

BENGALURU BRANCH OF SIRC OF ICAI

“Jnana Dasoha”

Live Webcast on Bank Branch Audit

**OVERVIEW, PLANNING, DOCUMENTATION, FINANCIAL
STATEMENTS & CRAR**

Wednesday, 29th April 2020

(4:00 to 6:00 pm)



AGENDA

1. Overview
2. Planning and Documentation
3. Special checks for Balance Sheet and Profit & Loss account
4. Audit Report, LFAR and Other Certificates
5. Capital Adequacy

DISCLAIMER

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These views do not and shall not be considered as a professional advice.

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LET'S GET ROLLING!

Particulars

Introduction

Planning and preparation

Special Checks – BS/P&L

AR, LFAR, Certificates & Other Statements

Capital Adequacy



What made news during 2020??

PMO holds meeting on merger of PSBs

FE BUREAU
New Delhi, February 19

THE PRIME MINISTER'S Office (PMO) is learnt to have held a meeting on Wednesday on the proposed amalgamation of 10 public sector banks (PSBs) to create four larger lenders.

Some of the anchor banks in the consolidation process were earlier asked to give presentations on their plans for the merger and how the entire amalgamation exercise was going to pan out. However, there was no official word on any such meeting.

On February 15, finance minister Nirmala Sitharaman had said there was no reason to go back on the merger decision, refuting any particular reason behind the "delay" in notifying the final structure of the merger, amid speculations that it might be put off beyond the intended date of April 1.

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While the merger of 10 banks has been announced, the scheme to implement amalgamation is yet to be endorsed by the Cabinet.

The government had in August last year announced that Oriental Bank of Commerce and United Bank would be merged into Punjab National Bank (PNB) to create the country's largest state-run bank after SBI, with a total busi-

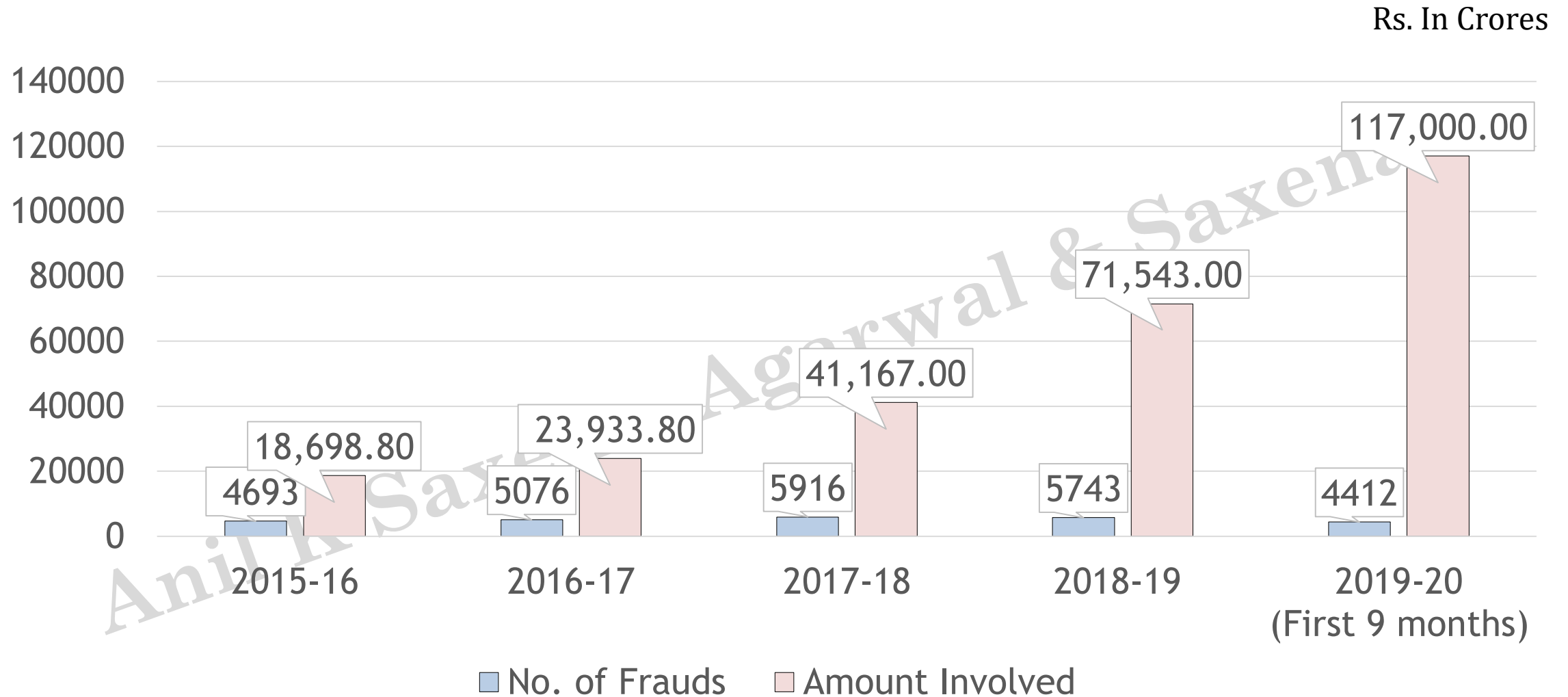
ness of close to ₹18 lakh crore.

