

# Bank Branch Audit

An Integrated Work Paper Model

Updated : 2024

A Smart CA Update

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**Views expressed are those of the author. This is an indicative template. Users are advised to exercise discretion in the use of this model work paper template**

**This entire document may be printed at the end of the audit and working papers be organised and cross referenced in the respective sections for user and reviewer convenience**

**BANK BRANCH AUDIT  
INTEGRATED WORK PAPER FILE**

<b>Bank Name</b>	
<b>Branch</b>	
<b>Year</b>	
<b>Date of Commencement</b>	
<b>Date of Completion</b>	
<b>Partner In Charge</b>	
<b>File reference</b>  <b>Number of Staff deployed</b>  <b>Advances Value</b>  <b>Address of the Branch</b>  <b>Name of the Manager</b>  <b>Phone Number</b>  <b>Circle Office Contact</b>	

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## Part A – Summary and Final Audit Notes

### 1. Branch Assigned for Audit

We have been appointed as the Statutory Auditors of the ..... Branch of ..... Bank for the year 2023-24. The intimation from the bank is kept in Appendix 1

### 2. Audit Acceptance Letter

The audit acceptance letter has been provided to the CO and a copy is kept for our records. Related documentation including Declaration of fidelity and secrecy, Declaration of full time practice and Declaration of Indebtedness and other documents have also been attached to this section. Refer Appendix 2 for acceptance letter

### 3. Engagement Letter

An engagement letter has been issued and kept in Appendix 3 ( as per ICAI format )

### 4. Letter of communication with previous auditor

Communication to the previous auditor M/s ..... has been sent on ..... and response has / has not been received.

Further the previous auditor has / has not been contacted over phone / e mail. Refer Appendix 3 for Communication sent and response received. Refer Appendix 4

### 5. Representation letter

Management Representation letter has been obtained at the conclusion of the audit as per the format prescribed and kept in Appendix 5

### 6. Key Reports and Certificates

#### a. The following key reports / certificates are required to be issued

- Branch Auditors report
- **Memorandum of Changes if any**
- Certified / Attested financial statements including Schedules
- Long Form Audit Report
- Certificates as per list provided by the bank / instructions of the bank
- Tax Audit report under Section 44AB of the Income tax Act ( if required by the bank )

**7. Audit Team**

- a. The Branch audit instructions as received from the Head / Circle office in a CD / hard copy have been duly cognised for in the preparation of this integrated work paper document.
- b. The audit was commenced on ..... and completed on ..... By the following team

Name	Designation	Days	From	To
	Partner			
	Qualified Paid Assistant			
	Audit Assistant			
	Article trainee			
	Any Others			

**8. Details of Bank Officials**

- a. The branch is classified as ELB / Large / Metro / Urban / Semi urban / Rural / Specialised / Retail Trade hub / Asset Recovery Branch / Others .....(specify )
- b. The details of Bank Staff from whom data / records / information and explanations were solicited / obtained for the purpose of this audit are as under

Designation	Name / Mobile Number	Grade
Branch Manager		
Loans Officer		
Deposit Officer		
Other Officers		

**9. Circle Auditors / CSA and discussions**

- a. The Central Statutory Auditors relevant for matters pertaining to the branch auditors is as under :

	Central Statutory Auditor	Circle Auditor
Name		
Address		
Phone number		
Partner in charge		

b. Details of discussions held with such persons is placed below

	Central Statutory Auditor	Circle Auditor
Dates of communication and reasons for being in touch with the auditor, if any		
Matters, if any discussed with the auditor and Conclusion of such matters , if any		
Details of mails sent and received from them , if any		

**10. Report, Returns and Certificates**

a. We are required to certify and complete the following individual reports / returns and certificates ( modify as necessary based on banks standard instructions ). The number of copies of each submission, applicability and / or completion status is also as under. ( Please specify the exact requirements of the bank audited by you instead of the below mentioned list of documents )

**b. Schedules initialed for Identification Purposes**

In case of any schedules not audited by us ( eg. Sep 30 A/L, P/L etc) these may be signed with a seal as “Initialled for Identification purposes only”

S No	Index ( Illustrative )	No of copies	Completion Status
	<b><u>RETURNS</u></b>		
1	BS - 1 Liabilities		
2	BS - 2 Assets		
3	BS - 3 Expenditure for the half year ended 30 Sep ( <b>if required</b> )		
4	BS - 4 Income for the half year ended 31 March ( <b>if required</b> )		
5	Final A & L as on 31 March		
6	Final P & L for the year 31 March		
7	BS - 7 Statement of Claims made against the bank not acknowledged as Debt		
8	BS - 8 Details of Restructured Account		
9	BS - 9 Details of Country wise, Risk Category wise exposure		
<b>B</b>	<b>Supplementary to BS Schedules</b>		
	List all Documents to be certified by the Auditors here as a control document to ensure that they are completed		



