



Bangalore Branch of SIRC of the ICAI

Seminar on Bank Branch Audit

18th March 2017



Bank Branch Audit, Audit working Papers

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Agenda

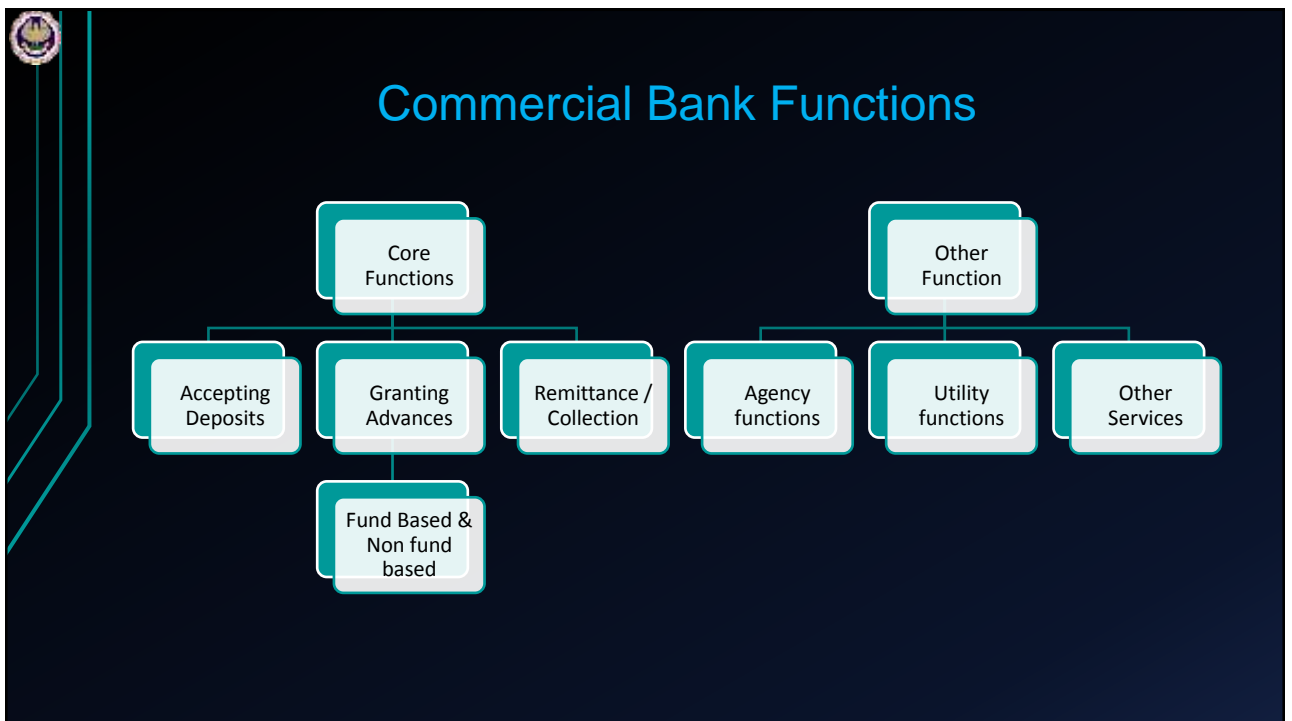
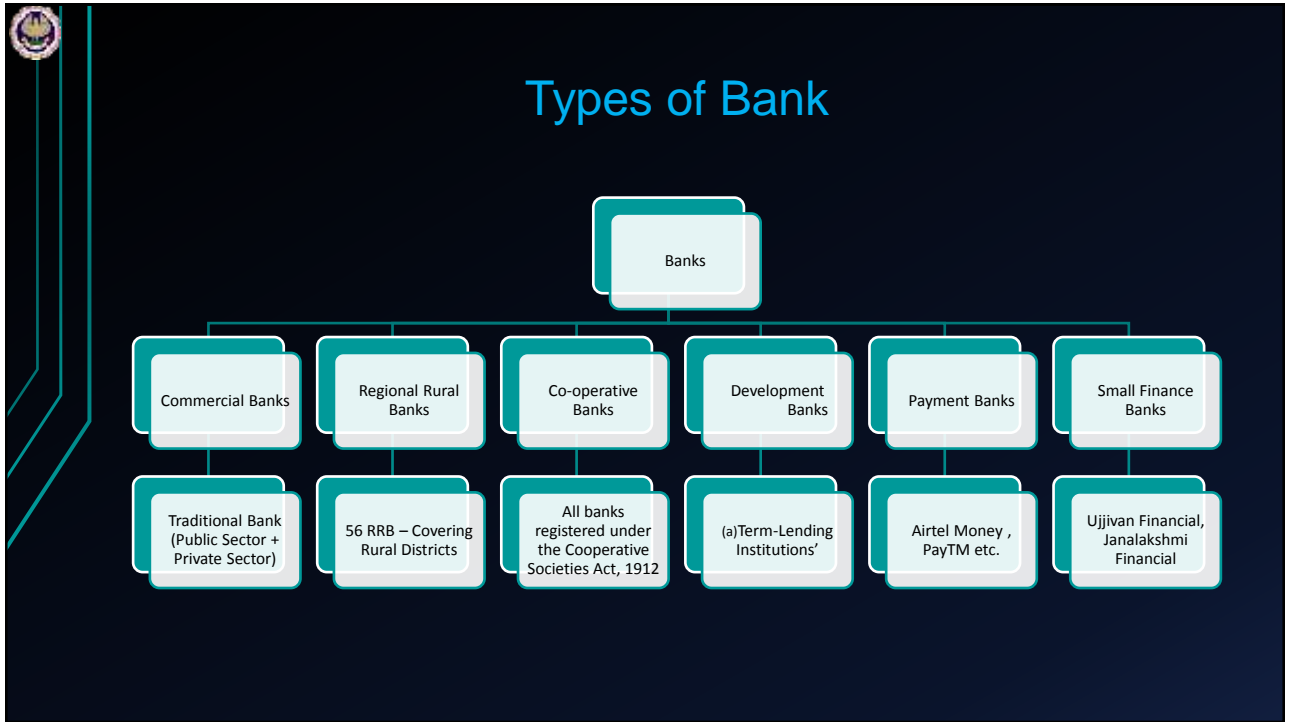
1. Introduction to Bank Branch Audit
2. Internal Control System in Banks
3. Financial Statements Audit
4. IRAC Norms
5. Other areas – Audit

