WORKSHOP ON BANK BRANCH AUDIT

Hosted by

NAVI MUMBAI BRANCH OF WIRC OF ICAI

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Bank Branch Audit includes

- Audit Report with Observation Report.
- ***LFAR & Annexure***
- Tax Audit Report
- Jilani Committee Recommendations
- Ghosh Committee Recommendations
- Certifications
- IRAC Norms & MOC
- Physical Verifications

LFAR

- Its For Management
- LFAR is not substitute for main audit report. So no cross reference should be for any qualification or comments.

Main Audit Report

- Self Contained Document
- Matters concerning subject of qualification & affecting true & fair view should be reported in main report only.

LFAR-Long Form Audit Report

Areas Majorly Covered in LFAR

- Assets
- Liabilities
- Profit & Loss Account
- General

Circulars\LFAR Format.pdf

1. Asset

Which Includes-

1. Cash
2. Balances With RBI, SBI & Balances with Other Banks
3. Money at Call & Short Notice
4. Investments
5. Advances
6. Other Assets

1.1 Cash :-

- Cash Retention Limit & Excess Cash Balance Held by the Branch.
- Insurance of Cash on Hand & Cash in Transit .
- Custody of Cash
- Surprise Cash Verification (Cash in hand and ATM)

1.2. Bank Balances :-

- Take List of Bank Account held by the bank.

- Obtain Balance Confirmation Certificate as on year end.

- Match Bank statement with GL head, if Difference obtain Reconciliation

- Review Reconciliation
  1. Un-responded Cash Entries
  2. Revenue Item Requiring adjustment or W/Off
  3. Old Outstanding Balances- Aging
  4. Any Item Special Attention.