**b. The following unit visits requested by us could not be undertaken due to the following reasons**

Information requested and not provided	Amount	Impact on audit, if any	Management Comments

**c. Non availability of Reports**

Reports	Available	Not Available
Branch Audit report of previous year		
Internal Audit report for the year		
Concurrent audit reports for the year		
RBI Inspection during the year		
LFAR of previous year		
Information Technology Audit during the year		
Revenue Audit during the year		
Others		

**12. Significant Audit Matters on Components**

The following matters have been observed during the audit. These matters have been classified as under in the final resolution in the table below

- Qualification in audit report
- MoC Prepared
- Discussion pending for attention of partner
- Taken to LFAR
- Ignored due to immateriality

- Any other

Component	Matters for Consideration	Impact	Final Resolution
Scope Limitations			
Internal Controls including Non compliances with Circulars etc			
Fixed Assets			
Investments			
Loans and Advances			
Cash			
Bank			
Other Assets			
Deposits			
Other Liabilities			
Inter Account reconciliations			
Others			

**13. Signed Copies of Financial Statements**

The final set of financial statements, reports , certificates etc as provided by us is kept in Appendix 6

**14. List of MoC’s along with reasons therefor**

S No	Nature of Issue	Debit Account	Credit Account	Amount	Remarks
	Rectification of Income recognition				
	Reclassification of NPA's ( fresh )				
	Change in the status of Old NPA's				
	Account reclassifications within P&L: and A&L				
	Reclassification of Loans and Advances where done differently by the branch				
	Assets put to use and not capitalized				

**Part B - Understanding the Branch**

**15. Key data pertaining to the Branch**

Description	Current Year	Previous Year
	Rs . lakhs	Rs . lakhs
Total Assets		
Total liabilities		
Total Advances		
Total Deposits		
Income		
Expenditure		
Profit / Loss		

Based on above, the auditor can ascertain if the branch is principally an advances branch or a deposit branch and perform such audit procedures as relevant and maintain audit focus

**16. Target Vs Accomplishment**

Description	Current Year	Previous Year
	Target Rs . lakhs	Actual Rs . Lakhs
Total Advances		
Total Deposits		
Rating of the Branch		

**17. Asset Products dealt by the branch**

**a. Products dealt by the bank branch ( Tick as appropriate ) and should be reconciled to the CD / OD balances and Loan balance file as at March 31, 2023**

Fund based Asset products	Fee based Asset Products	Liability Products
Cash credit	Bank Guarantees	Savings Accounts
Overdraft	Letters of credit	Current Accounts
Home loans	Money transfers	Recurring Deposits
Personal loans	Letters of Undertaking	Term Deposits
Vehicle Loans	Letter of Comfort	Any other
Jewel loans	Any other	
Business Loans		
Term loans		
Loans against financial assets		
Any other		
<b>Export Financing</b>		

**18. Advance profiling by value – Better to have no. of accounts also also for the both the years.**

S No	Slab - Rs Lakhs outstanding	Current Year	Previous Year
		Rs . lakhs	No of accts
1	< Rs 1 lakh		
2	Rs 1 - 5 lakhs		
3	Rs 5 - 10 lakhs		
4	Rs 10 - 50 lakhs		
5	Rs 50 lakhs - Rs 1 Crore		
6	Rs 1 to 2 Crores		
7	Rs 2 to 5 Crores		
8	Rs 5 to 10 Crores		
9	> Rs 10 Crores		

**19. Advances Overview - top 10 advance categories of the branch**

S No	Category of advances	Current Year	Previous Year	Current Year	Previous Year
		Rs . lakhs	No of accts	Rs . lakhs	No of accts
1	Cash Credit				
2	Overdraft				
3	Term loans				
4	Crop loans				
5	Housing loans				
6	Jewel loans				
7	Personal loans				
8.	Any others				
	Total Advances				

**20. Customer wise advances**

Based on our discussions with the branch manager, these advances belong to the same party and are considered for checking on a collective basis as slippage in one account could result in NPA status for all accounts

S No	Customer Name	Facilities	Current Year Rs . lakhs
1		1	
		2	
		3	
2		1	
		2	
		3	
3		1	
		2	
		3	

**21. Large Advances**

Large advances are those advances greater than 10 % ( previously 5% ) of the advances or Rs.10 crores( previously Rs 2 Crs ) (including FB and NFB) whichever is less :