Similarly, Syndicate Bank is to be amalgamated with Canara Bank, and the broader entity will be the fourth-largest PSB. Union Bank, Andhra Bank and Corporation Bank will be merged and emerge as the fifth-largest state-run bank. Also, the amalgamation of Indian Bank and Allahabad Bank will create the 7th biggest PSB. Boards of all these PSBs have already approved the merger and a final scheme, with details of the amalgamation, will soon come before the Cabinet.

The consolidation exercise was aimed at creating only a few but strong banks to support the rising credit appetite of the economy and cut costs through greater synergy. Coupled with the two sets of consolidations done in 2018, the latest merger decision will reduce the number of public sector banks to 12 from 27 in 2017.



Frauds (of Rs. 1 Lakh and above reported during the last 5 FYs)



What made news during 2020??



Declining Gross NPAs – Rs. 8.06 lacs crore (31.03.2019) to 7.17 Lacs Crore (31.12.2019)



PSBs reported Net profit of Rs. 507 crore during the current year's three quarters as against a loss of Rs. 81752 crore in 31.03.19.



Prudential Framework for Resolution of stressed assets – RBI Circular dated June 07, 2019

What made news during 2020??



Extension of MSME Restructuring – RBI Circular dated February 11, 2020 (January 01, 2019)



RBI expectations with respect to EWS (Early Warning Signals) and fraud management system



Audit by Regulators, Press, Government and Public - an ongoing process as frauds continue to increase in banking sector.

What made news during 2020??



RBI letter of March 17, 2020 – 5 additional reporting paras including IFC



RBI Circulars of March 27, 2020, April 17, 2020. RBI letter of April 27, 2020.



COVID 19 – Disruptions

How would this year's audit be different??

- 1. COVID 19 impact on execution of Branch Audits**
- 2. COVID 19 – Impact on Banks financials**
- 3. SEBI extension**
- 4. RBI letter of April 27, 2020**

COVID 19 Disruptions - ICAI Advisory on Accounting and Assurance related issues for FY 2019-20 (31.03.2020)

Impact of COVID 19 on following AS:

- **AS 1 – Disclosure of Accounting Policies**
- **AS 2 – Inventory Measurement**
- **AS 4 – Contingencies & Events Occurring after the B/S Date**
- **AS 9 – Revenue Recognition**
- **AS 13 – Accounting for Investments**

Accounting Standards Impacted by COVID 19 as per ICAI Advisory

- [AS 19](#) – Leases
- [AS 22](#) – Accounting for taxes on Income
- [AS 28](#) – Impairment of Assets
- [AS 29](#) – Provisions, Contingent Liab. and Contingent Assets
- [AS 21](#) – Consolidated Financial Statements
- [AS 10](#) – Property, Plant and Equipment

Standards on Auditing impacted by COVID 19 as per ICAI Advisory

- [SA 315](#) – Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
- [SA 320](#) – Materiality in Planning and Performing an Audit
- [SA 540](#) – Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
- [SA 501](#) – Audit Evidence-Specific Considerations for Selected Items
- [SA 600](#) – Using the work of another Auditor

Standards on Auditing impacted by COVID 19 as per ICAI Advisory

- [SA 560](#) – Subsequent Events
- [SA 570](#) – Going Concern
- [SA 500](#) – Audit Evidence
- [SA 580](#) – Written Representations
- [SA 505](#) – External Confirmations
- [SA 240](#) – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

Standards on Auditing impacted by COVID 19 as per ICAI Advisory

- [SA 700](#) – Forming an Opinion and Reporting on Financial Statements
- [SA 701](#) – Key Audit Matters
- [SA 705](#) – Modifications to the Opinion in the Independent Auditor's Report
- [SA 706](#) – Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- [SA 720](#) – The Auditor's Responsibilities Relating to Other Information

LET'S GET ROLLING!

Particulars

Introduction



Planning and preparation



Special Checks – BS/P&L

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Capital Adequacy



Branch Audit – A Walk Through!

01

➤ Appointment letter received

02

➤ Confirm disqualifications – if any

03

➤ Indebtedness, Independence, Fidelity & Secrecy (Partners & Team) – **SQC 1**

04

➤ Post NOC from Previous Auditors - Dispatch EL **SA-210** (Draft)

05

➤ Back office preparation – Document Meeting – **SA 300**

Branch Audit – A Walk Through!