1.3. Money At Call Notice & 1.4 Investments :-

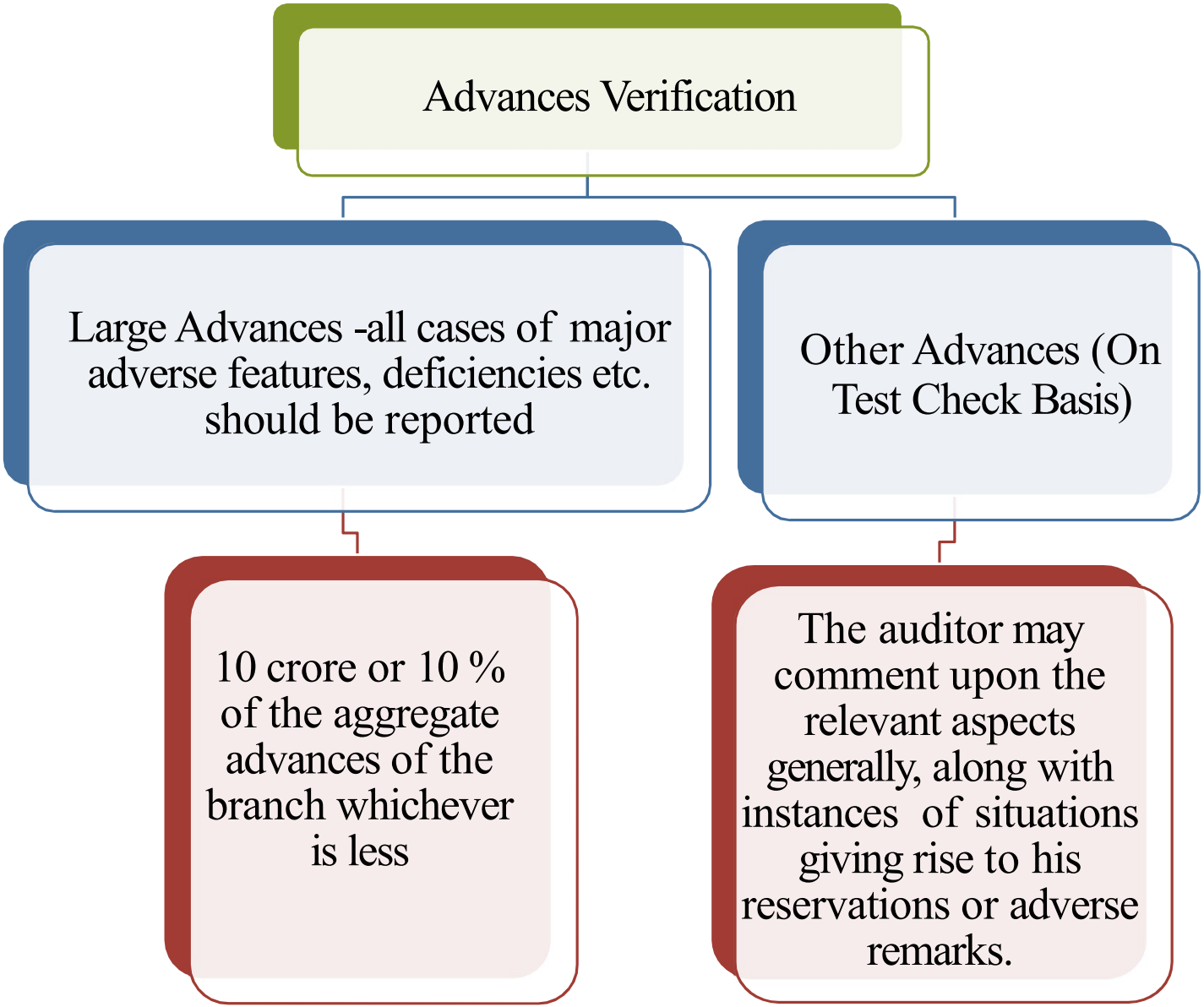
Money At Call Notice

- Confirm any Such Type Transactions
- Ho Guidelines & Instructions

Investments

- Branch Hold any Investment ??
- 1. Physical Verification .
  2. Income Accural.
  3. Matured / Overdue Investments.
  4. HO Instructions
  5. RBI Guidelines