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1. Introduction to Bank Branch Audit

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Bank Audit - Reporting

1. Branch Auditors Main Report
2. MOC - Memorandum of changes
3. Tax Audit Report
4. Certificates
5. Long Form Audit Report



Audit Assurance in Bank Audit

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



2. Internal Control System in Banks

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Internal Controls

- A process effected by the management to provide reasonable assurance regarding achievement of objectives in the policy:
 - ⌘ Effectiveness and efficiency of operations
 - ⌘ Reliability in financial reporting
 - ⌘ Compliance with the applicable laws and regulations.



Risk Mitigation Measures



Bank RISK Management Measures

1. Committee
2. Internal Audit
3. Revenue Audit
4. Branch Inspection
5. Head Office (HO) Inspection



Bank RISK Management Measures

6. Concurrent Audit
7. Systems Audit
8. Vigilance Function in banks
9. RBI Inspection



Bank Internal Control Framework





2. Internal Audit

- Risk-Based Internal Audit to ensure that the internal audit is undertaken in the bank in a risk focused manner.
- RBI circular DBS.CO.PP.BC.14 /11.01.005/ 2003-04, dated June 26, 2004 on “Risk Based Supervision – Follow up of Risk Management Systems in Banks”



Revenue Audit

- identifying cases of leakage of revenue due to wrong computation of interest,
- non-application of interest on time,
- application of incorrect rates of interest/exchange/commission, non-application of penal interest,
- non-recovery or short-recovery of service charges on guarantees and letters of credit



Branch Inspection

- Covers all important areas of functioning of the branch, including
 - Efficacy of systems and procedures,
 - Compliance with head office directions,
 - Customer service,
 - Maintenance of books and records,

This is typically in the nature of internal audit



Head Office (HO) Inspection

- Investment and other treasury functions,
- Functioning of the central stationery department,
- Fixed assets (if centralised),
- Inter-branch reconciliation
- Employee engagement & Training .



