

JB NAGAR STUDY CIRCLE

Statutory Audit of Bank Branches

Planning and Certification



24th March 2012

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ANDHERI - E

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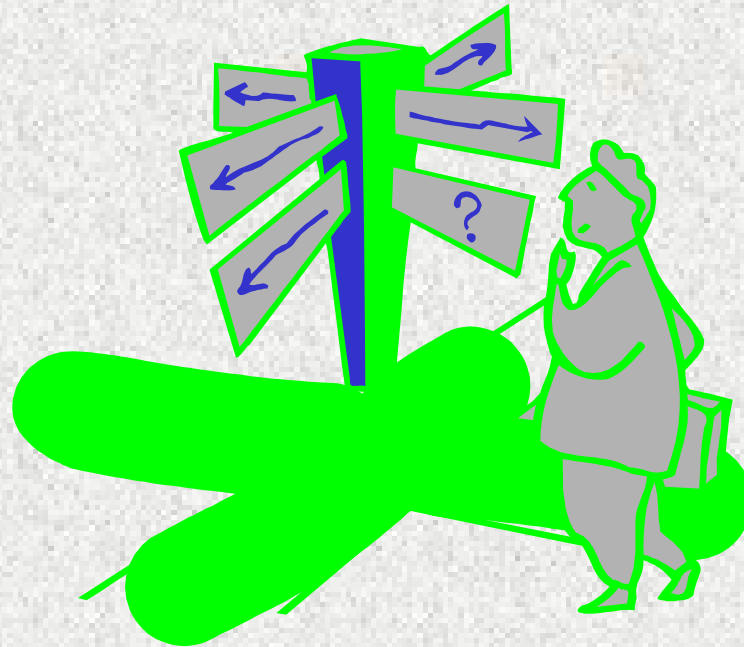
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■ Audit Planning & Execution

■ Certifications

Audit Planning



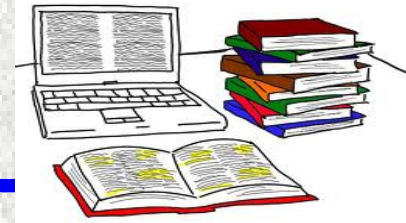
“Failing to Plan is Planning to Fail”



Audit Planning - Objectives



- ❖ **Compliance with RBI / ICAI Guidelines**
- ❖ **Compliance with Bank Guidelines**
- ❖ **Compliance with Terms of Appointment**
- ❖ **Compliance with AS & AAS**
- ❖ **Completion of the audit in time.**
- ❖ **LFAR/ Tax Audit Report.**
- ❖ **Ghosh & Jillani Committee Reports.**
- ❖ **Other certification work as required by bank.**
- ❖ **Effective Reporting / Completion in Time schedules**



Stage I – Ground Work at Office.

- ❖ **Preliminary work**
- ❖ **Evaluation of Internal Control system.**
- ❖ **Preparation of Audit Program for substantive testing and its execution.**
- ❖ **Preparation and submission of Audit Report.**



Audit Planning



- **Audit under Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970.**
- **Appointment Letter received from the Bank.**
- **Acceptance Letter to be sent to Bank.**
- **Other letters, declarations, like letter of fidelity and secrecy, not indebted to bank, etc.**
- **Intimation to the Previous Auditor for no objection.**
- **Obtaining Basic Information from Appointment Letter.**
- **Issue Audit Engagement Letter.**
- **Obtaining information about branch.**
- **Send Draft representation letter in Advance**
- **Familiarity with third schedule of Banking Regulation Act, 1949**
- **Study RBI Circulars**



Audit Planning



- **SA 200 – Basic Principles Governing Audit**
- **SA 230 – Audit Documentation**
- **SA 500 – Audit Evidence**
- **SA 400 – Risk Assessment and Internal Control**
- **SA 300 – Audit Planning**
- **SA 220 – Quality Control for Audit Work**
- **SA 310 – Knowledge of Business**
- **Knowledge about CAAT tools**
- **Basic Documentation for Peer Review and Quality Audit Review**



Audit Planning

❖ Have knowledge of the :

- **Economy**
- **Banking Industry**
- **Government Policies**
- **Rules & Regulations applicable to the Bank**
- **Products handled by Bank**
- **Complexities involved**
- **Applicability of Accounting Standards**
- **Applicability Auditing and Assurance Standards.**
- **FEDAI Guidelines**