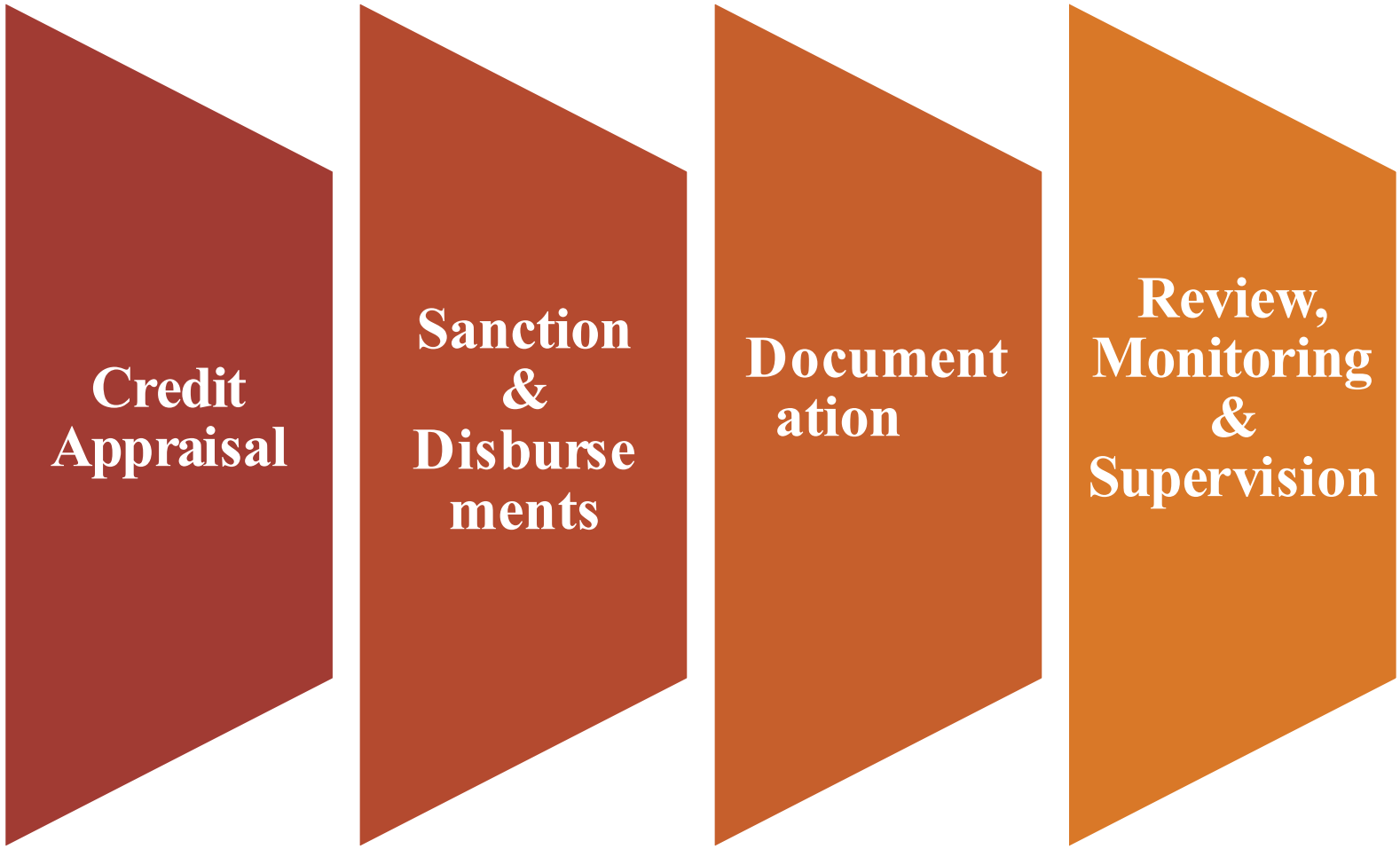
Part –I. 5 . Advances –



Audit Of Loans & Advances

- Type of Facilities – Fund Based & Non Fund Based.
- Type Of Fund Based Advances – Demand Term Loan , CC , OD .
- Type of Non Fund Based advances – BG /LC / Bills

Advances


Credit Appraisal
Sanction & Disbursements
Documentation
Review, Monitoring & Supervision

Extent of Verification

- SBA Should Obtain Entire Loan Book & Select Reasonable Sample for verification.
- Large Advances – 10% of total advances at branch or Rs 10 Crore whichever is lower to be verified 100% .
- Each Type of Loan Should be selected for verification while taking sample.
- List Of Accounts Examined – to be Enclosed.

Consolidate Your Observations –for LFAR

- Quick Mortality Cases (within 12 Month NPA)
- Interest Rate not correctly Charged
- Credit Facilities sanctioned beyond Delegated authority.
- Loans Disbursed without Complying Terms & Conditions of Sanction.
- Non Execution of Necessary Documentation
- Non Registration of Charges.

- Lien is not created on Deposits
- Correct & Valid Rating is Available.
- Renewal / Review Pending
- Frequent Short Renewal /Review – Report Cases
- Stock / Book debt & Other Operational Data QMR / HYR Pending List .
- Stock Audit Pending List
- Audit Financial Statement Pending List
- Inspection Pending List

- Insurance Pending List
- Overdrawing in Accounts above sanctioned Limits.
- Valuation Report Older than 3 Years.
- Comment on Adverse Features – Top 5 Standard Accounts –
- Up-gradation of Non Performing Assets
- System of Classifying SMA – 0 , SMA-1 ,SMA -2

1.6 . Other Assets:-

Stationary & Security Items

- Internal Control over Issue & Custody.
- Physical verification

Suspense Accounts / Sundry Assets

1. Age wise Bifurcation - Reasons for delay in adjusting
2. Provisions Required.

1. Take list as on 31.3.21
2. Compare With Last Yr
3. Obtain Ledgers
4. Test Check Unusual Movement.
5. Nature & Amount Involved.

2.Liabilities

1. Deposits
2. Other Liabilities
3. Contingent Liabilities

2.1. **Deposits :-**

Inoperative Accounts

- Check how account is Flagged as Inoperative By System.
- Obtain List of Inoperative Account & Verify Transaction on Test Check Basis
- Take List of Accounts Activated as Operative - Confirm With Bank Policy .

Unusual Movement at Year End

- Take Monthly Average Deposit Figures
- Compare Avg. with Year End Balances
- Compare Year End Balances with Balances as on Audit .
- Obtain Manager Representation for unusual movement & Comment accordingly

Overdue / Matured Term Deposit

- Check Interest Provision at Year end.
- Minimum Balances Requirement / Charges .
- Take CBS System Figures for Overdue Matured Term Deposit

2.2 Other Liabilities Bills Payable, Sundry Deposits :-

1. 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 accounts under various sub-heads reveal old balances?
2. 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

- ✓ Obtain List from Branch as on 31.3.2022
- ✓ Compare with Audited List as on 31.3.2021
- ✓ Obtain ledger from Branch for transactions.
- ✓ Test Check Transaction During the year.
- ✓ Comment if Unusual items / withdrawals.