06



Send enquiry letter to Branch (Draft)

07



Team constitution as per Branch Size

08



Member A: Advances **(IRAC + LFAR)**

09



Member B: Balance Sheet, P/L and other statements

10



Member C: Tax Audit & Misc.

Branch Audit – A Walk Through!

11

➤ Obtain SA-580 MRL (Draft)

12

➤ Sign specified Statements & Certificates only as per appointment letter with UDIN

13

➤ Issue Audit Report – SA 701 (NEW), 700, 705, 706 etc (All revised for FY 2018-19)

Seek data for offsite review – Pre audit request or import directly from Finacle

- 1. Complete GLB (General Ledger Balances) as at 31.03.2020**
- 2. CC/OD and Term Loans jotting reports as at 31.03.2020**
- 3. Scheme Wise - Bills outstanding as at 31.03.2020**
- 4. LCs outstanding - Beneficiary Wise as at 31.03.2020**
- 5. Bank Guarantee as at 31.03.2020**
- 6. Account Wise Details of all GL Codes of Profit and Loss account**
- 7. List of NPA Accounts**

Audit Lead Sheets – Objective?

- **Macro View**
- **Ease of review for onsite/ offsite partner(s)**
- **SAE**
- **Documentation of “Who/How/What/When/Which”**
- **Standardised audit procedures (templates)**
- **Guidance for future audits**
- **Recorded Audit conclusions**

Audit Lead Sheets for all material line items

- **Advances**
- **Other Assets & Other Liabilities**
- **Off Balance Sheet Items**
- **Income**
- **Expenses**
- **Other line items of the Balance Sheet, P&L etc**

Enquiry letter to seek email ids – SA 505 – External Confirmation

- Email ids in respect of selected sample of Advances
- Email ids in respect of selected sample of Deposits
- Email ids in respect of Balances with Banks and RBI
- Email ids in respect of Other Balances (Other Assets/ Other liabilities) etc

Pre – Audit Team meeting

- 1. Branch Appointment letter – Terms etc.**
- 2. Statements, Certificates etc – Which and how many?**
- 3. Banks Closing Instructions**
- 4. RBI Master Directions, Circulars, Press Releases**
- 5. Audit templates**
- 6. Document meeting including identified risks – minutes to be duly signed by all team members**

Consequential Risks of improper planning ?

1. Risk of incorrect attestation/ reporting
2. Risk of non compliance - RBI Master Directions, Circulars, etc and Banks/ **SCAs** Closing instructions etc (**NOCLAR as per COE from July 01, 2020**)
3. Risk of RBI RBS/AFI divergence

Ensure your Audit Procedures comply with...

- **SQC -1**
- **Important SA's**
- **GN on Bank Audit 2020**
- **AS/ Technical Standards**
- **Quality Review and Peer Review requirements**
- **Expectations of Banks SCAs and Bank management guidelines**
- **RBI regulations**

Important Standards on Auditing

- **SA 230 – Documentation**
- **SA 240 – Auditors’ responsibilities relating to Fraud in an audit of FS**
- **SA 520 – Analytical Procedures**
- **SA 320 – Materiality in Planning and Performing an Audit**
- **SA 500 – Audit Evidence**

Important Standards on Auditing

- **SA 505 – External Confirmation**
- **SA 260 – Communicating with those charged with governance**
- **SA 530 – Audit Sampling**
- **SA 580 – Written Representations**
- **SA 610 – Using work of another auditor**

Reporting Standards on Auditing

- **SA 700** – Forming an opinion and reporting on Financial Statements
- **SA 701** – Communicating Key Audit Matters in the Independent Auditor's Report
- **SA 705** – Modifications to the Opinion in the Independent Auditor's Report
- **SA 706** – Emphasis of matter paragraphs and other matter paragraphs in the Independent Auditor's Report

SA 230 Compliance : Important Documents!

Two important documents to be obtained other than normal documents to ensure SAE with respect to all other aspects:

- **STATEMENT OF ACCOUNTS** of all Advance accounts **CLASSIFIED** as NPA through MOC by you – **specify reason for classifying/ MOC**
- **STATEMENT OF ACCOUNTS** of all potential NPAs which were **NOT CLASSIFIED** as NPA – **specify reasons of not issuing MOC.**

Pre Sign Off Checklist - Compile

Relevant for the Signing Partner

To Ensure

All risks/ departments have been covered during the course of Bank Branch audit by the team members.

