



# **Bank Branch Audit under CBS Environment**

**Hosted by Navi Mumbai Branch of WIRC of ICAI**

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**Presented by CA. Kuntal P. Shah, Ahmedabad**



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## Few CBS used in India and world over

Package	Provider
Finacle	Infosys
FLEXCUBE	Oracle Financial Services Software, (By iflex)
TCS BaNCS	Tata Consultancy Services (TCS)
Alnova Financial Solutions	Accenture / Alnova
SAP Banking Services	SAP AG

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## Important Update

- ★ Guidelines on Automation of Income Recognition, Asset Classification and Provisioning processes in banks issued by RBI Dt. September 14, 2020 DoS.CO.PPG. /SEC.03 /11.01.005/2020-21
  - ☐ Automation of NPA Identification, Income Recognition, Provisioning and generation of returns.
  - ☐ Activity to be carried out on daily basis.
  - ☐ Downgrading and Upgrading through Straight Through Process (STP)
  - ☐ Manual Intervention only in exceptional circumstances
  - ☐ Date by which compliance to be made : June 30, 2021

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## Parameters affecting NPA identification

- ★ In terms of directives issued by Ministry of Finance and Reserve Bank of India, it is mandatory for banks to identify the bad loans through CBS / Systems instead of conventional methods.
- ★ CBS like other software work on GIGO principle.
- ★ Master Data play an important role in correct identification of Bad Loans.

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## Parameters affecting NPA identification

### \* 1. Discrepancies in setting up the EMI / Installments:

#### ▣ Auditors' primary checks:

- Whether EMI / installment is correctly setup.
- Whether EMI / installment amount is matching with the Sanctioned Terms.
- Whether periodicity of Installment is correctly classified as per Sanctioned Terms?

#### ▣ System support:

- **Finacle:**
  - ACI -> Option "E" Repayment details **[Fin.10.x– HACM]**
- **BaNCS:**
  - DL/TL Accounts & Services → Enquiries → Account  
**(Short & Long Inquiry options are available under the menu.)**

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## Parameters affecting NPA identification

### \* 2. Multiple sets of EMI / Installments:

#### ▣ Auditors' primary checks:

- For case of Multiple sets of EMI e.g. For 1-5 years EMI of Rs. 7,000 and after 5 years Rs. 7,500
- Whether sets of EMI are properly entered?
- Is there any substantial difference between 1<sup>st</sup> set of EMI and 2<sup>nd</sup> or other sets (e.g. 1<sup>st</sup> set Rs. 5,000 and 2<sup>nd</sup> Rs. 1,00,000) which cast doubt on debt serviceability?

#### ▣ System support:

- **Finacle:**
  - ACI -> Option "E" Repayment details **[Fin.10.x– HACM]**
- **BaNCS:**
  - DL/TL Accounts & Services → Enquiries → Account  
**(Short & Long Inquiry options are available under the menu.)**

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## Parameters affecting NPA identification

### ★ 3. System determined Asset Classification vis a vis User defined Asset Classification:

#### ▣ Auditors' primary checks:

- CBS contain two sets of parameters. At first instance CBS identify the account based on set parameters under Asset Classification types.
- User is generally given the option to differ and select / amend the classification
- This feature gives rise to numerous question on functioning of CBS.
- At times it is possible that the classification by CBS may be incorrect due to errors in certain Master Data. However, such accounts require detailed scrutiny.

#### ▣ System support:

##### ➤ Finacle:

- ACM / ACI Option - Y Asset Classification Inquiry
- **[Fin.10.X – HSASCL – System Asset Classification Inquiry]**

- A report containing accounts wherein there is difference between Asset Classification by System and by user should be requested for. Accounts listed in the said report should be thoroughly verified.

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## Parameters affecting NPA identification

### ★ 4. Manipulation in SL / DP:

#### ▣ Auditors' primary checks:

- Changes in SL / DP should be cross checked with Sanctioned Letter.
- Whether any change in Limit is supported by necessary documentation?

#### ▣ System support:

##### ➤ Finacle:

- ACLHM – Account Limit History Maintenance
- [Fin.10.x– HACLHM]**

##### ➤ BaNCS:

- Tailormade report on Changes in Account Limits

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## Parameters affecting NPA identification

### ★ 5. Incorrect moratorium period:

#### ▣ Auditors' primary checks:

- Based on moratorium period CBS will identify the Loan Installment and will track repayment.
- In case the moratorium period / installment start date is erroneously updated system will not show correct result.

#### ▣ System support:

- **Finacle:**
  - ACI – Option “E” – Repayment Details **[Fin.10.x– HACM]**
- **BaNCS:**
  - Account Master details (Long Inquiry)

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## Parameters affecting NPA identification

### ★ 6. Rephasement without reporting it as reschedule:

#### ▣ Auditors' primary checks:

- At times it is observed that the Loan Account Installments are rephased / recalibrated without reporting the same as Re-Schedule.
- Verify whether any change in Repayment instruction is made through System. Compare the said accounts with list of Restructured Accounts.

#### ▣ System support:

- **Finacle:**
  - ACI – Option “E” – Repayment Details **[Fin.10.x– HACM]**
- **BaNCS:**
  - Account Master details (Long Inquiry)
- Report containing details of all the cases wherein EMI / Installment is changed should be sought

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## Parameters affecting NPA identification

### ★ 7. Installment Start Date is Future Date:

#### ▣ Auditors' primary checks:

- Check whether Installment Start Date entered as per sanctioned term.
- In case of future date system will not identify installment and any repayment received will be shown as "Overflow".

#### ▣ System support:

- **Finacle:**
  - ACI – Option "E" – Repayment Details **[Fin.10.x– HACM]**
- **BaNCS:**
  - Account Master details (Long Inquiry)

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## Parameters affecting NPA identification

### ★ 8. Interest Demand date (Future Date):

#### ▣ Auditors' primary checks:

- Check whether Interest Start Date entered is as per Sanctioned Term.
- In case of future date as Interest Demand Date system will not accrue interest and any repayment received will be shown as "Overflow".

#### ▣ System support:

- **Finacle:**
  - ACI – Option "E" – Repayment Details **[Fin.10.x– HACM]**
- **BaNCS:**
  - Account Master details (Long Inquiry)

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## Parameters affecting NPA identification

### \* 9. Fictitious credit through Office Account / Inter-branch Account:

#### ▣ Auditors' primary checks:

- Are there any quarter / year end credits cited in the account?
- Check the source of Credit Entries.
- Review transactions in Office Accounts / Inter Branch Accounts.

#### ▣ System support:

##### ➤ Finacle:

- ACLI – (Use CTRL + E to Explore the Tran) [*Fin.10.x– HACLI & HACLINQ*]
- Review of Office Account Ledgers

##### ➤ BaNCS:

- Deposit / CC / OD Accounts & Services → Enquiries → Transaction
- DL/TL Accounts & Services → Enquiries → Transaction

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## Parameters affecting NPA identification

### \* 10. Round tripping from internal accounts:

#### ▣ Auditors' primary checks:

- Close scrutiny of transaction and review of chain / series of transaction for accounts with deficiency is required.
- It is used to generate / misguide the system on Credit Turnover aspect.