Concurrent Audit

- An external Review of financial aspects of the Bank including documentation and other aspects.
- Scope defined by the management.



Internal Controls



Internal Control Procedures

1. Delegation of Powers
2. Segregation and Rotation of Duties
3. Maintenance of Adequate Records and Documents
4. Accountability for and Safeguarding of Assets
5. System Configuration and Account Mapping
6. Independent Checks



3. Financial Statements Audit



Steps for conducting of Branch Audit

1. Engagement letter for Branch Statutory audit, with closing circulars.
2. NOC from the previous auditor
3. Pre-Audit discussion with branch
4. Audit planning
5. Audit Execution
6. Discussion of the draft Branch audit report with bank
7. Preparation of MOC and effect of the same in books of account
8. Submission of audit report to branch.



Area Wise - Documents to be Collected

1. Trial Balance as on 31st March
2. Closing circular issued by Bank's head office
3. Review of
 1. Previous years Auditor report + LFAR
 2. Inspection + Concurrent + RBI + any other report
4. IRAC – Compliance
5. Cash & Bank Reconciliation

Area Wise - Documents to be Collected

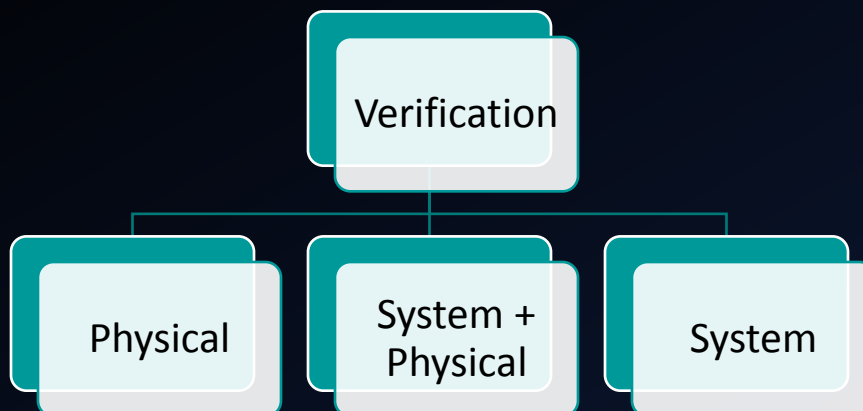
6. Advances

- List of stress advances
- List of new sanction made during the year
- List of account referred for Restructuring / CDR
- List of Bank guarantee and Letter of credit

7. Documents related to NPA's

- $\text{Opening} + \text{Addition} - \text{Deletion} + / - \text{Category Change} = \text{Closing}$

Audit Planning





Physical Verification

- Cash Balance
- Securities held at Branch including Gold Loans.
- Loan Documentation.
- External Confirmation including borrowers Loans.
- Other Audit Reports



System + Physical

- Vouchers + Expenses Debited
- FD Lien Marking
- Sanction Ticket + Terms
- TDS & Service Tax Returns



System

- Interest change application
- Customer database – Unique Accounts
- Regular + Exception Reports
- Loan Account Ledgers
- Standing Instructions
- Clearing Ledger Accounts



