report any unauthorized deposits as well excess of unauthorized limits.

4. INVESTMENTS

- For Branches in India

- Are there any investments held by branches on behalf of Head Office/other offices of the bank? If so, whether these have been made available for physical verification or evidences have been produced with regard to the same where these are not in possession of the branch?
- Whether any amounts received as income on such investments have been reported to the Head Office?
- In respect of investments held by branches on behalf of Head Office/other offices of the bank whether any income is accrued/ received and recognized as income of the branch contrary to the instructions of the controlling authorities of the bank?
- Whether there are any matured or overdue investment which have not been encashed? If so, give details.
- Whether the Guidelines of the Reserve Bank of India regarding Transactions in Securities have been complied with.
- Whether the Guidelines of the Reserve Bank of India regarding Valuation of Investments have been complied with.

Audit Approach - Investments

- Check
 - Obtain Nil holding certification if br. do not hold any investments.
 - Obtain list of all investments held by the branch as on year end.
 - Conduct physical verification of investments and tally with the above schedule
 - Do physical verification of investment certificates along with investment register.
 - Verify the evidence for investments not in possession.
 - Comment the cases neither certificates have been made available for physical verification nor evidence as mentioned above are made available.
 - Verify the accounting procedure for income recognition on investments.
 - Comment on investments matured and overdue but still lying in branch records.
 - Obtain CO Guidelines for valuation of investments. Comment in case guidelines are not available as well deviation in valuation process.
 - Obtain the schedule of investment held by the branch.
- Generally not applicable for most of the branches
- Investments in Branches outside India - Being done at CO not relevant at branch level.

Advance

- Areas to cover
 - Credit Appraisal
 - Sanctioning/Disbursement
 - Documentation
 - Review/Monitoring/Supervision
 - Guarantees and Letters of Credit
- What to check
 - In respect of large advances, all cases of major adverse features, deficiencies etc. should be reported.
 - In respect of other advances, the auditor may comment upon the relevant aspects generally, along with instances of situations giving rise to his reservations or adverse remarks.
- Large Advance Means
 - outstanding amount > of 5% of the aggregate advances of the branch or Rs.2 cr, WIL

5. ADVANCES contd..

- a) Credit Appraisal
 - In your opinion, has the branch generally complied with the procedures/instructions of the controlling authorities of the bank regarding loan applications, preparation of proposals for grant/ renewal of advances, enhancement of limits, etc., including adequate appraisal documentation in respect thereof.
- b) Sanctioning / Disbursement
 - In the cases examined by you, have you come across instances of credit facilities having been sanctioned beyond the delegated authority or limit fixed for the branch? Are such cases promptly reported to higher authorities?
 - In the cases examined by you, have you come across instances where advances have been disbursed without complying with the terms and conditions of the sanction? If so, give details of such cases.

Audit approach – Credit Appraisal

- Credit Appraisal :
 - Examine appropriate forms as being prescribed by the CO have been used according to the nature of loan/limit.
 - Check list of the pre sanction documents to be obtained
 - Preparation of proposal for new/renewal/enhancement of loans/limits.
 - Verify all legal documents obtained, executed and filled properly in Toto.

Audit approach – Sanction/disbursement

- Sanction/disbursement :
 - Verify any credit facilities sanctioned beyond delegation of powers, higher authorities ratification obtained in case of deviations. If not, mention the same.
 - Report the instances where loans disbursed without complying the sanction terms.

5. ADVANCES contd..

- c) Documentation
 - In the cases examined by you, have you come across instances of credit facilities released by the branch without execution of all the necessary documents? If so, give details of such cases.
 - In respect of advances examined by you, have you come across instances of deficiencies in documentation, non-registration of charges, non-obtaining of guarantees etc.? If so, give details of such cases.
 - Whether advances against lien of deposits have been properly granted by making a lien on the deposit in accordance with the guidelines of the controlling authorities of the bank.

Audit approach – Documentation

- Documentation :
 - Verify the documents obtained as per the list prescribed in the manual or bank circulars. Any deviations to be commented by giving details of accounts and short comings in respective a/cs.
- In case of loan against FDR – Verify the following
 - Lien on FDR receipt has been marked. In case of computerized branches lien has to be noted in the system also.
 - FDR is properly discharged by all the parties.
 - Signature discharging the FDR has been checked by the branch official.
 - In case of loans against LIC/NSC/KVP lien has been got marked by LIC/PO in favour of the branch.

