

VASAVI CA CHARITABLE TRUST

Seminar on Bank Audit

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LONGFORM AUDIT REPORT

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Disclaimer

- This presentation is only to share my personal knowledge and views on the subject and cannot be construed to be the views of M/s.S.R.R.K.Sharma Associates as a professional advice.

ASSETS

1. CASH

- a) Does the branch generally carry cash balances, which vary significantly from the limits fixed by the controlling authorities of the bank? Whether excess balances have been reported to the controlling authorities of the bank?
- b) Does the branch hold adequate insurance cover for cash-on-hand and cash-in-transit?
- c) Is cash maintained in effective joint custody of two or more officials, as per the instructions of the controlling authorities of the bank?
- d) Have the cash balances at the branch been checked at periodic intervals as per the procedure prescribed by the controlling authorities of the bank?

Audit approach - Cash

- a(1). Verify the cash retention limit, comment on the instances of excess cash beyond retention limit & the same has been report to HO.
- a(2). Obtain cash limits fixed for ATM Machines, verify any cash fed more than limit has been reported to higher authorities.
- b(1). Ask who is getting cash insured.
- b(2). Verify adequate insurance cover of Cash on hand, cash in ATMs and cash in transit .
- b(3). Verify insurance cover is in force

Audit approach – Cash *contd..*

- c(1). Collect prescribed guidelines with regards to custody of vault cash/ATM cash.
- c(2). Normally cash vault/ATM machines are operated joint custodians. Ensure from records whether same has been followed.
- c(3). Verify the custody of keys of Vault/ATM machines are with the staff as mentioned in key register.
- c(4). Confirm whether duplicate keys of cash vault/ ATM machines are deposited with other branches as per guidelines.

Audit approach – Cash *contd..*

- d(1). Collect prescribed procedure for physical verification of cash and confirm the same has been adhered to.
- d(2). 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.

2. BALANCES WITH RESERVE BANK OF INDIA, STATE BANK OF INDIA AND OTHER BANKS

- a) 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:
 - i. Cash transactions remaining unresponded (give details)
 - ii. Revenue items requiring adjustment/write-off (give details)
 - iii. Old outstanding balances remaining unexplained/unadjusted.
Give details for
 - Outstanding between six months and one year
 - One year and above

3. Audit approach – Balance with other banks

- a(1). Obtain balance confirmation at year end. Comment on cases where confirmations are pending.
- a(2). Verify whether reconciliation has been done with branch records, if not, comment on the nature of differences and extent of difference in the report.
- b(1). Obtain & furnish details of cash transaction unresponded entries along with reasons.
- b(2). Pending revenue items like charges etc which requires provision in opinion of auditor can be recommended for providing & also mention **SUCH CASES in MOC** .
- b(3). Find out old unexplained/unadjusted entries and give details. Any entry requiring special attention of management, may be reported here.
- b(4). Review the inward clearing entries pending

3. MONEY AT CALL AND SHORT NOTICE

Has the Branch kept money-at-call and short notice during the year?

Audit approach – Money at call and short notice

Money lent for one day is called Money at call and more than one day upto 14 days is called Money at short notice.

- Collect the instructions from HO & confirm the same has been complied.
- Report any unauthorized deposits as well excess of unauthorized limits.

4. INVESTMENTS

A. For Branches in India

- a) 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?
- b) Whether any amounts received as income on such investments have been reported to the Head Office?
- c) 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?
- d) Whether there are any matured or overdue investment which have not been encashed? If so, give details.
- e) Whether the Guidelines of the Reserve Bank of India regarding Transactions in Securities have been complied with.
- f) Whether the Guidelines of the Reserve Bank of India regarding

Audit approach -Investments

1. Obtain Nil holding certification if br. do not hold any investments.
2. Obtain list of all investments held by the branch as on year end.
3. Do physical verification of investment certificates along with investment register.
4. Verify the evidence for investments not in possession.
5. Comment the cases neither certificates have been made available for physical verification nor evidence as mentioned above are made available.
6. Verify the accounting procedure for income recognition on investments.
7. Comment on investments matured and overdue but still lying in branch records.
8. Obtain CO Guidelines for valuation of investments. Comment in case guidelines are not available as well deviation in valuation process.

5. ADVANCES

(The answers to the following questions may be based on the auditor's examination of all large advances and a test check of other advances. 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. **For this purpose, large advances are those in respect of which the outstanding amount is in excess of 5% of the aggregate advances of the branch or Rs.2 crores, whichever is less.**)

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

- i. 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?
- ii. In the cases examined by you, have you come across instances where advances have been disbursed without complying with the terms and

5. ADVANCES *contd..*

c) Documentation

- i. 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.
- ii. 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.
- iii. 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.

5. ADVANCES *contd..*

d) Review / Monitoring / Supervision

- i. 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

- ii. 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?
- iii. Whether there exists a system of obtaining reports on stock audits periodically? If so, whether the branch has complied with such system?
- iv. 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

5. ADVANCES *contd..*

- v. 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?
- vi. 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.?
- vii. 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?
- viii. Are credit card dues recovered promptly?
- ix. 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..*

- x. 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.
- xi. 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.
- xii. 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.
- xiii. 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 thebeginning 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..*

- xiv. 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?
- xv. 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.
- xvi. List the major deficiencies in credit review, monitoring and supervision.

5. ADVANCES *contd..*

e) Guarantees and Letters of Credit

- i. 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:

a.