Balance sheet

Balance Sheet

LIABILITIES			Return No.	CODE	Rs.	ASSETS			Return No.	CODE	Rs.
7.	DEPOSITS		10	1,450	1,45,49,77,653	18.	CASH AND BALANCE WITH RBI	13	3500	18,80,109	
8.	BORROWINGS		11	1,990	-	19.	BALANCE WITH OTHER BANKS AND MONEY AT CALL & SHORT NOTICE	14	3800	-	
9.	OTHER LIABILITIES AND PROVISIONS		12	2,600	93,03,359	20.	BILLS PURCHASED	2	4000	-	
10.	SUNDRY DEPOSITS		2	2,330	24,35,349	21.	ADVANCES INCLUDING AGRICULTURE	2	4100	21,92,57,143	
11.	LOCAL CLEARING & CASH REMITTANCE		2	2,500	-	22.	SUNDRY ASSET	15	4510	39,61,607	
12.	DDS ACCOUNT		2	2,510	-	23.	BRANCH ADJUSTMENT ACCOUNT	16	5000	58,400	
13.	HEAD OFFICE ACCOUNT		2	2,520	-	24.	LOCAL CLEARING & CASH	2	5500	-	
14.	HO INTEREST RECEIVABLES		2	2,940	-	25.	DDS ACCOUNT	2	5510	-	
15.	ATM INTER BRANCH		2	2,550	-	26.	HEAD OFFICE ACCOUNT	2	5520	-	
16.	DEBIT CARD INTER BRANCH ACCOUNT		2	2,960	-	27.	HO INTEREST PAYABLE	2	5540	-	
17.	HO-CBS INTER BRANCH		2	2,570	-	28.	ATM INTER BRANCH	2	5550	-	
18.	NET PROFIT			2,900	-	29.	DEBIT CARD INTER BRANCH	2	5560	-	
						30.	HO-CBS INTER BRANCH	2	5570	1,16,49,45,867	
						31.	NET LOSS		5900	7,66,13,235	
TOTAL				3,000	1,46,67,16,362	TOTAL			6900	1,46,67,16,362	
31.	CONTINGENT LIABILITIES & BILLS FOR COLLECTION		17	8,910	28,44,425						

Balance sheet other than A&D

LIABILITIES	GL_ACCOUNT NO.	AMOUNT	ASSETS	GL_ACCOUNT NO.	AMOUNT
DEMAND DEPOSITS			CASH ON HAND		
SUBSIDY AMOUNT	2025505017	4,40,000.00	CASH ON HAND	1204505001	-6,88,223.00
BRANCH ACCOUNT	2025505009	6,41,999.50	CA WITH STATE BANK OF MYSORE	1027505010	-4,53,233.86
SUNDRY DEPOSITS			BILL PURCHASED AND DISCOUNTED		
SUNDRY DEPOSIT	2025505001	8,727.00	DD PURCHASED CHEQUES-OTH BANKS	1085505001	-13,800.00
EXCESS CASH FOUND	2025505010	500.00	INTER OFFICE ADJUSTMENT		
DEMAND DRAFTS			AGENCY CLEARING GENERAL AC	1102505001	-65,924.00
CKGB DD			HEAD OFFICE	2025505007	-10,76,27,590.07
CKGB DD A/C	2025505027	2,30,15,961.00	CORE INTERBRANCH A/C	1106505001	-57,78,398.17
CKGB DD	2144505001	1,94,44,192.00	BRANCH CLEARING GENERAL AC	1106505002	-7,58,27,948.11
GPO-SDD			TOTAL INTER OFFICE ADJUSTMENT		
SBM DD	2025505026	29,55,648.00	LEGAL CHARGES	1224505021	-750.00
GPO FOR CKGB	2239505004	91,78,284.00	INT INCENTIVE RECBL FROM GOI	1228505041	-1,23,298.00
GPO ISSUED ACCOUNT	2239505003	21,65,368.00			
OTHER LIABILITIES					
INT NOT COLLECTED A/C- IND	2540070801	30,973.00			
SUNDRY OTHERS	2025505024	40,778.00			



Balance sheet Advances Reco

Type	Amount
CC OD	4,58,33,569.76
Term Loan	4,06,03,294.88
Cheque Purchased	13,800.00
SB Debit Balance	5,086.00
Total	8,64,55,750.64
BS	(8,64,55,750.64)
Diff	-