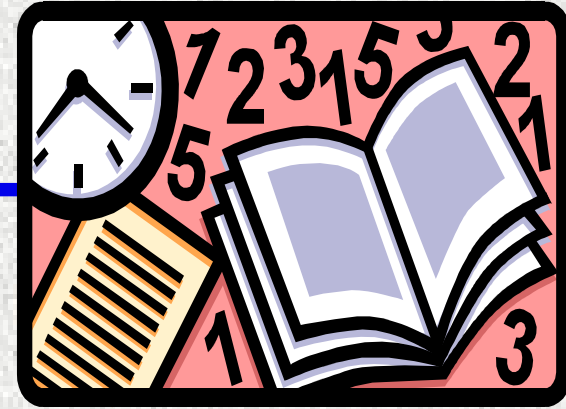


COMMITMENT

**Even a fool can accomplish a task if it were
after his or her heart. But the intelligent
ones
are those who can convert every work into
one that suits their heart.**



Audit Planning - Audit Program



- ❖ **Time & Manpower Planning.**
- ❖ **Checklist / Audit Program**

Cover all areas of Liabilities, Assets, Income, Expenditure and Off Balance Sheet items.

However special focus on advances, income recognition and provisions to be made.

- ❖ **Review**

Audit Planning

- ❖ Define broadly the scope of audit.
- ❖ Identify the thrust areas.
- ❖ Set materiality levels standards for each area.
- ❖ Lay down over all time schedule.
- ❖ Training to Audit staff and special skill if required.
- ❖ Weak areas identified during the Audit be given extra focus.
- ❖ Also special emphasis on
 - Physical verification of cash and other securities / Sensitive Accounts
 - Frauds / Sundry Assets / Suspense Account / Inter Branch reconciliation
 - Contingent liabilities





Stage II – Ground Work at Branch

“First hand feel” of Branch by going through:

- **Bank Branch Audit Report.**
- **LFAR Report.**
- **Concurrent Audit Report.**
- **Inspection Report.**
- **RBI Inspection Report.**



Audit Execution



- **Charge Handover Report.**
- **Special Audit Report**
- **System Audit Report.**
- **Stock Audit Reports of large advances.**
- **Report from vigilance Department.**
- **Revenue Audit Report.**
- **Review Compliance of these Reports.**

Audit Execution



- ❖ **Review the year end closing instructions received by the branch.**
- ❖ **Acquire information for accounting policies, systems, accounting software and internal control procedures.**
- ❖ **Review other circulars from HO.**
- ❖ **Review RBI Circulars**

Audit Execution



- ❖ **Manual Books of Account**
- ❖ **Partly Computerised**
- ❖ **Fully Computerised**
- ❖ **ALPM / TBM / Core Banking CBS**
- ❖ **Lack of Adequate Information**
- ❖ **Lack of Adequate Knowledge of system**
- ❖ **Lack of audit Trail**

GOAL

Take up one idea.

Make that one idea your life.

Think of it, dream of it.

Live on that idea.

**Let the brain, muscles, nerves,
every part of your body be full of that idea
and just leave every other idea alone.**

This the way to “SUCCESS”.





Evaluation of Internal Control Systems

- ❖ Evaluate the strength, effectiveness and weakness of the control system.
- ❖ Areas where deficiencies have been noticed in earlier audit reports, actual transactions may be tested.



Audit Execution



- ❖ SA 320 – Audit Materiality
- ❖ SA 520 – Analytical Procedures
- ❖ SA 530 – Audit Sampling
- ❖ SA 220 – Quality Control For Audit Work
- ❖ Analyse and Evaluate the errors in samples selected
- ❖ Get the rectification reports / MOC Passed
- ❖ Work as per Audit Program and schedule
- ❖ Prepare reports according to requirement
- ❖ Qualify wherever necessary



Points to remember

- ❖ **Check Adhoc Limits in Advances**
- ❖ **Restructuring of Advances – refer circular**
- ❖ **Irregular Advances – NPA**
- ❖ **Revenue Leakage**
- ❖ **Window Dressing**
- ❖ **Calculation of Depreciation on Fixed Assets**
- ❖ **Frauds Detected – updated information**
- ❖ **Write LFAR with details**
- ❖ **Avoid cross referencing in Main Audit Report**