#### ▣ System support:

##### ➤ Finacle:

- ACLI – (Use CTRL + E to Explore the Tran) [*Fin.10.x– HACLI & HACLINQ*]
- Do not rely wholly on “ATOR” / “CUTI” / “ACTI” results

##### ➤ BaNCS:

- Deposit / CC / OD Accounts & Services → Enquiries → Transaction
- DL/TL Accounts & Services → Enquiries → Transaction

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## Parameters affecting NPA identification

### ★ 11. Temporary Overdrafts:

#### ▣ Auditors' primary checks:

- At times it is observed that in order to bring the overdrawn limit to base level additional facility through TOD is sanctioned.
- It is not permitted as per IRAC guidelines.

#### ▣ System support:

##### ➤ **Finacle:**

- ACLI – Option “O” **[Fin. 10.x– HACLI & HACLINQ]**
- ACTODM – TOD Maintenance **[Fin. 10.x – HACTODM]**
- TODRP – TOD Register Printing

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## Parameters affecting NPA identification

### ★ 12. Devolved bills parked in Office Accounts and not in limit account:

#### ▣ Auditors' primary checks:

- Devolved Bills under LCs are required to be debited to the Limit Accounts only. Assessment of Asset Classification will be based on composite overdrawn portion Limit + LC Devolved amount (if any on devolvement)
- At times it is observed that the amount of devolvement of LC backed bills are parked in Office Accounts to suppress total exposure on borrower.

#### ▣ System support:

##### ➤ **Finacle:**

- BI & FBI – With Bill Status as “K” using Status Date Filter
- **[Fin. 10.x – IBL]**

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## Parameters affecting NPA identification

### \* 13. Multiple CUST ID to save the other account from becoming NPA:

#### ▣ Auditors' primary checks:

- Commonly it is observed that before marking of Account as NPA other accounts of the same borrower is transferred to new CUST ID. It will prevent marking of the said accounts as NPA in terms of guidelines of Asset Classification to be Borrowerwise and not Accountwise.
- Take NPA Report and search all the case by few characters of Name.

#### ▣ System support:

##### ➤ Finacle:

- ACS – Account Selection (Search based on Name)
- LAGI – Loan Account General Inquiry (Inquiry based on other parameters)

##### ➤ BaNCS:

- Customer Management → Enquiries → Search by Name

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## Parameters affecting NPA identification

### \* 14. Project Loans – Updation / Recording of DCCO Dates:

#### ▣ Capturing of Projected DCCO, Actual DCCO, Extended DCCO Dates in System

#### ▣ Classification of Advance under Infra / Non Infra Loans.

#### ▣ Moreover, Classification of account as NPA and correctness of Date of NPA in case of failed restructuring.

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## Parameters affecting NPA identification

### ★ 15. Effect of COVID19 and Stay by Hon'ble SC of India

- ☐ The Supreme Court passed an interim order on September 03, 2020 w.r.t. the Writ Petition filed by Gajendra Sharma, stating that 'the accounts which were not declared NPA till 31.08.2020 shall not be declared NPA till further orders.'. In the view of the said interim order if a bank has not classified any account as NPA subsequent to August 31, 2020
- ☐ Disclosure in Financial Statement
- ☐ Issuance of EoM?
- ☐ Implementation / Updation of CBS in such case

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## Practical aspects for conducting Bank Audit



### Practical aspects for conducting bank branch audit

#### \* **Genuineness of Credits**

- ☐ Review of Book Debt Statement and other lenders (if any and if disclosure is available in Financial Statement)
- ☐ Whether the credits in the operative account originates from the debtors or through other related entities. In case of credits through related entities additional audit processes should be carried out to ascertain credits originating against sales turnover.

#### \* **Diversion of Funds (Account Debit)**

- ☐ Review of List of Creditors
- ☐ Whether the payments are made to creditors or to the related entities?
- ☐ Ascertain Related Parties for the borrower.



## Practical aspects for conducting bank branch audit

### ★ Related Party Transactions

- ▣ Financial Statement – MGT 9, AOC-1, AOC-2, Shareholders (disclosure in Balance Sheet), Related Party Transactions as per AS-18, Form 3CD (Payment to related parties)
- ▣ Use of third party portals viz. tofler.in, zubacorp etc. for graphical and structured report on potentially related enterprises (identifiers – Directors in multiple companies, companies at same address)

### ★ Review of Account Statements

- ▣ In-depth review in case of accounts with low turnover, few credits / debits, Accounts showing some stress.

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## Practical aspects for conducting bank branch audit

### ★ Frequent TODs

- ▣ Assessment of Fund requirement - Is there any issue in assessing working capital?
- ▣ If so, whether the borrower is having sufficient resources for increased limit?
- ▣ If no, chances of borrower under stress.

### ★ Relaxations to MSMEs

- ▣ Review how the system is configured for such cases?

### ★ Stay on NPA Classification due to COVID19

- ▣ Review policy of the bank.
- ▣ Review how the system is configured for such cases?

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## Use of External Systems

- ▣ **Import & Export Data Processing and Monitoring System (IDMPS) and (EDMPS):** Online Import and Export document systems connected with Ports, Banks and RBI – Access restricted to limited users
- ▣ **ICEGATE Portal** – Open access of Bill of Entry and Shipping Bills
- ▣ **VAHAN System** – Frauds in vehicle loans are on rise. Use <http://vahan.nic.in> to search type of vehicle and compare the same with vehicle financed. SMS Based service - Type VAHAN <Registration No.> and send to 77382 99899.
- ▣ **FCRA Online Services**
- ▣ **MCA, GST, Income Tax**

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## Redesigning & Recalibration of Audit Processes

- ▣ Use of private websites offering services of corporate information through data mining (Potentially related companies [tofler.in], companies at same address [zubacorp.com])
- ▣ **Willful Defaulters & Suit Filed cases** - <https://suit.cibil.com/> also refer the bank's website
- ▣ **CRILC (Central Repository of Information on Large Credits) Data** – Details of Borrower having consortium limits / multiple banking in excess of Rs. 5 Cr.
- ▣ Credit Rating Reports
- ▣ CIBIL and other reports
- ▣ GST Data (Peridot Mobile App by Iris GST in partnership with FICCI)

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## Case Studies



### Case Study - 1 Credit originating from another Loan granted to borrower

Before Disbursal Balance as on 31.12.20XX	Disbursal of New Loan	Interest Charged as on 31.12.20XX	Balance as on 01.01.20XX
A	B	C	D = A – B + C
2,00,00,000	10,00,000	2,50,000	1,92,50,000
11,00,00,000	1,00,00,000	13,00,000	10,13,00,000
9,00,00,000	32,00,000	10,50,000	8,78,50,000
70,00,000	2,50,000	10,000	67,60,000
<b>22,70,00,000</b>	<b>1,44,50,000</b>	<b>26,10,000</b>	<b>21,51,60,000</b>