Balance sheet Deposit Reco

	GL Code	Amount
DEMAND DEPOSITS		
SUBSIDY AMOUNT	*202589917	10,69,245.93
SUNDRY DEPOSITS		
SUNDRY DEPOSITE	*202589901	3,180.00
BRANCH BUILDING RENT	*202589912	350.00
CURRENT ACCOUNT		
CURRENT A/C-PERI	*200107801	30,11,719.85
CREDIT BALANCE IN CC/OD		
CASH CREDIT-PERI	*200207801	142.00
OVERDRAFT-PERI	*200307801	8,000.21
SAVINGS BANK ACCOUNTS		
SAVING BANK ACCOUNT-STE	*200607801	15,542.20
SAVING BANK ACCOUNT-GROUP	*200658031	9,296.00
SAVING BANK ACCOUNT-INSTN	*200658001	7,855.00
SAVING BANK ACCOUNT-OTH	*200656901	37,151.00
SAVING BANK ACCOUNT-PERI	*200607801	1,55,60,615.56
TOTAL DEMAND DEPOSITS		
TERM DEPOSITS ACCOUNTS		
TERM DEP-PERI	*201007801	12,21,656.00
TERM DEP-GROUP	*201058031	4,80,850.00
RECURRING DEPOSITS ACCOUNT		
RD-STE	*201107801	7,900.00
RD-GROUP	*201158031	6,200.00
RD-PERI	*201167801	1,87,200.75
SAVINGS CERTIFICATE ACCOUNTS		
SPECIAL ID-STE	*201107801	63,490.00
SPECIAL ID-GROUP	*201158031	10,98,301.00
SPECIAL ID-OTH	*201158901	2,07,800.00
SPECIAL ID-PERI	*201107801	1,98,00,888.00
TOTAL DEPOSITS: ---		4,87,64,897.97
As per TB		88M8897.57
	088	0.00

Profit and loss account

Profit and Loss Account

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31- MAR- 2017							
EXPENDITURE	Return No.	CODE	Rs.	INCOME	Return No.	CODE	Rs.
1. INTEREST EXPENDED	5	7,000	9,66,22,453	4. INTEREST COLLECTED	8	9210	2,65,45,045
2. GENERAL CHARGES	6	8,110	89,07,375	5. COMMISSION EXCHANGE BROKERAGE AND OTHER INCOME	9	9480	23,71,547
TOTAL		9,000	10,55,29,827	6. NET LOSS		9500	7,66,13,235
				TOTAL		9600	10,55,29,827

Prepare detailed working with schedules



Possible Exceptions

- Schedules not matching
- Long pending Advances & Deposits
- Trends not matching