Meeting with Management and Minutes



- ❖ **Discussion with the Branch Manager.**
- ❖ **Discuss with the SCA / HO wherever required.**
- ❖ **Record the extent of checks carried out.**
- ❖ **Minute the discussions with Branch Manager.**
- ❖ **All changes to be reported through MOC.**
- ❖ **Observations to be drafted in clear language.**
- ❖ **Wherever possible Quantify.**
- ❖ **Qualification in main report and not in LFAR.**
- ❖ **Main report should be self contained documents and should not make reference to LFAR**
- ❖ **If possible submit all reports simultaneously.**

■ **Audit Planning & Execution**

■ **Certifications**



Certification in Bank Audit



Audit Report is a reasonable Assurance

Audit Certificate is Absolute Assurance

Types of Certificates

- **Branch Returns**
- **Audit Reports**
- **Memorandum of Changes**
- **LFAR**
- **Tax Audit Reports**
- **Certificates**



Other Certificates

Capital Adequacy – BASEL I & II Compliance

DICGC Claims

PMRY Certification

Service Tax

Cash Balance 12 odd days

Investment on Behalf of Head Office

Agricultural Debt Relief

Maturity Pattern of Loans & Advances (ALM)

Fixed Assets & Depreciation

IRAC / NPA Related Certificates

Interest Subvention

Restructured Advances

Foreign Currency Assets & Liabilities





Ghosh Committee Report

- 1. Know Your Customer (KYC) for New Accounts opened**
- 2. Inspection of units on monthly basis**
- 3. Banks should evolved proper systems of adequate security and custody of cash in docoit/terrorist attack prone areas.**
- 4. Mechanisation of operations - relating to inter branch reconciliation.**
- 5. Unhealthy practice of granting advances beyond discretionary power or by oral or telephonic instructions.
Issue of instructions by bank management.**
- 6. Precautions against frauds**



Jilani Committee Report

- 1. Follow up on major/serious irregularities detected during concurrent audit to be immediately taken up with HO. A time-bound action programme for rectification to be drawn up and closely monitored. Fraudulent transactions to be reported to vigilance chief of inspection/audit etc.**
- 2. Inspectors/auditors to get majority of irregularities rectified during their stay at the branches concerned and guide them as well**
- 3. Immediate action to be taken to plug gaps in serious irregularities/revenue leakages which have surfaced due to loopholes in existing procedures, abnormal deviations from laid down procedures/norms in consultation with the departments concerned by issue of fresh guidelines.**



Ghosh & Jilani Reports

SUGGESTED REPORT ON STATUS OF COMPLIANCE OF GHOSH & JILANI COMMITTEES' RECOMMENDATIONS

We have reviewed the accompanying statements on status of implementation of Ghosh and Jilani Committee recommendations for the year ended 31st March 2012 in respect of [Name of the Branch] of [Name of the Bank].

The responsibility of implementation of these recommendations is of the bank's management.

A review of status of implementation consists principally of considering the latest reports thereon of the concurrent auditors/inspectors (*in case the reports are silent about the issue, give suitable remark*) of the bank, obtaining confirmations/making relevant inquiries of the management/other appropriate persons and carrying out test checks, which were limited to review of procedures and implementation thereof adopted by the branch for ensuring compliance of Ghosh and Jilani Committees' Recommendations.



Ghosh & Jilani Reports

A test check may not bring out all the observations which otherwise would have been possible had a detailed investigation on the status of implementation been undertaken. Further, it is neither an audit nor an expression of opinion on the financial statements of the branch.

We further state that such implementation is neither an assurance as to the future compliance thereof at the branch nor the overall efficiency of effectiveness with which the management has conducted the affairs of the branch.

Certain recommendations such as *(specify the relevant clauses)* could not be verified for the year under review and have accordingly been reported based on our observations made during the course of review.

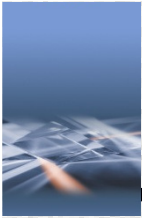


Ghosh & Jilani Reports

Based on our review as aforesaid, nothing has come to our attention that causes us to believe that the branch has not implemented the recommendations except for our comments given in Annexure attached hereto (*specify all the adverse remarks and deficiencies including non-availability of records & information as suggested in the annexure given below*).

Attach the Report with words

As per our report of even date attached.