Net Increase in exposure **1,44,50,000**

Balance before Interest application as on 31.12.20XX (A-B) 21,25,50,000

Difference in Exposure before and after disbursal  
of new TL 1,44,50,000

**There was no recovery in the account and the funds of the new Term Loan were used for payment of overdues in existing loan accounts**

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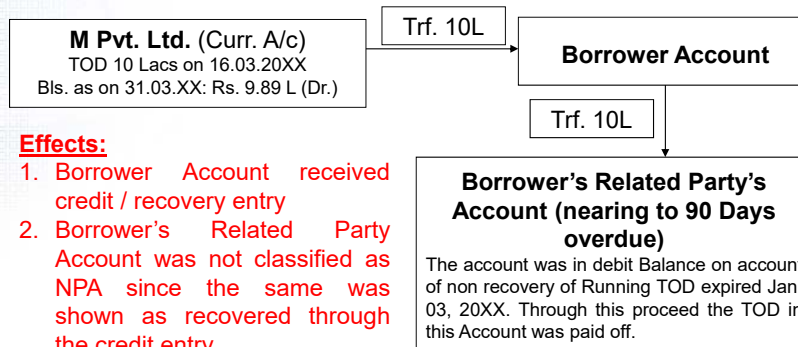
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## Case Study - 2 Credit originating from another Loan granted to other customer

- ★ **M Pvt. Ltd. – Current Account**
- ★ Closing Balance as on 31.03.20XX Rs. 9,98,754 (Dr.)
- ★ Background of the case: Running TOD of Rs. 10 Lacs was granted for period March 16, 20XX till March 22, 20XX not regularized till date.



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## Case Study - 3 Transaction without any visible economic benefit

### Transfer from Current Account to CC Account

Account Ledger Inquiry					
A/C No.	INR		Opn. Bal	4,36,005.00	Cr
Type	CUSTOMER	GL Subhead	Cls. Bal	4,36,005.00	Cr
A/C Open Date	-2010		Avl. Amt	4,36,005.00	Cr
Currency	INR INDIAN RUPEES		Eff. Avl. Amt	4,36,005.00	Cr
A/c Status	A	ACTIVE	A/c Status Date		
Funds in clg	0.00		Float Bal	0.00	
Date	Inst No.	Partics	DrAmnt	CrAmnt	Balance
			INR	INR	INR
31-03-			9,00,00,000.00	9,04,36,005.00	Cr
31-03-			9,00,00,000.00	4,36,005.00	Cr
31-03-			3,00,00,000.00	3,04,36,005.00	Cr
31-03-			3,00,00,000.00	4,36,005.00	Cr
31-03-			9,00,00,000.00	9,04,36,005.00	Cr
31-03-			9,00,00,000.00	4,36,005.00	Cr
31-03-			9,00,00,000.00	9,04,36,005.00	Cr
31-03-			9,00,00,000.00	4,36,005.00	Cr
31-03-			9,00,00,000.00	9,04,36,005.00	Cr
31-03-			9,00,00,000.00	4,36,005.00	Cr
At the last record					

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## Case Study - 4 Recovery through Cash Deposit originated from TOD

Month	Interest Amount	Recovery	Date	Mode
Feb-XX	1,25,000	45,000	22-Apr-XX	Cash
Mar-XX	1,50,000	1,00,000	29-Apr-XX	Cash
Apr-XX	1,55,000	90	10-Jul-XX	Charges Reversal
May-XX	1,60,000	<b>6,00,000</b>	<b>10-Jul-XX</b>	<b>Cash</b>
Jun-XX	1,55,000			
<b>Total</b>	<b>7,45,000</b>	<b>7,45,090</b>		

**Current Account**  
10.07.20XX - TOD 6 Lacs

Cash Pmt.

**Deposit of Cash in**  
**CC Account**

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## Case Study - 5 Recovery through Cash Deposit

Tran Date	Particulars	Debit	Credit	Balance	Event	Transaction details	Post Time	Customerwise Total	Linked event
30-03-20XX	CASH RECEIPT	5,000		25,84,273					
30-03-20XX	COH		25,84,273	-		Cash Counter closed & Amount Trf. To Main Cash A/c	17:01		
30-03-20XX	CASH RECEIPT	6,50,000		6,50,000	Deposited by	CC A/c - 1	17:14		
30-03-20XX	CASH RECEIPT	7,00,000		13,50,000	Deposited by	CC A/c - 1	17:15	13,50,000	
30-03-20XX	CASH RECEIPT	3,50,000		17,00,000	Deposited by	CC A/c - 2	17:16		
30-03-20XX	CASH RECEIPT	8,00,000		25,00,000	Deposited by	CC A/c - 2	17:17	16,50,000	
30-03-20XX	CASH RECEIPT	5,00,000		30,00,000	Deposited by	CC A/c - 2	17:17		
30-03-20XX	CASH RECEIPT	5,00,000		35,00,000	Deposited by	CC A/c - 3	17:18		
30-03-20XX	CASH RECEIPT	7,00,000		42,00,000	Deposited by	CC A/c - 3	17:18	18,00,000	
30-03-20XX	CASH RECEIPT	6,00,000		48,00,000	Deposited by	CC A/c - 3	17:18		
								48,00,000	
30-03-20XX	CASH PAYMENT		(9,00,000)	39,00,000	Withdrawn by	CA A/c - 1	17:27		TOD Granted
30-03-20XX	CASH PAYMENT		(15,00,000)	24,00,000	Withdrawn by	CA A/c - 1	17:27	(24,00,000)	24 Lacs of 30.03.
30-03-20XX	CASH PAYMENT		(7,00,000)	17,00,000	Withdrawn by	CA A/c - 2	17:27		
30-03-20XX	CASH PAYMENT		(8,00,000)	9,00,000	Withdrawn by	CA A/c - 2	17:28	(24,00,000)	TOD 25 Lacs of 30.03.
30-03-20XX	CASH PAYMENT		(9,00,000)	-	Withdrawn by	CA A/c - 2	17:28		
								(48,00,000)	

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## Case Study - 6

★ Sanction of loan under Agriculture Loan and utilization of funds for Immovable Property Business and purchase of High End cars.

- ☐ Lower Interest Rate
- ☐ Longer time period for NPA identification
- ☐ Benefit of Political scheme - ?? Loan waivers ??

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## Case Study - 7

★ Updation of Total Security value for loan under consortium instead of security attributable to share of member bank.

- ☐ Facility will be considered as Fully secured. Since, limit will be based on Total Security.

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## Identification of Revenue Leakage

- ✧ Primary revenue for Banks is Interest on Loans and Advances.
- ✧ Charging of Interest is completely automated. However, the processing is based on certain important parameters.
- ✧ System parameters / fields which affect the Interest Computation should be thoroughly verified.
- ✧ Let us discuss few event / scenario wherein there is possibility of non application / incorrect application of Interest.