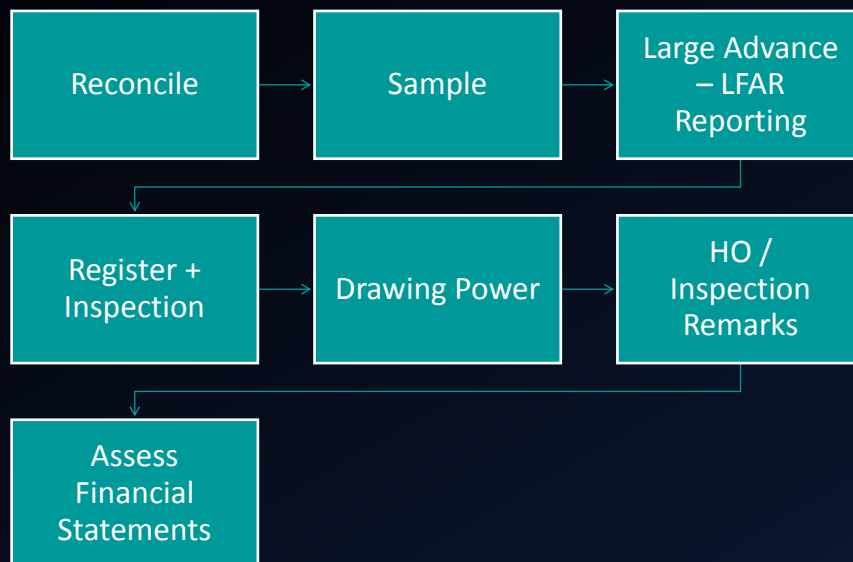


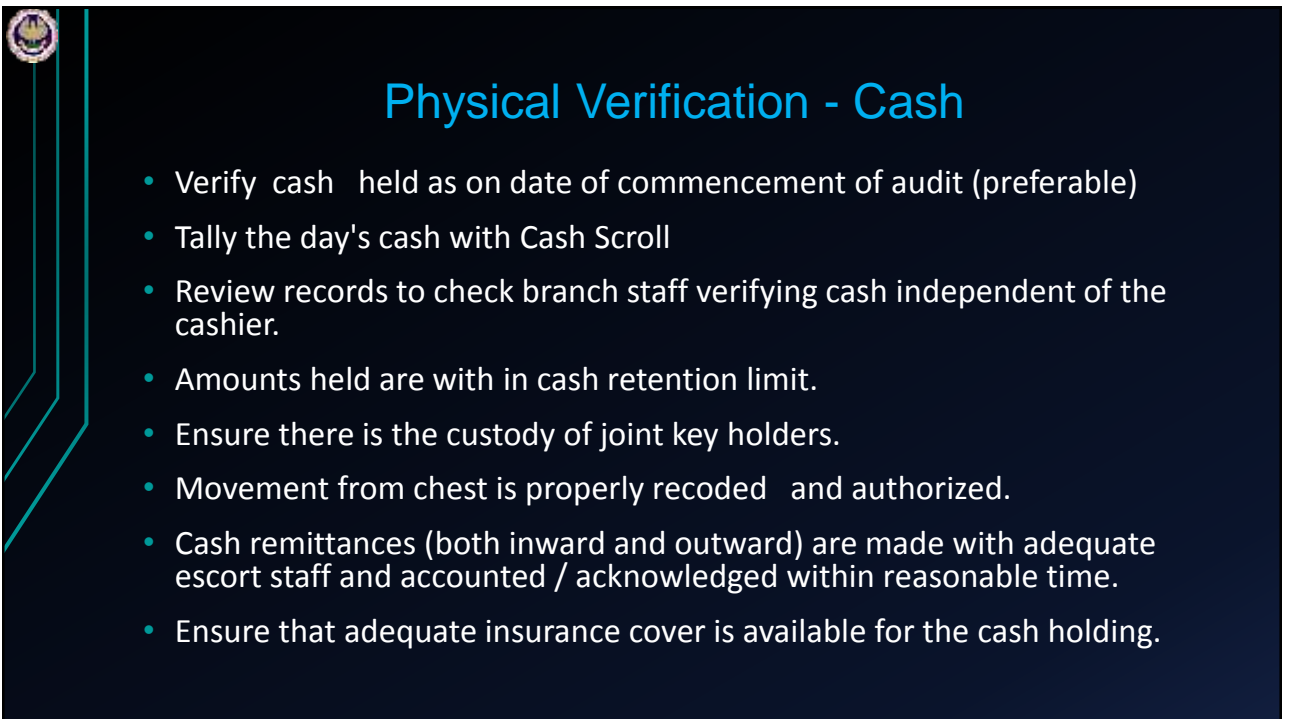
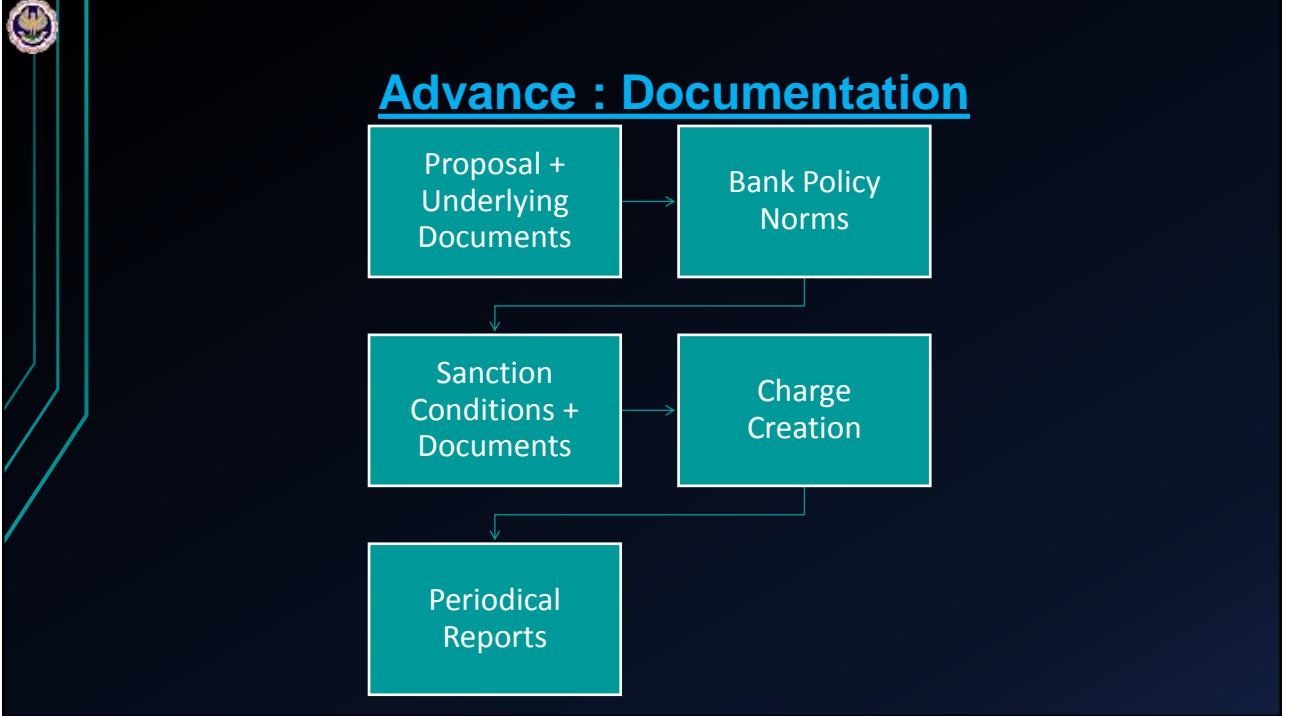
Some items Not Dealt @ Branch