Pre Sign Off Checklist to include **check for RFA** (Red Flagged Accounts)

- List of RFA Accounts from the branch – Exposure of Rs 50 crore or more (RBI guidelines). For other accounts < Rs 5 crore, Banks discretion
- Whether RED FLAG **removed within 6 months**? If not, whether reported as a **SUSPECTED FRAUD** or **FRAUD** – and consequently provided for
- Obtain the list of all accounts flagged as RFA by other banks but **not flagged as RFA by the Bank** – LFAR reporting
- 100% of Advances with EWS/ RFA - ensure thorough review to identify **possible frauds / NPA**

Pre Sign Off Checklist to include **check for EWS** (Early Warning Signals)

- Advances to be reviewed and mapped with the Early Warning Signals (EWS) as listed in RBI MD on Frauds - July 01, 2016 (Updated as on July 03, 2017) – **Refer to the 42 EWS in Annexure II**
- **Tabulate and report in the LFAR unless the EWS are material and the account needs to be reported as FRAUD BY US AS AUDITORS**
- **Also refer to “Early Signals of Fraud in Banking Sector (Revised 2018 Edition)” issued by ICAI**

Pre Sign Off Checklist to include **check for CFR** (Central Fraud Registry)

- Has the branch used CFR for Credit appraisal in respect of granting new facilities or renewal of facilities?
- For all borrowers with **limits of Rs 100 lacs and above**, take screen shots/ proof by visiting the CFR portal (with branch assistance) and documenting the same.

Pre Sign Off Checklist to include **check for CERSAI**

- **Map all NPAs where Collaterals have been taken as Security with the CERSAI portal to ensure existence of the same as on date of audit**
- **Take print outs/ screen shots of the same as proof and document the same**
- **CERSAI is applicable to both moveable and immoveable properties**

Pre Sign Off Checklist to include **check for LEI** (Legal Entity Identifier)

Ensure that all borrowers with **limits of Rs 100 crore and above have been** registered as a LEI (Legal Entity Identifier) in terms of the RBI guidelines as at 31.03.2020

If not, **list all such entities for LFAR reporting** and also for cases where the same has expired and is pending renewal as at 31.03.2020

Pre Sign Off Checklist to include **check for Exception Reports**

Review Exception reports as at the year end and a sample in each quarter

Rule out any irregularity which requires adjustment in the financial statements by way of an MOC

Pre Sign Off Checklist to include **check for CRILC Reports**

Review selected stressed accounts and seek the CRILC reports as on date for possible SMA-01 and SMA-02 classification for further review and possible MOC/ NPA classification.

Pre Sign Off Checklist to include **check for** Loan Delivery System – RBI Circular 05.12.2018

Ensure WCL are bifurcated into “loan” and “cash credit” components (after excluding ECL (pre and post shipment) and Inland bills) into **60% “loan” and 40% “cash credit”**.

Further, it needs to be ensured that the “loan” element is allocated prior to release of “cash credit”

Applicable to FB WCL of Rs. 150 crore and above

Planning – RBI Circulars, Press Releases, FAQ's

RBI has started issuing **MASTER DIRECTIONS** on all regulatory matters beginning
January 2016

- **One Master Direction for each subject covering all instructions on that subject**
- **Including banking issues and foreign exchange transactions**
- **Consolidates instructions on rules and regulations framed by the RBI under various Acts**

Planning – RBI FAQs, Circulars etc

- Explanations of R&R are issued by way of FAQs after issue of MDs
- **FAQs issued** in easy to understand language wherever necessary
- Changes “during the year” in Rules, Regulations or Policy are communicated by way of Circulars/Press Releases

RBI Regulations!!

- RBI **has not** issued any MC after those issued in July 2015.
- Master Circulars were valid only for 1 year
- The existing set of MCs issued on various subjects stand withdrawn with the **issue of Master Direction** on the respective subject
- Members to refer to RBI Master Circulars, RBI Master Direction, Circulars, Press Releases, FAQs etc wherever they wish to seek further clarifications on any matter/subject.

Master Circular on Advances – IRAC Norms?

RBI has neither issued any Master Directions nor issued any Master Circular on Prudential norms on IRAC and provisioning subsequent to Advances during the year.

The contents of RBI Master circular on Prudential norms on IRAC pertaining to Advances

(DBR.No.BP.BC.2/21.04.048/2015-16 dated July 1, 2015)

continue to be applicable for Bank Branch audits for the year ending 31st March 2020 subject to the changes made by subsequent circulars.

Important Master Circulars Still Valid...

RBI website (www.rbi.org.in)

Master circular on IRAC norms (DBR.No.BP.BC.2/21.04.048/2015-16)	July 1, 2015
Master circular on Basel III Capital Regulations (Also refer to Circulars of 14.1.16, 1.3.16 and 1.2.17)	July 1, 2015
Master circular on Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)	July 1, 2015
Master circular on Housing Finance	July 1, 2015
Master circular on Guarantees and Co-acceptances	July 1, 2015

Important Master Circulars Still Valid...