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## Identification of Revenue Leakage

### ★ Various Interest Parameters

- ☐ Interest Table
  - Debit Interest Rate & Credit Interest Rate
    - Interest Version
    - Currency
    - Limit Level Interest
  - Penal Interest
- ☐ Interest Rate (Static & Based on Ref. Rate)
- ☐ Customer Preferential (Dr. Interest) [(+)ve / (-) ve rate]
- ☐ Customer Preferential (Cr. Interest) [(+)ve / (-) ve rate]
- ☐ Important Commands –
  - Finacle: INTCI, AINTRPT, INTPRF, INTTM
  - TCS Bancs: i) OD/CC Accounts -> Interest Rate History
  - ii) DL / TL -> Interest Rate History

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## Identification of Revenue Leakage

### ★ Few reasons for Non Application / wrong application of Interest by CBS:

- ☐ Interest pegging in Advance Accounts set as “Y”. (If “Y” is selected, system will charge interest at the rate prevailing at the time of Account Opening. *For the cases of Fixed Rate Loans Pegging Flag will be “Y”*)
- ☐ Future Date is updated in Interest Demand Date
- ☐ Interest on Principal / Payment of Interest Flag is set as “N”
- ☐ Effective Rate of Interest is updated as “0”
- ☐ Account Open and Installment Start Dates, Interest Demand Dates are identical.

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## Identification of Revenue Leakage

[Cont ...]

- ☐ Interest Table Code “Zero” is selected
- ☐ Interest Demand Frequency is Blank.

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## Audit of Foreign Exchange Transactions

- ★ Liberalization – Opening of New areas for Inbound and Outbound Investment
- ★ Ease of Doing Business – Relaxation in certain Forex Transaction procedure / mode of compliance
- ★ Enhanced vigilance required for
  - ▣ Money Laundering in garb of genuine Foreign Exchange Transaction
  - ▣ Misuse of Advances secured against Export Bills
  - ▣ Genuineness of Export Documents
  - ▣ PNB – Fraud due to non integration of SWIFT System

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## Audit of Foreign Exchange Transactions

### LFAR: Liabilities -> Deposits

- ★ Whether the scheme of automatic renewal of deposits applies to FCNR(B) deposits? Where such deposits have been renewed, report whether the branch has satisfied itself as to the 'non-resident status' of the depositor and whether the renewal is made as per the applicable regulatory guidelines and the original receipts / soft copy have been dispatched.
- ★ **Audit Process:**
  - ▣ Review GL for FCNR (B) Deposits
  - ▣ List of FCNR (B) Deposits Accounts from Detailed GL
  - ▣ Review the date of Deposit and Date of Maturity.
  - ▣ In case of high volume of FCNR Deposits, a specific report should be requested containing outstanding FCNR Deposits as on 01.04.2020, 31.03.2021 and transactions during FY 20-21

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## Audit of Foreign Exchange Transactions

### **LFAR: For Branches dealing in Foreign Exchange Transactions**

- ☐ Material adverse points pointed out in the Audit Reports which continue to persist in relation to NRE/ NRO/ NRNR/ FCNR-B/ EEFC/ RFC ?
- ☐ Whether the Branch has followed the instructions and guidelines of the controlling authorities of the bank with regard to the following in relation to the foreign exchange. If not, state the irregularities: Deposits, Advances, Export Bills, Bills for collection, Dealing Room operations, Any other area
- ☐ Nostro Account Management

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## Audit of Foreign Exchange Transactions

### **★ Bills / Cheques on Collection - Balancing and reconciliation with GL Balance (Contingent Liab.)**

- ☐ Bill Balancing Report (*Finacle: BR, BRCR, FBBR*)
- ☐ GL Balance - Respective Cont. Liab. Account
- ☐ LFAR Reporting: Liab.3

### **★ Bills / Cheques purchased / Discounted – Balancing and reconciliation with GL**

- ☐ Bill Balancing Report (*Finacle: BRBPR, FBBR*)
- ☐ Aggregation of accounts under BD / BP Scheme Codes

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## Audit of Foreign Exchange Transactions

### ★ Packing Credit (Pre & Post Shipment – In INR or FCY)

- ☐ Adjustment through Export Bills / EEFC Balance
- ☐ Review of Transactions for adjustment of balance through other than above mode
- ☐ Max Tenor (Pre Shipment): 360 Days
- ☐ Max Tenor (Post Shipment): 365 from Shipment Date
- ☐ Rate of Interest if not adjusted within 360 days – Clean OD Rate with Penal Interest from **ab initio**
- ☐ Monitoring of End use of Fund
- ☐ Running Account Facility and Monitoring of adjustment within 360 Days

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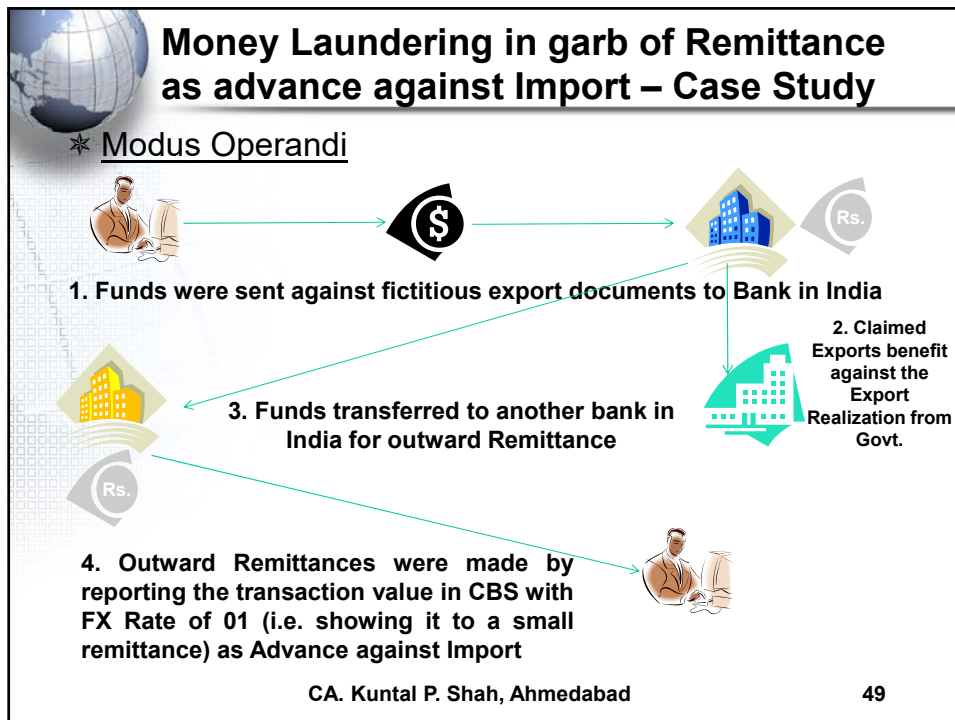
## Audit of Foreign Exchange Transactions

### ★ Devolvement of Import Bills under LC

- ☐ Check the Reg. Type and Sub Type of Import Bills under LC
- ☐ Use Menu Option FBI (in Finacle) to search Bills under Import LC Delinked (Status Code “K” with Status Date Filter)
- ☐ Separate Account opened (if any) for Devolved Bills
- ☐ Bill devolved but not crystallized in CBS
- ☐ Crystallization of Devolved Bill through Office Account.