5. ADVANCES contd..

- Review / Monitoring / Supervision

- Is the procedure laid down by the controlling authorities of the bank, for periodic review of advances including periodic balance confirmation /acknowledgement of debts, followed by the Branch?
 - Provide analysis of the accounts overdue for review/renewal between
 - - 6 months and 1 year,
 - - Over 1 year
- Are the stock/book debt statements and other periodic operational data and financial statements, etc., received regularly from the borrowers and duly scrutinized? Is suitable action taken on the basis of such scrutiny in appropriate cases?
- Whether there exists a system of obtaining reports on stock audits periodically? If so, whether the branch has complied with such system?
- Indicate the cases of advances to non-corporate entities with limits beyond Rs.10 lakhs where the Branch has not obtained the accounts of borrowers, duly audited under the RBI guidelines with regard to compulsory audit or under any other statute.

5. ADVANCES contd..

- Review and Monitoring

- Has the inspection or physical verification of securities charged to the Bank been carried out by the branch as per the procedure laid down by the controlling authorities of the bank?
- In respect of advances examined by you, have you come across cases of deficiencies in value of securities and inspection thereof or any other adverse features such as frequent/unauthorized overdrawing beyond limits, inadequate insurance coverage etc.?
- In respect of leasing finance activities, has the Branch complied with the guidelines issued by the controlling authorities of the bank relating to security creation, asset inspection, insurance etc.? Has the Branch complied with the accounting norms prescribed by the controlling authorities of the bank relating to such leasing activities?
- Are credit card dues recovered promptly?
- Has the branch identified and classified advances into standard/substandard/doubtful/loss assets in line with the norms prescribed by the Reserve Bank of India (The auditor may refer to the relevant H.O. Instructions for identification of NPAs and Classification of Advances).

5. ADVANCES contd..

- Review and Monitoring

- Where the auditor disagrees with the branch classification of advances into standard/substandard/doubtful/loss assets, the details of such advances with reasons should be given. Also indicate whether suitable changes have been incorporated/ suggested in the Memorandum of Changes.
- Have you come across cases where the relevant Controlling Authority of the bank has authorised legal action for recovery of advances or recalling of advances but no such action was taken by the branch? If so, give details of such cases.
- Have all non-performing advances been promptly reported to the relevant Controlling Authority of the bank? Also state whether any rehabilitation programme in respect of such advances has been undertaken, and if so, the status of such programme.
- Have appropriate claims for DICGC and Export Credit Guarantee /Insurance and subsidies, if any, been duly lodged and settled? The status of pending claims giving year-wise break-up of number and amount involved should be given in the following format:

Particulars	Numbers	Amount (Rs.)
• Claims as at the beginning of the year (give year-wise details)		
• Further claims lodged during the year		
•		
• TOTAL (A)		
•		
• Amount representing:		
• a) claims accepted / settled (give year- wise details)		
• b) claims rejected (give year-wise details)		
• TOTAL (B)		
• Balance as at the year-end		
• (give year-wise details)		
• (A-B)		

5. ADVANCES contd..

- Review and Monitoring

- In respect of non-performing assets, has the branch obtained valuation reports from approved valuers' for the fixed assets charged to the bank, once in three years, unless the circumstances warrant a shorter duration?
- In the cases examined by you, has the branch complied with the Recovery Policy prescribed by the controlling authorities of the bank with respect to compromise/settlement and write-off cases? Details of the cases of compromise/settlement and write-off cases involving write-offs/waivers in excess of Rs.50.00 lakhs may be given.
- List the major deficiencies in credit review, monitoring and supervision.

5. ADVANCES contd..

- Guarantees and Letters of Credit
 - Details of outstanding amounts of guarantees invoked and funded by the Branch at the end of the year may be obtained from the management and reported in the following format:
- Guarantees invoked, paid but not adjusted:

Sl. No.	Date of Invocation	Name of the party	Name of the beneficiary	Amount	Date of Recovery	Remarks

- Guarantees invoked but not paid

Sl. No.	Date of Invocation	Name of the party	Name of the beneficiary	Amount	Date of Recovery	Remarks

5. ADVANCES contd.

- Details of the outstanding amounts of letters of credit and co-acceptances funded by the Branch at the end of the year may be obtained from the management and reported in the following format:

Sl. No.	Date of Funding	Name of the party	Nature (LC/co-acceptance, etc.)	Amount	Date of Recovery	Remarks

Audit approach – Review/ Monitoring Supervision

- Review/ Monitoring Supervision :
 - Verify the procedure laid down by bank for timely review/renewal. Comment on the deviations observed.
 - AODs obtained to ensure that documents are not time barred.
 - Collect details of accounts overdue for review/renewal and report
 - Between six months and one year and
 - Over one year
 - Verify stock/book debt statements and other periodic operational data and financial statements etc are being received regularly and duly scrutinized. Give details of cases where stock statements not recd. Care to be taken stock statements not recd for long time may make a/c NPA. Enter such cases in MOC if branch not classified them as NPAs.