RBI website (www.rbi.org.in)

Master circular on Loans & Advances – Statutory and other restrictions	July 1, 2015
Master circular on Wilful Defaulters	July 1, 2015
Master circular on Para Banking Activities	July 1, 2015
Master circular on Housing Finance	July 1, 2015
Master circular on Guarantees and Co-acceptances	July 1, 2015

Master Directions which override MC's

RBI website (www.rbi.org.in)

Master Direction – Know Your Customer (KYC) Direction	February 25, 2016 (Updated as on January 09, 2020)
Master Directions on Frauds – Classification and Reporting by commercial banks and select FIs	July 1, 2016 (Updated July 03, 2017)
Master Direction – Regional Rural Banks - Priority Sector Lending – Targets and classification	July 7, 2016
Master Direction – Reserve Bank of India (Relief Measures by Banks in areas affected by natural calamities)	July 7, 2016

Master Directions which override MC's

RBI website (www.rbi.org.in)

Master Direction – Reserve Bank (Interest rates on Advances) 2016	March 03, 2016
Master Direction on RBI (Interest rate on Deposits) Directions, 2016	March 03, 2016
Master Direction on Lending to MSME Sector	July 24, 2017

Other Important RBI Guidance

RBI website (www.rbi.org.in)

FAQs on MSME	Updated as on March 28, 2018
FAQs on Priority Sector Lending – Targets and Classification	Updated as on December 28, 2018

Index on Circulars available on RBI website and Guidance Note on Bank Audit 2020 – download and tabulate for reference and record

Important Circulars issued during the FY 2019-20

RBI website (www.rbi.org.in)

Large Exposures Framework (LEF) (DBR.No.BP.BC.31/21.01.003/2018-19)	Apr 1, 2019
Prudential Framework for Resolution of Stressed Assets (DBR.No.BP.BC.45/21.04.048/2018-19)	Jun 7, 2019
MASTER CIRCULAR – Lead Bank Scheme (FIDD.CO.LBS.BC.No.06/02.01.001/2019-20)	Jul 2, 2019
Large Exposures Framework (DBR.No.BP.BC.18/ 21.01.003/2019-20)	Sep 12, 2019

Important Circulars issued during the FY 2019-20

RBI website (www.rbi.org.in)

Priority Sector Lending (PSL) – Classification of Exports under priority Sector (FIDD.CO.Plan.BC.12/04.09.01/2019-20)	Sep 20, 2019
Prudential Norms on IRAC and Provisioning Pertaining to Advances - Projects under Implementation (DOR.No.BP.BC.33/21.04.048/2019-20)	Feb 07, 2020
MSME Sector – Restructuring of Advances (DOR.No.BP.BC.34/21.04.048/2019-20)	Feb 11, 2020
COVID-19 – Regulatory Package (Revised) (DOR.No.BP.BC.47/21.04.048/2019-20)	Mar 27, 2020
COVID-19 – Regulatory Package – Asset Classification and Provisioning (DOR.No.BP.BC.63/21.04.048/2020-21)	Apr 17, 2020

Things you need to carry to the branch....



- **Branch Audit Programme/ Other templates/ Pre-Sign off checklist**
- **Bank's Closing Circular/ instructions**
- **RBI Master circular / Master Directions/ PR/ FAQ/ etc**
- **CBS Codes & Utility reports**
- **RBI Circulars issued during the year**
- **Other Audit Aids (Letter heads/ Stamps/Digital Signatures etc.)**

LET'S GET ROLLING!