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- ★ Audit activity through CBS – LFAR & Tax Audit Requirements
- ★ Audit Requirements in terms of revised LFAR

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## Office Accounts

### ✧ Type of Office Accounts

#### ▣ **Functionality**

- Pointing Type / Self Reconciling Accounts
- Non Pointing Type Accounts

#### ▣ **Entry**

- Sundry Accounts, Suspense Accounts
- EOD/BOD Check Accounts
- Inter branch Account
- Mirror Accounts
- Pool Accounts

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## Important Points in Office Accounts Review

### ✧ Cash Payment from Office Accounts

### ✧ TOD through Office Accounts

### ✧ Parking of Cash Difference in Office Accounts

### ✧ Clearing / Remittance differences through Office Accounts

### ✧ Rotation of entries in Office Accounts

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## Important Points in Office Accounts Review

- ✧ Correctness in mapping of reversal transaction to originating transaction
- ✧ Value Dated Transactions
- ✧ Round Tripping
- ✧ Advance paid for Fixed Assets not capitalized
- ✧ Income realized not credited to Revenue Account
- ✧ LFAR: Point No. Assets.6.b., Liab.2.a.

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## Audit Activity through CBS

### ★ Cash

#### ▣ What to verify?

- Cash Balance as on 31<sup>st</sup> March
- Cash Balance as on the date of verification
- Cash Balances reported in Friday Statement

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “ACLI” - Account Ledger Inquiry (Vault A/c and Teller Accounts) [*Fin. 10.x – HACLI, HACLINQ*]

##### ➤ In Bancs:

- ➔ Reports ➔ Cash Related ➔ View Cash Summary (Click on Fetch)
- ➔ Branch Reports ➔ Cash Officer's Jotting Book Report
- ➔ Reports ➔ Printing Reports ➔ Cashier / Teller Cash Report

##### ➤ In Flexcube:

- GLM02 - Chart of Accounts
- GLM04 - GL Transactions and Movement Inquiry

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## Audit Activity through CBS

### ★ Balances with RBI / SBI / Other Banks

#### ▣ What to verify?

- Balance as on Date
- Transactions in Mirror Accounts
- Reconciliation Statement (Generally outside of CBS)

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “ACLI” - Account Ledger Inquiry [*Fin. 10.x – HACLI, HACLINQ*]

##### ➤ In Bancs:

- ➔ Branch Accounting (BGL) ➔ Enquire ➔ Transaction

##### ➤ Flexcube:

- GLM02 - Chart of Accounts
- GLM04 - GL Transactions and Movement Inquiry

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## Audit Activity through CBS

### \* Advances - 1

#### ▣ What to verify?

- Sanction Limit / Drawing Power setup

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “**ACLHM**” – Account Limit History Maintenance (**Fin.10.x – HACLHM**)
- “**ACM / ACI**” – Account Master (Go to Limit details)
- “**LTL**” – Limit Tree Lookup (Tree view of all Limits) (**Fin. 10.x – HLTL, HLMTREEI**)

##### ➤ In Bancs:

- DL/TL Accounts & Services → Enquiries → Account
- Deposit / CC / OD Accounts & Services → Enquiries → Deposit / CC / OD Account

##### ➤ In Flexcube:

- CHM07 (OD Limit Master Maintenance)
- CH409 (OD Limit History Report)

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## Audit Activity through CBS

### \* Advances - 2

#### ▣ What to verify?

- Account & Customer Master parameters setup viz.
  - Interest Parameters (Regular & Penal Interest)
  - Repayment Instructions
  - Standing Instructions (SI) Parameters

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “**ACLHM**” – Account Limit History Maintenance for DP & SL – Account Specific (**Fin.10.x – HACLHM**)
- “**ACM / ACI**” – Account Master
- “**CUMM / CUMI**” – Customer Master (**Fin.10.x – Separate Module for Customer Master**)

##### ➤ In Bancs:

- DL/TL Accounts & Services → Enquiries → Account
  - Deposit / CC / OD Accounts & Services → Enquiries → Deposit / CC / OD Account
- (Short & Long Inquiry options are available under both menu.)

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## Audit Activity through CBS

### ★ Advances – 2 (Cont...)

#### ▣ What to verify?

- Account & Customer Master parameters setup viz.
  - Interest Parameters (Regular & Penal Interest)
  - Repayment Instructions
  - Standing Instructions (SI) Parameters

#### ▣ Source from where to verify?

##### ➤ In Flexcube

- **BAM12** (Interest Index Maint.)
- **BAM13** (Interest Index Rates)
- **LN060** (Loan Product Rates Plan)
- **LN41** (Interest Rules)
- **LN42** (Product Interest Attributes Maintenance)
- **LN81** (Rate Change)

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## Audit Activity through CBS

### ★ Advances - 3

#### ▣ What to verify?

- Transactions in Borrower's Account

#### ▣ Source from where to verify?

##### ➤ In Finacle:

- “**ACLI**” - Account Ledger Inquiry (**Fin.10.x – HACLI, HACLINQ**)

##### ➤ In Bancs:

- Deposit / CC / OD Accounts & Services → Enquiries → Transaction
- DL/TL Accounts & Services → Enquiries → Transaction

##### ➤ In Flexcube:

- **CH031** (Statement Inquiry)

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## Audit Activity through CBS

### ★ Advances - 4

#### ▣ What to verify?

- Interest Rate History

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “INTTM” – Interest Table Master Maintenance (Under Inquire Mode – Account Specific) (**Fin.10.x – HINTTM / HINTTI**)

##### ➤ In Bancs:

- Deposit / CC / OD Accounts & Services → Interest Rate History
- DL/TL Accounts & Services → Interest Rate History

##### ➤ In Flexcube:

- **LN022** (Interest Calculation Inquiry)
- **LN608** (Interest Charges Report)
- **LN801** (Loan Interest Report)

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## Audit Activity through CBS

### ★ Advances - 5

#### ▣ What to verify?

- Conduct of Account and Credit Turnover
  - Turnover of CC Account based on Borrower's Business profile
  - In case of Loan accounts **ACTUAL** recovery of Installments and Interest

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “ATOR” – Account Turnover Report
- “ACTI” – Account Turnover Inquiry
- “CUTI” – Customer Level Turnover Inquiry

##### ➤ In Bancs:

- DL / TL Accounts & Services → Enquiries → Long
- Deposit/CC/OD Accounts & Services → Enquiries → Long

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## Audit Activity through CBS

### ★ Advances - 6

#### ▣ What to verify?

- Temporary Overdrafts
  - Multiple requests of TOD
  - Non realization of TOD

#### ▣ Source from where to verify?

##### ➤ In Finacle:

- **ACTODM / ACTODI** - Account TOD Maintenance (*Finacle 10x – HACTODI*)
- **ACLHM** - Account Limit History Maintenance
- **TODRP** - TOD Register Printing (*Finacle 10x – HACTODRP*)

##### ➤ In Bancs:

- DL / TL Accounts & Services → Enquiries → Long
- Deposit/CC/OD Accounts & Services → Enquiries → Long

##### ➤ In Flexcube:

- **CHM07** (OD Limit Master Maintenance)
- **CH226** (Adhoc List of Overdue CASA Accounts)