2.3. **Contingent Liabilities**

List of major items of the contingent liabilities (other than constituents' liabilities such as guarantees, letters of credit, acceptances, endorsements, etc.) not acknowledged by the Branch.

Possible but Not Probable

- Review Last Year Audit Report for Any Contingent Liability .
- Confirm Any Activity during the Year Review Correspondence with lawyer/others.
- Review Subsequent Events also -
- Provision for Liability.

Eg. 1. Suit Filled Against Bank

3. Profit & Loss Account :-

- Discrepancies in Interest paid & Received.
  - Review Revenue Audit Reports.

- Compliances with IRAC Norms-
- **Check Interest Reversal in NPA Accounts**

- Provision for Interest Accrued on overdue / matured Term Deposits.

- Divergent Trends in Major Items of Income & Expenditure.

3. Profit & Loss Account

- Compare PL with Last Year – Ratios & Trend Analysis.
- P&L Vouching Verification – Bills / Quotations
- Capital / Personal Expenses Debited to PL.
- Prior Period Expenses Debited to PL .
- TDS Deduction on All Expenses.
- Cash Expenses above Rs 10000/-

3. Profit & Loss Account

- Obtain Revenue Audit / Income leakage Report .
- Test Check – Interest / Commission / Fees / Penal Interest - Properly Charged
- If Any Revenue Leakage – MOC
- IRAC Norms – Reversal of Unrealized Interest.

4. General

1. Gold Loan – Bags Verification / Records Internal Control Over Security Items – Report Missing / Lost Items
2. Books & Records – Other Software / Exceptional Reports /IS Audit
3. Inter Branch Accounts
4. Frauds – Reporting to RBI
   - Potential Risk Areas
   - Early Warning System .

5. Implementation of KYC /AML Guidelines –

- RBI Circular / HO Policy / Response to HO Alerts / Concurrent Audits

- 6. Management Information System – Data Input / Manual Intervention / Other Software .

7 . Miscellaneous –

- Last Year LFAR
- Internal / Concurrent Audit Reports
- Credit Audit Report
- Stock Audit
- RBI Inspection
- Income & Expenditure Audit
- IS Audit
- Any Special Investigation
- Any Other matter – to be Report to SCA.

Point to be remember:-

- **Plan, Prepare and Update LFAR on daily Basis.**
- **Discuss points with team on daily basis.**
- **Depute single person for preparation of LFAR.**
- **Give detailed reply of question not only (YES/NO)**
- **Discuss point of LFAR with branch office one day before closing.**
- **Remember to pass MOC on the points mention in LFAR (if applicable)**
- **Attach additional proof and documents for explanation (if required)**
- **Take soft copy of LFAR of first branch for next branch**

NPA Norms:- Master Circular on IRAC Norms Dated 01/04/2022

- An Assets ,Including Leased Assets become Non Performing when it ceases to generate Income.
- A Non Performing Asset is Loan or advance where -

- Interest & Installment of principal Remain Overdue for a Period of 90 Days in respect of Term Loan
Account remain Out of Order in Respect of Overdraft & Cash Credit
Bills remain Overdue for a period of More than 90 Days

NPA Norms:- Master Circular on IRAC Norms Dated 01/04/2022

Installment of Principal or Interest Overdue for 2 Crop Season in case of Short Duration Crop & 1 Crop Season in case of Long Term Duration Crop
Liquidity Facility - in respect of Securitisation transaction - O/s for more than 90 Days.
Overdue Receivable more than 90 days in Derivative transactions
In Case of Interest Payment - Interest Due & Charged in Quarter not serviced within 90 Days.

NPA Norms :- " Out of Order "

O/s Balance Remain Continuously In Excess of **Sanction Limit or DP Limit for 90 Days.**
O/s Bal < Sanctioned Limit / DP Limit , But **No Credit Continuously for 90 days or Credit are not Enough to cover Interest Debited.**
Stock Statement is older than 180 Days (Large borrower)
Renewal or Review Pending more than 180 Days from original date of due for review.

NPA Norms vs Overdue

NPA	Overdue
• As Per Prescribed Norms of IRAC	• Before Due Date - Once EMI Due but Not Paid • After Due Date - O/S Balance

Question & Answer

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