Reporting - Objective

- **Statutory Audit Report (Main Report)**
- **Long Form Audit Report (LFAR)**
- **Tax Audit Report – 3 CA & 3 CD**



Reporting - Statutory Audit Report

- **To be addressed to Statutory Central Auditors of the Region under which the branch comes.**
- **Similar to the form of Statutory Audit Report of company where the Auditors comment on the True & Fair financial statements.**
- **Compliance with Accounting Standards to be mentioned in main report.**
- **Qualifications can be through Memorandum of Changes or Specific remarks in the last para**



Reporting - Long Form Audit Report

- **The Long Form Audit Report [LFAR] is a effective tool to the auditors to keep the Bank informed about the important matters arising out of the statutory audit exercise. The Institute of Chartered Accountants of India [ICAI] has issued guidelines to its members for conducting the statutory bank audit.**
- **The Reserve Bank of India [RBI] has changed the format of LFAR drastically and the same was introduced in the Statutory Audit from the Year ended 31.03.2003.**
- **In the revised format, the question answer format is retained for the branches however for regional offices and head office the same has been made in a narrative format.**



Reporting - Long Form Audit Report [LFAR]

There is also an Annexure to be given along with the LFAR which is applicable for branches having large/irregular/critical advance accounts having large limits.

The Branch is responsible for compiling the information / statements required for LFAR and the auditors should verify the same.

Auditors should ensure that the documentation of files is adequate and the records and working papers are planed and filed systematically in respect of matters included in the LFAR.

Regional Office / Zonal Office / Head Office / Statutory Central Auditors / External Auditors / RBI auditors etc are the various users of the LFAR

I – ASSETS

1. CASH

- **Significantly excess Cash Balances**
- **Insurance cover for Cash at Branch / In Transit**
- **Joint Custody of Cash**
- **Verification of cash at Periodical intervals**

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

- **Balance Confirmation & Reconciliation Statements.**
- **Observations on Reconciliation Statements**
- **Any special observation**

3. MONEY AT CALL AND SHORT NOTICE

- **Has the branch kept money at call and short notice during the year?**
- **Whether guidelines are complied with properly?**

4. INVESTMENTS

A. FOR BRANCH IN INDIA

- **Investments held on behalf of HO / Other departments.**
- **Interest Income if any whether transferred to respective department**
- **Investments overdue / not encashed**

B. FOR BRANCH OUTSIDE INDIA

- **Same as above**

5. ADVANCES

A. CREDIT APPRAISAL

- Whether Procedures and guidelines of Controlling authorities regarding Loan Application / Preparation of Proposal / Review are being followed.

B. SANCTIONED / DISBURSED

- Facilities sanctioned beyond delegated authorities
- Disbursement without complying with terms and conditions

C. DOCUMENTATION

- Disbursement without executing loan documents
- Deficiencies in Documentation
- Marking of lien on Bank Deposits



Reporting - LFAR

D. REVIEW / MONITORING / SUPERVISION

- **Periodic Review / Balance Confirmation / Letter of Acknowledgement of Debts**
- **Scrutiny of Stock & Book Debts Statements / Other Financial Statements.**
- **Reports of Stock Audits**
- **Non-corporate entities with limits beyond Rs.10 lacs, Audited under RBI guidelines**
- **Inspection / Verification of securities charged to Bank**
- **Deficiencies observed by Auditors in value of security / Insurance Policies / frequent overdrawings, etc.**
- **Classification of Advances / Reporting of NPA's / Lodgement of claims for DICGC / ECGC etc.**

E. GUARANTEES / LETTERS OF CREDIT

- **Guarantees Invoked & Funded / LC's Funded by the branch**

6. OTHER ASSETS

A. STATIONERY AND STAMPS

- **Internal Control over issue and custody of TDR/Drafts/Pay Orders/Travellers cheques etc.**
- **Missing / lost items of such stationery**

B. SUSPENSE ACCOUNTS / SUNDRY ASSETS

- **Expeditious clearance of items debited to Suspense Account / Year wise break up to be given.**
- **Unusual items / material withdrawals in these accounts**

II – LIABILITIES

1. DEPOSITS

- Conduct and operation in Inoperative Accounts.
- Unusual large movements (increase or decrease) in the aggregate deposit held at the yearend
- overdue/matured term deposits at the end of the year

2. OTHER LIABILITIES (Bills Payable, Sundry Deposits etc.)

- Number of items and the aggregate amount of old outstanding items pending for three years or more.
- Unusual items or material withdrawals or debits in these accounts

3. CONTINGENT LIABILITIES

- Contingent Liabilities Not acknowledged as debts (other than guarantees / letter of credits / acceptances / endorsements)

III – PROFIT AND LOSS ACCOUNT

- 1. Comment on discrepancies in interest / discount and timely adjustments thereof**
- 2. Compliance with the Income Recognition norms prescribed by RBI**
- 3. Verification of provision for interest accrued on overdue / matured term deposits**
- 4. Comment on any divergent trends in major items of income and expenditure, which are not satisfactorily explained by the branch**