Audit approach – Review/ Monitoring Supervision : Contd

- Review/ Monitoring Supervision : Contd.
 - Examine the system of obtaining reports on stock audits. Bank has to get stock audits in respect of all borrower a/c with funded exposure of above Rs.5.00 crores. Report the cases where stock audits are due and reports not obtained.
 - Obtain from the branch list of non – Corporate entities with limits beyond Rs.10.00 lakhs.
 - Check latest audited accounts of borrower are obtained by the branch.
 - Periodical physical verification of securities.
 - Report the cases of advances where deficiencies observed with regard to value of securities, frequent overdrawing, unauthorized overdrawing, inadequate insurance cover.
 - Comment on the credit card dues recovery in the branch.
 - State whether advances have been classified as per IRAC norms. Report the cases where there is disagreement with branch in MOC.

Audit approach – Review/ Monitoring Supervision :

Contd

- Point out the cases where legal action have approved by the HO but not initiated by the branch.
- Obtain list of rehabilitation cases and give the present status of such cases.
- Comment on the cases where DICGC and ECGC are required to be lodged, but still not lodged.
- Valuation reports from approved valuers' for securities charged to bank once in three year or shorter duration as prescribed by the bank.
- Study the policy prescribed for compromise/settlement and write off cases Give details of cases where write offs/waivers in excess of Rs.50.00 lakhs to be furnished.
- Obtain a list of bank guarantees invoked – paid but not adjusted, invoked but not paid.
- Details to be obtained and furnished regarding LCs and co acceptances funded by the branch and report the same.

6. OTHER ASSETS

- Stationery and Stamps
 - Does the system of the Bank ensure adequate internal control over issue and custody of stationery comprising security items (Term Deposit Receipts, Pay Orders, Cheque Books, Travellers' Cheque, Gift Cheques, etc.)?
 - Whether the system is being followed by the branch?
 - Have you come across cases of missing/lost items of such stationery?

6. OTHER ASSETS contd..

- **Suspense Accounts / Sundry Assets**

- Does the system of the Bank ensure expeditious clearance of items debited to Suspense Account? Details of old outstanding entries may be obtained from the Branch and the reasons for delay in adjusting the entries may be ascertained. Does your scrutiny of the accounts under various sub-heads reveal balances, which in your opinion are not recoverable and would require a provision/write-off?
- If so, give details in the following format:

Year	Amount (₹)	Remarks

-
- ii. Does your test-check indicate any unusual items in these accounts?
- If so, report their nature and the amounts involved.

Audit Approach : Other Assets

- Stationery/Stamps :
 - Obtain schedule of Stationery Stocks + Ensure that the physical balance tallies with the schedule.
- Suspense Accounts/Sundry Assets
 - Obtain an schedule/return of suspense account
 - Verify & Report unusual/long outstanding items.
 - Review transfer to H.O during the year
 - Does the scrutiny of accounts under various sub-heads reveal balances, which in your opinion are not recoverable and would require provision/ write off.

Tax Audit and its Annexures



- Fixed Assets
 - Acquisition
 - Transfer
 - Disposal
- Payment other than A/c payee cheque/DD/PO – Sec 269T
- Prior Period items
- Provisions for expenses made & actually paid
- TDS
 - Not deducted under sections 192 to 195 of IT Act – Disallowance - 40(a)(ia)
 - TDS Summary
 - TDS return filing details
 - TDS defaults – impact on MOC
- Expenditure by way of Penalties
- GST Input Tax Credits – Inward Supplies - Statement

Tax Audit

- Major Expenses ledgers - Cash payments review
- TDS check Demo
 - Interest
 - Salaries – Mostly HO level
 - Other expenses
 - Rate
 - Time
 - Amount
- TRACES default - Screenshot
- TDS filing – mostly RO/HO – Acknowledgement of the return filed
- Issues of
 - Non deduction
 - Late deduction
 - Non payment
 - Late payment
 - Late filing
- Prior period expenses/items
- Payment of penalties etc.
- GST ITC - List from branch and corresponding voucher verification

Certificates verification

Certificates

- Primary question – Understanding the process and source
 - Whether system generated
 - Whether Manually prepared
 - Ask itemized list!!!
-
- Demo
 - Priority/ Non Priority – Wrong Classification
 - MOC for other returns
 - Pivot tables for Data consolidation and verification

Summarization

Bank Branch Audit – A bird's eye view

Audit Planning

- Understand Scope
- Training
- Role Mapping



Audit Execution

- Physical
- System
- System + Physical



Audit Documentation

- Working Papers
- Reconciliation



Reporting

Summarization

- Overall satisfaction
- Audit Documentation
- Confidence before signing...

Q&A

Thank You

For Clarifications, mail to
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