Particulars`
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Special Checks – BS/P&L
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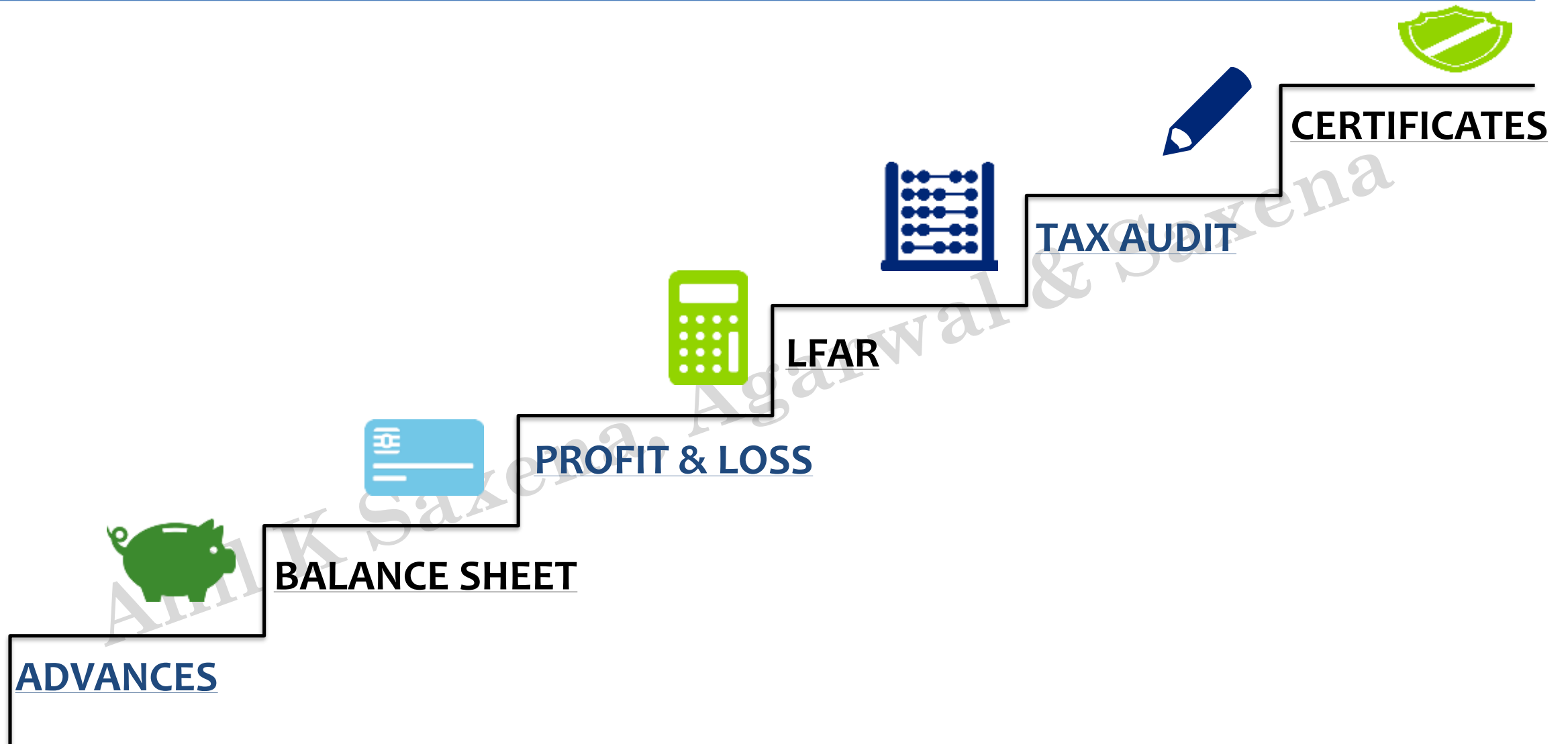


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Planning and preparation
Changes during the year
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AR, Certificates & Other Statements
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Branch Audit – A Macro Look!



Balance Sheet - Overview

LIABILITIES

Time Deposits



Contra Items/
Off Balance Sheet
items



Borrowings



Demand
Deposits



Inter Branch /
Bank



Other
Liabilities



Balance Sheet - Overview

ASSETS

Fixed Assets



Contra Items/
Off Balance Sheet
items



Advances



Cash and Bank



Inter Branch /
Bank



Other Assets



Balance Sheet – Special Checks

- **Ratio** analysis and “yoy” abnormal variances
- **Lead Sheets** of major line items
- **Provision for Suspense, Other Assets**
- **BG’s to be continued after expiry if within claim period**
- **BG’s to be “knocked off” after expiry of claim period & service of notice.**

Balance Sheet – Special Checks

- Obtain instrument wise/ borrower wise LCs/ LOC/ LOU/ etc. – Knock off "expired"
- Check "Performance" Vs "Financial" BGs – Impact on CRAR ?
- Check RBI Cir dated 02.04.2013 for indicative list of both types of BGs
- Financial BGs carry "higher commission" and also "higher risk weight" for CRAR

Performance Vs Financial BG – RBI Circular 02.04.2013

Financial Bank Guarantee - guarantee issued by the bank assuring repayment/ payment of money in the event of default by the customer would be termed as a “financial guarantee”

Performance Bank Guarantee - guarantee issued by the bank assuring adequate and timely performance of a contract would be termed as a “performance guarantee”

- *Commission on financial guarantees is higher than performance guarantees, there could be incorrect classifications in order to book higher income (commission).*
- *Financial guarantees carry a higher risk, an incorrect classification would have a direct bearing on the Capital adequacy of the bank.*

Balance Sheet – Special Checks

- Obtain borrower wise details of “**Interest receivable**” and review thoroughly – Whether on NPA/ Tallying with GLB?
- Obtain depositor wise details of “**Interest Payable**” and test check.

Balance Sheet – Special Checks

- Fresh FITL Accounts created – Ensure that **Income has been reversed to the extent of Funded/ unrealised Interest**
- **Repayment of FITL accounts** – Ensure that Income has been recognised to the extent of principal instalments repaid during the year.
- **System of “Income recognition” & reversal of “Sundry Credits” on** realisation of FITL instalments maybe manual – Check entry
- Ensure both **“FITL arms”** MATCH except where FITL created in “Standard” account or where FITL is parked in Central Office/HO.