1. Provision for Standard Assets & **Non Performing Assets** .
2. Provision for **Taxation** (Income Tax and Wealth Tax)
3. Provision for Pension, Gratuity and Leave encashment etc..
4. Provision for **Audit Fees** including TA/HA for Auditors including Branch Auditors
5. Provision for **Depreciation** on Premises and Furniture & Fixtures
6. Provision for **Interest on Overdue Deposit**
7. Provision for bonus

Audit Procedures

Advances - GENERAL







Fixed Asset

- Additions during the year are reported
- Physical Verification of Assets
- Computation of Depreciation
- Adequate Insurance is obtained



Physical Verification

- Security & Stationery
 - Ensure that adequate control is exercised over the security items, stationery, stamps, etc.
 - Closing Stock recorded is adequate and appropriate
- Bank Reconciliation
 - Bank reconciliation statement and ensure that the balances agree with corresponding Bank statements



Deposits

- Test check all types of deposits for Application forms for receipts issued
- Original receipts for matured deposits paid
- Correctness of rate of interest on fresh as well as renewed deposits
- Renewals/Rate of interest for the overdue period
- Payment of interest on matured deposits done as per Bank's policy Large deposits made at the year end
- Report on window dressing - Verify transaction of last 2 days for:
- Transfers from loan / overdraft / cash credit accounts to current / deposit accounts.
- Purchase of cheques/bills and credited to current/deposit account



PnL – Other Expenses

- Scrutinize general expenses register/ledger for unusual items
- Adequate provisions created for expenses incurred but not paid.
- Test check the procedure followed and amount charged off to profit and loss account towards stationery consumed during the year
- Ensure that all expenses in excess of delegated power have been ratified by competent authority
- Ensure that TDS is effected as per rules on all applicable payments.



4. IRAC Norms

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Source

- Please refer to the Master Circular No. DBOD.No.BP.BC.9/21.04.048/2014-15 dated July 1, 2015
 - Income Recognition
 - Asset Classification
 - Provisioning



Income recognition



Policy

1. PA – Accrual
2. NPA – Receipt Basis
3. Exceptions
 1. advances against Term Deposits, National Savings Certificates (NSCs), Indra Vikas Patras (IVPs), Kisan Vikas Patras (KVPs) and Life policies
 2. 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

1. **LOANS**: interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
2. **Overdraft/Cash Credit** : the account remains 'out of order'
3. **Bills** : the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
4. **Short Duration Crops** : the instalment of principal or interest thereon remains overdue for two crop seasons.
5. **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



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	2%
Restructured	5%



Other areas to focus



Other Important Areas

- Tracking Income Leakage
- Advances – IRAC
- Reconciliations & Parameters
- Clearing and Deposits
- Some Key Certificates