S No	Account reference / name	Current Year	Previous Year	Current Year	Previous Year
		Rs . lakhs	No of accts	Rs . lakhs	No of accts
1					
2					
3					
4					
5					
6					

**22. Restructured advances**

The following are the advances restructured by the branch and to be reviewed for compliance with restructuring terms and conditions as per revised sanctions. Repeated restructured accounts will also be reviewed

S No	Account reference / Name	Current Year	Previous Year
		Rs. Lakhs	Rs . lakhs
1			
2			
3			
4			

**23. Interest rate and other charges on major advances ( specify range )**

Advances Type	Interest %	Charges %	Charges %	Charges %

**24. Deposit profiling :- ( if possible can be obtained )**

S No	Category of deposit accounts	Current Year	Previous Year	Current Year	Previous Year
		Rs . lakhs	No of accts	Rs . lakhs	No of accts
1					
2					
3					
4					
5					
6	Others				
	Total Deposits				

**25. Interest rate on deposits**

Deposit type	Days	Interest %

**26. Top Deposit Holders**

Name	Acct Number	Amount

## Part C – Risk Assessment and Audit Strategy and Focus

### 27. Key Risks

The key **risks** in Bank Branch Audits are as under . All our audit procedures should be directed at minimizing these audit risks and to ensure that the financial statements are free from material misstatements whether due to fraud or errors

- Non compliance with reference to RBI Circulars
- Non Compliance with reference to policies and procedures of the Bank
- Material Misstatement of Income, Expenses, Assets or Liabilities.
- Unrecorded liabilities and Contingent liabilities
- Asset Classification and NPA provisions not adequate for impaired assets
- Asset Classification and Income Recognition especially for restructured assets
- KYC / AML norm compliance related issues
- Internal control failures over banking operations including potential / undetected frauds
- Wrong certification
- Transactions not authorized or adequately authorized
- Transactions not in compliance with Bank / RBI guidelines
- Misapplication of advances not for intended end use
- Account level frauds and impact on Audit Opinion
- Non identification of NPA accounts

### 28. Internal Control Framework

**Discuss with the manager on the following elements of the Internal Control Framework and ensure that these are in place by audit procedures**

- Detailed Operating Procedure manuals
- Functions where Joint Operations or custody are involved
- Delegation of powers and Authorisation of transactions ( Maker – Checker controls )
- Segregation of duties and Independent Checks and balances
- Controlled Maintenance of records and documents
- Elaborate system of Accountability for assets of the bank
- Extensive computerization and procedure standardization
- Basic IT General Controls compliance , including passwords , access restrictions etc

### 29. Review of past Audit Reports of the Branch

**Review Notes of Concurrent, RBA, Inspection Reports and Stock audit reports of borrower accounts**



**30. Fraud reporting**

**a. Any frauds reported in the present year**

Note on frauds reported at the branch . If the manager has stated that no frauds have been occurred during the period, please note the date and time of such conversation and obtain a sign off in the representation letter

**b. Any frauds reported in the previous year**

In respect of frauds in the previous year, note down the actions taken and adequacy of provisions for fraud related losses in the financials for such cases

**31. Items in Suspense Accounts**

**Review** items in suspense accounts ( Debit and credit ) pending for a significant period of time. More than 6 months may need provisions. Less than six months also needs to be investigated for potential losses, fraud risks

**32. Information in the public domain**

- a. Scanned the public domain for information pertaining to the Bank / audit samples and present to partner if any unusual information is observed

**33. Asset Classification and NPA as of date of audit**

S No	Category	Current Year	Previous Year	Current Year	Previous Year
		Rs . lakhs	No of accts	Rs . lakhs	No of accts
1	Standard				
2	Substandard				
3	Doubtful				
4	Loss				
	Total advances				

**a) NPA Movement**

Account ref	Pre Audit	NPA 2023-24
Opening NPA		
Add : Additions		
Add : Additions MoC	Nil	
Less : Repayments		
Add : Legal Costs etc		
Closing NPA		

**b) Details of NPA Accounts**

Account ref	Current Year	Previous Year

**34. Year end – post year end transactions**

Significant movements in year end balances are as under . Significant changes after year end will also have to be reviewed to check for possible window dressing of account balances . This would be done by review of cash , clearing and transfer vouchers of the branch

Account ref	Date of audit	March 31, 2024	(date of audit report )

**35. Audit Strategy**

Based on our high level review of the branch data, loans and deposits CBS files and based on discussions with the Branch manager the following is proposed as the audit strategy. - The audit strategy will envisage a top down approach which involves understanding the Balance Sheet and P & L and a drill down to perform compliance and substantive procedures at a component / transaction level