Balance Sheet – Special Checks

- Clearing Accounts/ Suspense accounts etc – Scrutinise 100% accounts in **“Other Assets”** and **“Other Liabilities”**
- External confirmation procedure – SA 505:
 - ✓ *All Bank balances*
 - ✓ *Specific item testing of Advances and Deposits*
 - ✓ *Other balances*

Profit & Loss – An Overview

INCOME

Interest Earned



Commission



Discount

Profit & Loss – An Overview

EXPENSES

Interest Paid



Sundries



Charges



Profit & Loss – Special Checks

- **Ratio** analysis and “yoy” abnormal variances
- **Lead Sheets** in respect of each line item
- Interest changes with Interest circulars **Next slide**
- Ensure reversal of “unearned interest” on IBP/ FBP/ BNLC/ FBNLC / IBD (**CBS driven**)
- Ensure interest accrual on IBP/ FBP/ EBR/ FCNRB(DL) (**CBS driven**)

Changes in Interest Rate of Advances

Corresponding to all the changes made in the Base Rate/ MCLR auditor(s) need to validate following changes :

- Interest rates **actually being applied**
- **Value date** of such change matches with the corresponding date specified in the HO circular.
- Verification of the data as may have been entered into the **Master data of the software** of the bank.
- Rates being applied should also correspond to the interest rates specified in **the sanction letter**.

Profit & Loss – Special Checks

- Interest realized on NPAs to be taken to income ONLY when credits are NOT OUT OF fresh/ additional facilities (Para 3.3.1)
- Review interest applied on LCs devolved/ BGs invoked if parked in “Separate Account”
- Check ROI in TOD accounts- whether applicable ROI charged- banks software system may charge the MCLR/BR/BPLR
- Whether commission in respect of Forward contracts etc – reversed for unexpired portion.

Profit & Loss – Special Checks

- **Manually test check BG/ LC etc commission even where the same is amortized by CBS– specially in case of EXTENSION**
- **Manually test check income in case of LC's/ BG's etc cancelled/ extended**
- **Check amortisation of BG commission where payment of commission is monthly/ quarterly/ half-yearly/ Annual intervals instead of UPFRONT - (may not be CBS controlled)**
- **Processing Charges – Ensure being charged from “sanction/ renewal date” and not “due date”**



Profit & Loss – Special Checks

- **Processing Charges** - System may charge same on “due date” unless “Manual” flag is ticked
- Ensure that **interest concessions** are applied at “Account level” and not “Customer level” to avoid under charging. (Else will apply to all limits)
- Review “Legal Expenses” for:
 - ✓ **Important information on legal cases pending**
 - ✓ **Possible provision on account of decrees**
 - ✓ **Material Contingent liabilities**

Profit & Loss – Special Checks – Review of Interest Rates

- Being set at “Zero”
- Periodicity being other than “monthly”
- Future interest application date
- Parameter Vs Sanction Letter
- Collection flag has not been set at "N"
- Ensure Pegged flag is marked as "N" in all cases where interest is linked to BR/ MCLR except where the interest is fixed
- Interest failure report to be reviewed

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Audit Report – SA 700/ 701/ 705/ 706

- Pre printed Audit Reports **not recommended**
- Audit Reports to be printed on letter heads
- Provisions at HO, MOC, Non-compliance of AS etc – **“Other Matters”**
- Significant Accounting Policies of Bank – 2019-20??
- AS qualifications at branch level to be added - AS-1, 15, 17, 18, 22, 28 & 29
- SA 701 – KAM applicability

Audit Report – Certain Reporting Issues

- Instances of actual margins on BGs/ LCs/ LOUs etc **not being as sanctioned**
- Other instances of transactions at the branch being beyond powers of the Manager
- Audit Report format casts a responsibility on us to report material transactions, if any at the branch

LFAR and New Certificates

- Potential NPAs/ MOC matters etc. **NOT to be reported in LFAR/TAR**
- Ghosh & Jilani Report- **Avoid Yes/ No/ NA replies**
- ALM – Verify all buckets – **Else Qualify !!**
- Weekly abstract Certificate for 12 odd dates??
- SLR/ CRR, IRAC, Interest equalization Certificate and Compliance with Priority Certificate Lending (MD)

Annexure to LFAR

- **Annexure A** - For branches dealing in large advances - for all advances with outstanding balance of Rs. 2 crores and above.
- **Annexure B** - Questionnaire in respect of specialized branches dealing in foreign exchange transactions forming part of the LFAR for the year end.
- **Annexure C** - Questionnaire applicable to specialized branches referred to in the Long Form Audit Report for branches with advances in excess of Rs. 100 crores

