Bengaluru Branch of SIRC of ICAI

Statutory Audit of Bank Branches

# Audit of Advances & Documentation

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CA Ismail B. Sonawalla

19th March, 2022

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# Branch Audit

# Audit of Advances

**Some important laws -**

- **1. The Banking Regulation Act, 1949**
- **2. Stamp Act applicable to the respective State / The Indian Stamp Act**

# Audit of Advances

**Some important laws -**

- **3. Limitation Act, 1963**
- **4. Annual Closing Guidelines of the Bank and ICAI Accounting Standards**

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# Verification Advances

General -

- Master Circulars / Master Directions
- Computerised system
- Statements from the system

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# Verification of Non-Funded Advances

**Master Circular dated November 9, 2021** under the heading **"Guarantees and Co-acceptances"**

- **Guarantee / Letter of Credit (LC) / Co-acceptance**
  - **Off Balance Sheet items**
  - **Contingent Liability**
  - **Notes to Accounts**

**RBI has mandated banks not to do non-fund business with persons, who do not enjoy credit facilities with the bank**

# Guarantee

- Financial Guarantee
- Performance Guarantee

Guarantee & Counter Guarantee

Maximum maturity period - 10 years

Invoked Guarantee – Funded Advance

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# Letter of Credit

**Promise by banker to Seller**

**Devolvement of LC – Funded Advance**

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# Co-acceptance of Bills

**Acceptance by buyer**

**Co-acceptance by banker**

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# Verification of Funded Advances

**Based on Funds –**

- **Non-Funded**
- **Funded**

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# Verification of Funded Advances

**Based on Geography -**

- **Inland**
- **Export**

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# Verification of Funded Advances

**Based on Security –**

- **Secured**
- **Unsecured**

# Verification of Funded Advances

**Based on Sector -**

- **Priority sector (40% )**
- **Non-Priority sector**

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# Type of Advances (including Foreign Advances)

## Demand / Term loan

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## Type of Advances (including Foreign Advances)

**Cash Credit**

**Overdraft**

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# Type of Advances (including Foreign Advances)

## Bills Purchased / Discounted

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# Verification of Advances

## Extent of Verification

## Reporting of Verification

- Statutory Audit Report
- Long Form Audit Report

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# Stages of Verification

***COMMON SENSE IS THE MOST IMPORTANT INGREDIENT***

**BANKS HAVE THE BEST MAKER-CHECKER SYSTEM,**
**YET HAVE MAXIMUM FRAUDS**

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# Stages of Verification

**Master Circular –**

**LOANS & ADVANCES – STATUTORY & OTHER RESTRICTIONS" dated 1st July, 2015**

**Letter dated July 23, 2021 -**

**LOANS & ADVANCES-REGULATORY RESTRICTIONS**

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# Stages of Verification

**Credit Appraisal & Sanction**

**Disbursement**

# Stages of Verification

**RBI -** ***Any transaction susceptible to fraudulent transaction to be <u>directly</u> reported to RBI by the Auditors***

**RBI Master Direction updated on July 3, 2017 - Frauds-Classification & Reporting (Updated)**

**RED FLAG ACCOUNTS –**
**outlines *42 "Early Warning Signals"***

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# Stages of Verification

**Review of Operations – MOST IMPORTANT**

- **Account Statement**
- **Stock / Book Debt Statements**

# Stages of Verification

- Renewal
- Enhancement
- Reschedulement
- Balance Confirmation

# Stages of Verification

- Physical Inspection of Securities
- Verification of charges due on the advances
- Certain Indicators which could lead to identify Irregular Accounts / Frauds

# Thank You

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