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## Audit Activity through CBS

### ★ Advances - 7

#### ▣ What to verify?

- Non Performing Asset
  - Search an Account based on Criteria

#### ▣ Source from where to verify?

##### ➤ In Finacle:

- **"ACS"** – Account Selection (2<sup>nd</sup> Screen – IRAC Code – Main Asset Classification)
- **LAOPI** – Loan Overdue Position Inquiry (*Finacle 10X – HLAOPI*)

##### ➤ In Bancs:

- DL / TL Accounts & Services → Enquiries → Short → Select Option "1" – TL / DL [*Long Inquiry for NPA Date*]
- Deposit/CC/OD Accounts & Services → Enquiries → Short → Select Option "2" – CC / OD [*Long Inquiry for NPA Date*]
- Common Processing → Overdue / NPA → NPA Enquiry (Risk Grade Inquiry / NPA Status Inquiry)

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## Audit Activity through CBS

### ★ Advances – 7 (Cont...)

#### ▣ What to verify?

- Non Performing Asset
  - Search an Account based on Criteria

#### ▣ **Source** from where to verify?

##### ➤ In Flexcube:

- **AC02** - CRR (Credit Risk Rating) Inquiry
- **LN156** - Non Performing Loan Details Report
- **LN191** - Accounts in NPA Status

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## Audit Activity through CBS

### ★ Advances - 8

#### ▣ What to verify?

- Interest Report

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “**AINTRPT**” – Interest Report for Account (**Finacle 10x – HAINTRPT, HINTPRF**)

##### ➤ In Bancs:

- Product Sheets – To be requested from Data Center (if not available through user login)

##### ➤ In Flexcube:

- **LN022** - Interest Calculation Inquiry
- **LN608** - Interest Charges Report
- **LN801** - Loan Interest Report

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## Audit Activity through CBS

### ★ Advances - 9

#### ▣ What to verify?

- Primary & Collateral Security Maintenance

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “SRM” – Security Register Maintenance [*Fin. 10x – HCLM, HSCLM*]

##### ➤ In Bancs:

- DL/ TL Accounts & Services → Security (Primary/ Collateral) → Customer → Amend / Enquiry  
→ Amend / Enquire Security

##### ➤ In Flexcube:

- CH066 Limit Collateral Inquiry
- CHM06 OD Collateral Maintenance

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## Audit Activity through CBS

### ★ Advances - 10

#### ▣ What to verify?

- Lien Marking

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “ALM” – Account Lien Maintenance

##### ➤ In Bancs:

- DL/ TL Accounts & Services → Security (Primary/ Collateral) → Customer → Amend / Enquiry  
→ Amend / Enquire Security
- (*Under Bancs – Collateral ID is required to be created before setting up limits*)

##### ➤ In Flexcube:

- TDM24 Lien Master

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## Audit Activity through CBS

### ★ Advances - 11

#### ▣ What to verify?

- Account Ledger Printing

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “PSP” – Pass Sheet Print [**Fin.10.x – HPSP**]
- “ACLPCA” – Customer Ledger Account Print

##### ➤ In Bancs:

- **Print Menu** available under DL / TL Accounts & Services and Deposit / CC / OD Accounts & Services

##### ➤ In Flexcube:

- **CH031** Statement Inquiry
- **7010** Passbook update
- **LN10** Account Transactions Inquiry
- **LN421** Statement of Account NPA

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## Audit Activity through CBS

### ★ Advances - 12

#### ▣ What to verify?

- Non Fund based Facility (LC, BG)

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “GI” – Guarantee Inquiry [**Fin.10x – HGI**]
- “DCQRY” – Documentary Credit Query

##### ➤ In Bancs:

- Through Exim Software / Offline Report (if generated by banks)

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## Audit Activity through CBS

### ★ Advances - 13

#### ▣ What to verify?

- Devolved Bills under LC & Devolved Export Discounted / Purchased Bills

#### ▣ Source from where to verify?

##### ➤ In Finacle:

- “BI” – Bill Inquiry and “FBI” – Foreign Bill Inquiry  
(with Bill Status Code as “K” with Status Date filter)  
*[Fin.10.x – MEOB, MIIB, IBL]*

##### ➤ In Bancs:

- Through Exim Software / Offline Report (if generated by banks)

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## Audit Activity through CBS

### ★ Stationery

#### ▣ What to verify?

- Physical Verification of Stationery and confirmation of Balance as per CBS

#### ▣ Source from where to verify?

##### ➤ In Finacle:

- “ISRA” – Inventory Status Report (*Locationwise viz., Dual Lock, Individual, Cancelled etc.*) *[Fin.10.x HISRA]*

##### ➤ In Bancs:

- Through Valuable Paper Inventory System [VPIS] module

##### ➤ In Flexcube:

- IV011 – Stock Inquiries
- IV001 – Stock Transactions
- IV002 – Stock Adjustment

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## Audit Activity through CBS

### \* Suspense / Sundry Assets Accounts, Bills payable, Sundry Deposits etc. - 1

#### ▣ What to verify?

- Outstanding entries for reporting
- Entries outstanding – Whether any provisioning is required?

#### ▣ Source from where to verify?

##### ➤ In Finacle:

- “IOT” – Inquire on Transaction (As on date Inquiry)
- “MSGOIRP” – Outstanding Items Report

##### ➤ In Bancs:

- Through offline reports viz. “Audit BGL accounts age wise break up” and “GL-Outstanding-Accnts” report.

##### ➤ In Flexcube:

- GLM02 - Chart of Accounts
- GLM04 - GL Transactions and Movement Inquiry

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## Audit Activity through CBS

### \* Suspense / Sundry Assets Accounts, Bills payable, Sundry Deposits etc. - 2

#### ▣ What to verify?

- Printing of Office Accounts

#### ▣ Source from where to verify?

##### ➤ In Finacle:

- “ACLPOA” – Account Ledger printing Office Account

##### ➤ In Bancs:

- Facility of printing of BGL (Branch General Ledgers) is not available under user login. It needs to be requested from Data Center.

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## Audit Activity through CBS

### ★ Inter Branch Accounts

#### ▣ What to verify?

- Un-reconciled transactions

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- Through Outstanding IBR Report.

##### ➤ In Bancs:

- Through offline “Outstanding IBR Report”/ “IBR Summary report”

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## Audit Activity through CBS

### ★ TDS Related

#### ▣ What to verify?

- TDS Information and Reports

#### ▣ **Source** from where to verify?

##### ➤ In Finacle:

- “TDSIP” – TDS Inquiry & Reports **[Fin.10x HTDSIP]**
- Month-end report on accountwise / transactionwise Tax deduction.
- Bank specific customized Menu / report

##### ➤ In Bancs:

- Through offline monthly report on accountwise / transactionwise Tax deduction.