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Capital Adequacy



Capital Adequacy - CRAR

COMPONENTS

A. Capital – Dealt with at Head Office Level

B. Risk divided into –

a. Credit – Dealt with at **Branch** Level

b. Market – Dealt with at Head Office Level

c. Operational – Dealt with at Head Office Level

Capital Adequacy – CRAR Checks

- Whether Total advances as per FS = Advances as per RWA Stat (BASEL II)?
- Whether correct **asset code** has been used in RWA working sheet **based on the nature of the account**?
- Whether correct asset classification has been used in RWA working sheet ?
- Whether **correct risk weights** have been assigned to the exposure according to the **claim categories** (Refer to Annexure 9 of MC)

Capital Adequacy – CRAR Checks

- Whether the “Undrawn amount” in respect of Term loans is correctly fed into the system,?
- Undrawn amount in CC/OD – (SL – Bal OS = Undrawn) unless “Unconditional Cancellable clause” in finacle has been wrongly marked as “Yes” instead of “No”
- Whether guarantee/ collateral has been properly linked/ entered in the parameters in finacle and mitigant value of the Guarantee has been correctly fed?

Capital Adequacy – CRAR Checks

- Whether LTV (Loan to Value) ratio is correctly fed as per sanction letter/ actual security value (For Housing Loans)
- Whether NPA flags are correct in RWA sheet
- Whether % of NPA provision are correctly entered in RWA sheet. An incorrect provision % would result in incorrect risk weights being assigned/ used.
- Whether accounts eligible for rating are rated? i.e. Standard Advances where exposure is more than Rs. 25 Crore --> Compulsory external rating – Refer Bank guidelines

FAQ's on UDIN from ICAI - No 1

While conducting Bank Audit, whether separate UDIN has to be taken for all certificates as there are a bulk of certificates to be signed?

UDIN has to be generated per Assignment per signatory. In a Bank branch audit, one branch is one assignment, hence, one UDIN for all certificates will suffice. However, care should be taken that a list of all certificates bearing same UDIN should be compiled and handed over to management under a covering letter so that the UDIN generated cannot be misused by affixing on any other certificate which has not been signed by you.

FAQ's on UDIN from ICAI - No 2

Whether UDIN is to be generated for LFAR separately?

UDIN has to be generated per assignment per signatory. In a Bank branch audit, one branch is one assignment, hence, one UDIN will suffice.

Anil K Saxena, Agarwal & Saxena

FAQ's on UDIN from ICAI - No 3

Whether UDIN is to be generated for Tax Audit separately?

Separate UDIN is required to be generated for Tax Audit both for manually as well as digitally signed Reports/ uploaded online.

Contact



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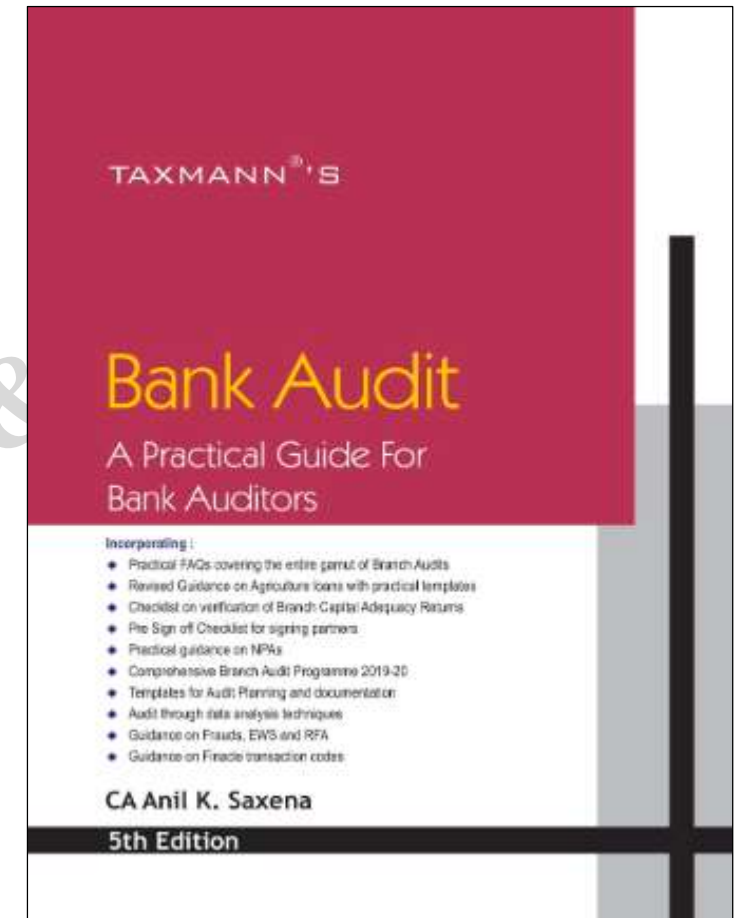
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<https://www.youtube.com/channel/UCZzJvMX4qF7YrcBxtDCT7KA>



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