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

b. 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.*

- ii. 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 – Advances

Credit Appraisal :

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

Audit approach – Advances *contd..*

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.

Audit approach – Advances *contd..*

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

Audit approach – Advances *contd..*

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 – Advances *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 overdrawn, unauthorized overdrawn, inadequate insurance cover.
- Comment on the credit card dues recovery in the branch.
- State whether advances have been classified as per

Audit approach – Advances *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

a. Stationery and Stamps

- i. 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?

- ii. Have you come across cases of missing/lost items of such stationery?

6. OTHER ASSETS *contd..*

b. Suspense Accounts / Sundry Assets

- i. 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?

Audit approach – Other Assets

- (a) Study the internal control system in place with regard to custody, issue & physical verification of sensitive stationery like cheque books, demand drafts, travelers' cheques etc. Report any missing items as well weaknesses in the system.
- (b) Obtain details of old outstanding items in suspense/Sundry assets. Report the same as per the format. Any entries not properly explained by the branch may be commented and provided/written off if situation warranted.

LIABILITIES

1. DEPOSITS

- i. 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.
- ii. 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.
- iii. Are there any overdue/matured term deposits at the end of the year? If so, amounts thereof should be indicated.

Audit approach - deposits

- Comment on the adherence to HO guidelines prescribed with regard to In-operative accounts. If guidelines are not being followed, give the list of accounts.
- If Any unusual large movement in the aggregate of deposits between balance sheet date and date of audit are observed, seek clarification from the br. If replies are not satisfactory report the same.
- Collect the list of overdue/matured term deposits as on balance sheet date. Check up any interest is provided by the branch on such deposits.

2. OTHER LIABILITIES

Bills Payable, Sundry deposits, etc.

- i. 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 – Other Liabilities

- Obtain the list of old outstanding items under bills payable a/c, Sundry deposits account etc. Verify the same and report items pending for three years & above.
- Report the items of any unusual items in the bills payable, sundry deposits or other similar accounts indicating the nature and the amount involved.

3. CONTINGENT LIABILITIES

List of major items of the contingent liabilities (other than constituent's liabilities such as guarantees, letters of credit, acceptances, endorsements etc.) 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.

PROFIT AND LOSS ACCOUNT

1. Whether the branch has a system to compute discrepancies in interest/discount and for timely adjustment thereof in accordance with the guidelines laid down in this regard by the controlling authorities of the bank? Has the test checking of interest revealed excess/short credit of a material amount? If so, give details thereof.
2. Has the branch complied with the income recognition norms prescribed by RBI? (The Auditor may refer to the instructions of the controlling authorities of the bank regarding charging of interest on non-performing assets).
3. Whether the branch has a system to compute discrepancies in interest on deposits and for timely adjustment of such discrepancies in accordance with the guidelines laid-down in this regard by the controlling authorities of the bank? Has the test-check of interest on deposits revealed any excess/short debit of material amount? If so, give details thereof.
4. Does the bank have a system of estimating and providing interest accrued on overdue / matured term deposits?
5. Are there any divergent trends in major items of income and expenditure, which are not satisfactorily explained by the branch? If so,

Audit approach – Profit and Loss account

- Test check the interest/discount credited into the account. Verify the action plan taken by the br. for the income leakage report by the concurrent/internal/revenue auditors. If branch is not covered by these audits, satisfy yourself with the extent of procedure followed by the branch. If not satisfied comment on the system.
- Comment on the compliance with the guidelines on income recognition as per IRAC norms especially interest reversal in NPA a/cs.
- Verify the branch estimates and provided interest on overdue/matured term deposits.
- Compare gross interest paid in previous year with current year. Any abnormal increase in the figure should co relate with the increase in aggregate deposits of the branch.

GENERAL

1. BOOKS AND RECORDS

- a. 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?
- b. 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

- 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 br.

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 – Recon. of control and subsidiary records

- This has not relevance if the branch is computerized in all areas.
- Obtain a list of subsidiary ledgers maintained in respect of manual ledgers. Verify the subsidiary ledger balance tallies with G.L. balance. Differences any to be reported in the format given.

3. INTER BRANCH TRANSACTIONS

- i. 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?
- ii. 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?
- iii. Are there any outstanding debits in the Head Office Account in respect of inter branch transactions?
- iv. 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.
- v. Have you come across items of double responses in the Head Office Account? If so, give details.

Audit approach – Inter branch transactions

- Verify the MIS returns submitted by branch to HO. Report the same if not submitted the same.
- Care to be taken for the debit balances pending in IB. Provision to be made if required.
- Unresponded / uncomplained queries, double responses in HO a/c, old outstanding entries to be reported.

Audits / Inspections/frauds

- i. Is the branch covered by concurrent audit or any other audit / inspection during the year?
- ii. 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 br. 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.
- Check whether the br. is maintain record for frauds detected by the br. Furnish the particulars of frauds in LFAR.

6. MISCELLANEOUS

- i. Does the examination of the accounts indicate possible window dressing?
- ii. 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?
- iii. 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

- Verify any window dressing being done by verifying movements in GL balances in first week of April.
- 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.
- Mention any points which you would like to bring to the notice of Management and Central statutory auditors.

- 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.

- Don't operate Ctrl+C & Ctrl+V for LFAR filling.
- Give speaking replies rather than keeping blank.
- Be resourceful in generating reports rather than depending on somebody.
- Keep all the papers in tact. Don't waste your time in searching for papers.
- Divide the work based on audit team strength. Avoid duplication of work.



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