##### ➤ In Flexcube:

- **TDS11** TDS Inquiry
- **TDS15** Inquiry on Projected Tax

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## Audit Activity through CBS

### ★ Few Important Reports

#### ▣ **Exception Report:**

- Reports for the month end and two days prior and after month end should be verified.
- Exceptions of following natures should be closely verified.
  - Balance exceeded Account Limit
  - Manual debits to Income Account
  - Value Dated Transactions
  - Manual entry for SI Failure cases
  - Instrument passed against Clearing

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## Audit Activity through CBS

#### ▣ **Irregularity Report:**

- Reports for the month end and two days prior and after month end should be verified.
- Report contains details of Accounts where Balance in Accounts are greater than the Limits Sanctioned. Check whether the same is due to,
  - Application of Interest
  - Granting of Intra Day TOD
  - Passing of Instruments against Clearing Effects

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## Audit Activity through CBS

### ▣ Accounts where Interest Code is '0':

- Interest will not be charged from Accounts where Interest Code is selected as '0'. Hence, a detailed checking is required. Possible reasons can be,
  - Whether NPA Account
  - Accounts with Moratorium?

### ▣ Interest Collection Flag as "No":

- If Interest Collection Flag is selected as "No", Software will not consider the account for calculation and entry for Debit Interest.

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## Audit Activity through CBS

### ▣ Report containing all Advance Accounts with Limits:

- Generally, CBS Software generate a Report wherein details of all Advance Accounts are listed.
- Excel can be used to verify cases of DP > SL, Margin Requirement etc.

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## Audit Activity through CBS

### ▣ Report on Probable NPA / Health Code Accounts / Special Mention Accounts:

- Obtain reports containing list of Accounts with various deficiencies.
- System identifies such accounts and a report on Probable NPA Account. Banks classify the accounts as Health Code Type 1, Health Code Type 2, SMA – 1, SMA - 2 etc.

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## Audit Activity through CBS

### ▣ Report on NPA Accounts:

- Report will contain list of all NPA Accounts.
- Such accounts should be closely monitored.
- Verify whether account is correctly classified as per IRAC Norms?

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- ✧ **Audit Requirements in terms of revised LFAR**

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## Audit Requirements in terms of revised LFAR

- ✧ LFAR Amended on September 05, 2020
- ✧ Applicability from FY 2020-21 onwards
- ✧ Guiding Principles
  - ▣ Transaction testing
  - ▣ Providing input to SCA on
    - Adequacy of Implementation of various policy and regulatory requirements
    - Efficacy of the system and
    - Assurance functions (risk management, compliance and internal audit)

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## Audit Requirements in terms of revised LFAR

- ▣ Review of transactions
  - beyond threshold limit
    - Transaction Detailing
  - Below threshold limit
    - System and Processes to be checked and commented upon
- ▣ Verification of Data Integrity and data related control systems with special thrust on data input used in MIS at Corporate Level.

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	<p>For this purpose, large advances are those in respect of which the outstanding amount is in excess of <b>10% of outstanding</b> aggregate balance of fund based and non-fund based advances of the branch or Rs. 10 crores, whichever is less.</p> <p>Care- For all accounts above the threshold, the transaction audit/account specific details to be seen and commented, whereas below the threshold, the process needs to be checked and commented upon.</p>	<ul style="list-style-type: none"><li>• Report on all advances (<b>including NFB Limits</b>) – If not readily available, seek the report wherein NFB limits are also included.</li><li>• Ascertain the total advances (FB + NFB) as per GL / Balance Sheet as on Balance Sheet Date</li><li>• Select the Customers qualifying for the limit of 10% / 10 Cr. Based on the above report / computation</li></ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Comments of the branch auditor on advances with significant adverse features, which might need the attention of the management / Statutory Central Auditors, should be appended to the LFAR.	<ul style="list-style-type: none"> <li>In LFAR it is prescribed that Account No. is to be mentioned. However, alongwith Account No., Auditor should also mention CUST ID.</li> </ul>

Account No. / <u>CUST ID</u>	Account Name	Balance at the end – Funded	Balance at the end – Non Funded	Total
Total		A	B	C = A + B
Total Out-standing of the branch		X	Y	Z = X + Y
Percentage examined		A as % of X	B as % of Y	C as % of Z