Tracking Income Leakage

- Parameter Rate Variations – Customer/Account Level
- Value Dating in Deposits
- Interest Collection Flag
- Anywhere banking charges
- Credit Card Operations Charges
- Ch. Ret., Stop Payment, SI, PO/DD/OCC Return
- NRE/NRO Txns.
- Penal Interest Application
 - Submission of Stock Statements
 - QIS
- EMI Interest Application
- Commitment Charges Application



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 Amounts
- Conduct a Sample Check before relying



Reconciliations & Parameters

- Reconciliations
 1. Whether balancing books tallies with GL ?
 2. Posting Errors ?
 3. ECS Batch
 4. Direct GL Entries
- Change in GL Link Parameter Codes
 1. GL Codes List with codes other than those in
 2. Reporting Statement – Pointing Parameters for
 3. Nominal Accounts
- Transactions entered & authorised by same person



Clearing and Deposits

- Clearing
 - Clearing Exceptions – Returns, Errors
 - Clearing
 - Exception and Cheque Returned reports
 - Whether Schedule modifications allowed
 - IBD Cheque Numbers
- ECS
 - Outstanding entries follow up
- CRA - Reconciliation of Cash covers and Audit Rolls
- Short/Excess Claims in Office Claims – O/s Entries
- Bank Reconciliations
- OCC Dishonor
- TOD Report
- Deposits
 - TOD – Limits and Approval
 - FDR Issue
 - Dormant Accounts
 - Linking of Lien



5. Other areas

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CERTIFICATES



Beyond Audit Report

- Tax Audit
- BASEL Norms - CERTIFICATE ON CAPITAL ADEQUACY
- Long Outstanding Sundries / Suspense
- BG Commission workings?
- Interest Subvention 1.5% and 2% ?



General List -Certificates

1. Certificate on Prudential Norms and Memorandum of Changes (MOC)
2. Certificate on Demand & Time Liability (DTL) position and Cash Balance.
3. Certificate on Serious Irregularity.
4. Certificate on Sundry Assets
5. Certificate on verification of inventory items of high value.
6. Exposure to Sensitive Sectors .
7. Details of restructured loan account
8. Interest Subvention up to 3lacs
9. CSI Interest subsidy scheme for Educational loan.
10. Certificates on national rural livelihood mission.
11. Interest subvention on rupee export credit
12. Certificate for claims from Govt State / Central.



Demand & Time Liability (DTL)

Auditors have to Certify that

- RBI Statement submitted by the branch
- on the notified Fridays mentioned in the format
- are in accordance with the Day Book/Trial Balance of the Branch.

Auditors are also to Certify the

- Cash and Balance with Banks reported in the relevant RBI Statement
- for the odd date mentioned in the format



Interest subvention

- List of Renewed Account
- List of Newly opened accounts
- Incentive passed on the customers

Create a Working report from Advances master



Locker Rent

- Books of Account
 - Cash Basis
- Tax Audit
 - Accrual Basis



Serious Irregularity

In case any matter susceptible to be fraud or fraudulent activity or any foul play

- in any transactions noticed
- to be reported to the Top Management of the Bank and
- to Reserve Bank of India

Also the auditor has to send a separate report simultaneously to the Chairman and Managing Director of the Bank and to the Department of Banking Supervision, Reserve Bank of India

In cases where the fraud involved is Rs. 100 lacs and above auditors have to report such instances directly to Reserve Bank of India.



Sundry Assets

- In the Books of the Bank Balance Sheet, there would be an account head called "Sundry Assets" .
- Branches generally take balancing of this subsidiary every month and also submit a copy to Head office. Ask & Review for the previous statement.
- Auditors Certificate has to be issued basing on items outstanding **for more than six months** in Sundry Assets.

100% risk weight for Capital Adequacy Ratio.



Inventory Items of High Value

Verification - Existence

- Could be in Branch Books or centralized HO books(statement forwarded by HO).
- Physical verification of high value inventory items of Rs.50,000/- and above (original cost)

Report – Recoverability / Impairment

- This statement is issued for comment on impairment of the Assets as per AS28.
- Test for the impairment as per the Accounting Standard



BANK AUDIT READINESS CHECK



Thank You