IV – GENERAL

1. BOOKS AND RECORDS

- Manual / Computerised
- Whether Inked out / Hard Copies printed
- Adequate Internal Controls
- Back ups / Disaster recovery plan

2. RECONCILIATION OF CONTROL AND SUBSIDIARY RECORDS

- Have the figures, as at the year-end, in the control and subsidiary records been reconciled

3. INTER BRANCH ACCOUNTS

- **Outstanding entries in HO / Other branch accounts are properly responded / reconciled.**
- **Double responses in HO account**
- **Old / large outstanding entries in these account**

4. AUDITS AND INSPECTIONS

- **Concurrent Audit or any other audit.**
- **Auditor to consider major irregularities / adverse comments arising out of these various 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.**

6. MISCELLANEOUS

- **Possible window dressing.**
- **Fixed Assets Register / Accounting for depreciation**
- **Any other matters for the notice of Statutory Central Auditors**

APPENDIX QUESTIONNAIRE APPLICABLE TO SPECIALISED BRANCHES

A. For branches dealing in foreign exchange transactions

- 1. Adverse features pointed out by other auditor regarding NRE/NRO/ NRNR/FCNR/EEFC/RFC and other similar accounts**
- 2. NOSTRO Accounts maintained / operated. Their conduct and reconciliation**

B. For branches dealing in very large advances such as corporate banking branches and industrial finance branches or branches with advances in excess of Rs. 100/- crores

- 1. Advances above Rs.2 crores, Annexure to be attached with LFAR.**
- 2. The advances of Rs.1 crore and above, upgraded or downgraded in NPA Classification, with reasons.**



Reporting - LFAR

C. For branches dealing in recovery of Non-Performing Assets such as Asset Recovery Branches

1. Advances above Rs.2 crores, Annexure to be attached with LFAR.
2. The advances of Rs.1 crore and above, upgraded or downgraded in NPA Classification, with reasons.
3. Agewise analysis of recovery in suit filed accounts
4. delayed and Time barred decrees.
5. Recoveries / account settled / written off / closed
6. New Transferred Account details such as documents / security etc

D. For branches dealing in Clearing House Operations, normally referred to as Service Branches?

Periodic review of outstanding entries in clearing adjustment account.

FORM 3CA

- 1. Statutory Audit is conducted in pursuance of the provisions of the Banking Companies (Acquisition and transfer of undertaking) Act, 1970.**
- 2. Name of the Partner is to be mentioned on the form.**



Reporting - Tax Audit Reports

FORM 3CD

- 1. Most of the Banks send the Draft Format of Form 3 CD with standard set of answers (Hard copy or soft copy)**
- 2. No specific books of accounts are prescribed u/s 44AA for the Banking companies.**
- 3. Point No. 11(a) – The Accounting Policies followed by the Bank are generally given to the Branch Auditors. The answer should be – Mercantile except as otherwise stated in Accounting Policies.**
- 4. Point no. 13(d) – Interest on NPA Advances**
- 5. Point no.14, 15 – Not applicable at the branch level.**



Reporting - Tax Audit Reports

- 6. Point No. 27 (a) & (b) – Whether TDS is paid within the time limits specified – Delay in detail to be reported.**
- 7. All other points to be answered “NIL”, “Not Applicable”.**
- 8. Branch Managers Signature to be obtained on Form 3 CD**
- 9. Name of the Partner is to be mentioned on the form.**

Reporting - Summary



- ❖ **Discussion with the Branch Manager.**
- ❖ **Discuss with the central auditor or higher authorities at bank wherever required.**
- ❖ **Record the extent of checks carried out.**
- ❖ **Minute the discussions with Branch Manager.**
- ❖ **All changes to be reported through MOC.**
- ❖ **Concept of materiality to be observed while reporting.**
- ❖ **Notes and observations to be drafted in clear and unambiguous language.**
- ❖ **Quantification should be made wherever possible.**
- ❖ **Qualification to be made in main report and not in LFAR.**
- ❖ **Main report should be self contained documents and should not make reference to LFAR.**
- ❖ **If possible submit all reports simultaneously, but do not hold back the main report for the LFAR.**

ACTION



We are responsible for what we are, and whatever we wish to be.

We have the power to make ourselves. If what we are now has been the result of our own past actions, it certainly follows that whatever we wish to be in future can be produced by our present actions.

So we have to know how to Act.



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