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	<p>Have you come across cases of quick mortality in accounts, where the facility became non-performing within a period of 12 months from the date of first sanction? Details of such accounts may be provided in following manner:-</p> <ul style="list-style-type: none"> <li>Account No.</li> <li>Account Name</li> <li>Balance as at year end</li> </ul>	<ul style="list-style-type: none"> <li>Obtain List of NPA Accounts.</li> <li>Obtain report containing List of all Advances Accounts with Date of Sanction and Disbursement.</li> <li>Review Accounts identified as NPA in year under review.</li> <li>Use CBS functionality of Account Master verification for Sanction and Disbursement Date</li> <li>Alternatively, Account Statement for transactions can also be reviewed.</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Whether in borrowal accounts the applicable interest rate is correctly fed into the system?	<ul style="list-style-type: none"> <li>Auditor should seek report containing Interest Rate Parameters information for each Advance Account. In case of unavailability of the said report auditor can carry out following alternative process.</li> <li>Obtain Report containing all Advances Accounts as on 31.03.2021</li> <li>Use Interest Parameters and Interest change history information related menu codes in CBS.</li> <li>Review the same with Sanction Letter (including amendments if any)</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Whether the interest rate is reviewed periodically as per the guidelines applicable to floating rate loans linked to MCLR / EBLR (External Benchmark Lending Rate)?	<p>In continuation of previous slide, auditor should review following additional reports / information.</p> <ul style="list-style-type: none"> <li>Changes in MCLR / EBLR during the year. Datewise change (upward / downward) is required to be compiled in Spreadsheet.</li> <li>Review Interest Master details from CBS</li> <li>Review Interest Rate Change History through CBS</li> <li>Alternatively, the auditor can also generate Interest Report for entire period and can review the different rate of Interest applied in Account.</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Have you come across cases of frequent renewal / rollover of short-term loans? If yes, give the details of such accounts.	<ul style="list-style-type: none"> <li>• Each bank has different set of processes to review / renew loans and updation thereof in CBS.</li> <li>• Understand the process followed in CBS by Bank.</li> <li>• Obtain reports of Review / Renewals during the year.</li> <li>• Alternatively the report of all advances at the beginning of year and end of year will also be useful in identifying changes in Limit Expiry.</li> <li>• In case of operative accounts, the renewal would also have entry in Drawing Power Limits under DP History.</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Whether correct and valid credit rating, if available, of the credit facilities of bank's borrowers from RBI accredited Credit Rating Agencies has been fed into the system?	<ul style="list-style-type: none"> <li>• Understand the process of updation of credit rating information in CBS.</li> <li>• At times it has been observed that the same has been updated directly in external system</li> <li>• Correctness of Credit Rating should be ensured as per latest Credit Rating Report.</li> <li>• Obtain list of Accounts wherein External Credit Rating is mandatory.</li> <li>• Check whether cases wherein Credit Score is poor have been marked as Unrated?</li> <li>• If there is any manual intervention (i.e. updation of credit rating directly in Cap. Adequacy computation software) report the appropriate observation under MIS / System related issues.</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Did the bank provide loans to companies for buy-back of shares/securities?	<ul style="list-style-type: none"> <li>Carve out the Corporate Borrowers out of total advances report.</li> <li>Review Financial Statements of the Corporate Borrowers.</li> <li>Review the Search Report obtained from CS.</li> <li>Review Company Master data from MCA Website for any change post to Fin. Statement on record.</li> <li>Review communication file with Bank seeking permission for change in capital structure.</li> <li>In case of buyback transaction, review account statement for utilization of CC / OD Limit, Term Loan proceeds for the same.</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Is the DP properly computed?	<ul style="list-style-type: none"> <li>Review the details of stock statements, book debts statements, creditors information and other financial information provided by borrower.</li> <li>Review the policy of bank to compute DP w.r.t. How the paid stock is arrived at. Whether Creditors amount is reduced from Stock or reduced only to the extent of value in excess of creditors ascertained at the time of Credit assessment</li> <li>It is advisable for auditor to prepare a template in spreadsheet and compute the amount.</li> <li>In CBS the DP is computed / updated in multiple ways. In certain cases, the CBS derives the DP using Margin % and Value of Security updated. In such case review the information from the Security related menu codes from CBS.</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Comment on adverse features considered significant in top 5 standard large advances and which need management's attention.	<ul style="list-style-type: none"><li>• Report containing details of All Advances Accounts should be obtained.</li><li>• Apply Filter for Standard Accounts.</li><li>• Apply Top 5 Filter on Standard Accounts for review.</li></ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Has the branch identified and classified advances into standard / substandard / doubtful / loss assets through the computer system, <b><u>without manual intervention?</u></b>	<ul style="list-style-type: none"><li>• The most challenging part in the process of audit is to ascertain the classification and marking of NPA Accounts in CBS.</li><li>• Each bank has different set of processes followed for identifying and marking of NPA.</li><li>• Whether any feature of manual intervention is available at branch end or at HO Level (directly in backend database) should be ascertained. MR Letter can also be obtained on the same.</li><li>• From Branch level (Front End) the manual intervention may not be available. However, as discussed earlier in the Presentation certain events may hamper the Asset Classification.</li></ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	<p>Whether the branch is following the system of classifying the account into SMA-0, SMA-1, and SMA-2. Whether the auditor disagrees with the branch classification of advances into standard (Including SMA-0, SMA- 1, SMA-2) / sub-standard / doubtful / loss assets, the details of such advances with reasons should be given.</p> <p><b>SMA-0</b> - Principal or interest payment not overdue for more than 30 days but account showing <u>signs of incipient stress</u></p> <p><b>SMA-1</b> - Principal or interest payment overdue between 31-60 days</p> <p><b>SMA-2</b> - Principal or interest payment overdue between 61-90 days</p>	<ul style="list-style-type: none"> <li>Obtain list of all Advance Accounts as at the end of the year and refer the overdue amount.</li> <li>Review from NPA related menu codes in CBS for classification of account correctly as per IRAC guidelines.</li> <li>For SMA-0 Refer sign of Stress (Appendix to Part C-1 of Master Cir. on IRAC dt. 01.07.2015) which will warrant the classification.</li> <li>Delay in submission of Stock Statements / other stipulated returns / financial statements / non renewal of limits based on Audited Fin. Statements (<b>Within + out of CBS</b>)</li> <li>Falling short of projections (<b>Out of CBS</b>)</li> <li>Return of 3 or more cheques on ground of Non availability of Funds / Limits (<b>CBS</b>)</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	<p>(Cont...)</p> <p><b>SMA-0</b> - Principal or interest payment not overdue for more than 30 days but account showing <u>signs of incipient stress</u></p> <p><b>SMA-1</b> - Principal or interest payment overdue between 31-60 days</p> <p><b>SMA-2</b> - Principal or interest payment overdue between 61-90 days</p>	<ul style="list-style-type: none"> <li>Devovement of LC / Invocation of BG and non payment within 30 days (<b>CBS</b>)</li> <li>Third request for extension of time for creation of security (<b>Out of CBS</b>)</li> <li>Increased frequency of overdrafts in Current Accounts (<b>CBS</b>)</li> <li>Borrower reporting stress in the business and financials (<b>Out of CBS</b>)</li> <li>Promoters pledging shares in the borrower company due to financial stress. (<b>Out of CBS</b>)</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Whether the upgradations in non-performing advances is in line with the norms of Reserve Bank of India	<ul style="list-style-type: none"> <li>Obtain list of NPA Accounts upgraded during the year.</li> <li>Report as at the end of Previous Year and as at the end of Current Year to be compared</li> <li>Quarterly reporting on NPA should also be reviewed.</li> <li>Whether at the time of upgradation entire overdue (across all facilities) have been recovered</li> <li>Information can be accessed through Menu codes in CBS for Account Ledger Inquiry, Outstanding EMI etc.</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	In respect of non-performing assets, has the branch obtained valuation reports from approved valuers for the immovables charged to the bank, once in three years, unless the circumstances warrant a shorter duration?	<ul style="list-style-type: none"> <li>Review the valuation date from NPA report as at the end of each financial year.</li> <li>Review the physical valuation report for correctness of information updated in CBS.</li> </ul>

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## Audit Requirements in terms of revised LFAR

5.	Advances	Requirements & Audit Process
	Whether in the cases concluded the recoveries have been properly appropriated against the principal / interest as per the policy of the bank?	<ul style="list-style-type: none"> <li>Obtain Accounting Policy followed by bank for appropriation of recovery in NPA Accounts.</li> <li>Review in CBS through EMI Recovery menu options and reversal of Memorandum Interest Transactions from Account Statement menu option for recovery sequence followed.</li> </ul>

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## Audit Requirements in terms of revised LFAR

II.	LIABILITIES - Deposits	Requirements & Audit Process
	Whether the scheme of automatic renewal of deposits applies to FCNR(B) deposits? Where such deposits have been renewed, report whether the branch has satisfied itself as to the 'non-resident status' of the depositor and whether the renewal is made as per the applicable regulatory guidelines and the original receipts / soft copy have been dispatched.	<ul style="list-style-type: none"> <li>Review GL for FCNR (B) Deposits</li> <li>List of FCNR (B) Deposits Accounts from Detailed GL</li> <li>Review the date of Deposit and Date of Maturity.</li> <li>In case of high volume of FCNR Deposits, a specific report should be requested containing outstanding FCNR Deposits as on 01.04.2020, 31.03.2021 and transactions during FY 20-21</li> </ul>

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## Audit Requirements in terms of revised LFAR

II.	LIABILITIES - Deposits	Requirements & Audit Process
	Is the branch complying with the regulations on minimum balance requirement and levy of charges on non- maintenance of minimum balance in individual savings accounts?	<ul style="list-style-type: none"><li>• Obtain Minimum Balance requirement in different types of savings accounts prescribed by the bank.</li><li>• Select sample from different types of Savings Accounts.</li><li>• Extract Account Statement for the year and ascertain average monthly balance. (If the charges are prescribed on Average Monthly Balance).</li><li>• Review the transactions from Account Statement for Charges levied.</li></ul>

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## Questions ???



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# Thank You

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