- Top Down Approach to audit and Understanding of the internal control framework
- Utilisation of Other Audit reports – Revenue, Inspection and Concurrent audit reports

- Review of previous years audit reports
- Identification of high risk areas which are also material
- Focus on Advances , Income , provisions and KYC for deposits
- Focus on revenue leakages and non fund based products
- Focus on foreign exchange transactions if any, by authorized branches
- Unit visits to confirm existence, End use of advances
- Compliance with Auditing Standards, including SA in reference to Documentation

### **Part C –Audit of Investments - ( If Applicable )**

- Conduct Physical verification of Investments
- Ensure these are in the name of the bank
- Reconcile to the register maintained in CBS
- Report variances if any
- Obtain certificate from bank manager for the same
- In case of investments held at branch , the same needs to be reported to the Central office of the bank

### **Part D –Audit of CCOD and Advances**

#### **36. Audit Approach**

The approach for Audit of advances envisages the following important phases

- Understanding the types of advances
- Understanding the large value accounts where deficiencies will have a material impact
- Internal Controls – follow the questions in the LFAR and check samples against checklists so that each advance type can be checked with reference to its unique requirements
- Adherence to IRAC norms
- Review of NPA and provisions for the same in accordance with RBI guidelines

#### **37. Identifying NPA**

It is important to appreciate that NPA's are not caused only on account of payment defaults but advance impairment can also be caused on account of reasons such as

- Non renewal of limits
- CC / OD Account not in order or in operative except for some sporadic transactions

- Non submission of stock statements
- Inappropriate sanctions
- Inappropriate end use ( diversion of funds ) ( usually also an LFAR item )
- Non compliance with terms of sanction ( usually also an LFAR item )

**38. Planning for Audit of Advances**

Activity	Activity
Obtain the total list of advances( Loan and CCOD balance file ) as at March 31, 2023 including CCOD accounts and tally to the Balance Sheet.	The <b>Master list</b> should contain the following Account number Party name Balance outstanding Amount of loan or CCOD limit Date of loan / CCOD Tenure Other details
Obtain the list of Specially Mentioned Accounts or irregular accounts as at March 31, 2023, These are published by the bank as daily exception reports . These are accounts which are most likely to slip to NPA (which period has to be obtained or as on what date)	Map the SMA accounts to the above <b>Master list</b> by way of vlookup function
Obtain the NPA list from the branch of both previous year and current year	Map the NPA accounts to the above <b>Master list</b> by way of vlookup function
Obtain the list of restructured accounts of both previous and current year as these require separate additional provisioning	Map the Restructured accounts to the above <b>Master list</b> by way of vlookup function
Obtain List of borrowers referred and cases admitted or filed under the Insolvency and Bankruptcy Code 2016	Map the IBC accounts to the above <b>Master list</b> by way of vlookup function or by individual tagging

The above process will provide a complete visibility of all the advances and ccod accounts of the branch along with the status of such accounts as at year end of March 2023 to enable selection of sample for audit

**39. Advances - Sample for Audit checking**

- a. Top accounts > = **Rs.10 crores / 10 % of advances incl FB + NFB** ) should be checked 100% to cover all accounts. This is a requirement in the LFAR also

- b. As regards other samples, high value outstanding, high value loans disbursed during the year , SMA , Restructured , IBC cases to be considered. Samples to be drawn from all loan categories and 100% for CCOD accounts ( as they are annual in nature )

#### 40. Review of Top Advances

- a. Ensure that the review
  - a. All loan balances > Rs.10 crores of 10 % of advances whichever is less ( Rs 2 Crs and 5% earlier )
  - b. All disbursements during the year for material advances
- b. The bank needs to provide the particulars of the top accounts in the prescribed format kept at the end of the LFAR**
- c. The broad principles in relation to Appraisal, Sanctioning, Documentation and post disbursement review shall be adhered to
- d. Any deficiencies in the above accounts need to be viewed seriously and reported in the LFAR. In case the audit opinion is likely to be impacted, attention should be drawn to Matters of Emphasis paragraphs etc of the Auditors report

#### 41. Restructured Advances

- a. Obtain a list of restructured advances
- b. Review the sanction of the restructuring
- c. Restructured advances to be reviewed with reference to revised terms of sanction properly approved by the relevant sanctioning authority
- d. Ensure compliance for the terms of restructuring ( any non compliance will be regarded as a slippage )
- e. Obtain a general understanding of the type of advance which has been restructured – project / non project advances, prior to or after Commencement of Commercial production etc as per the RBI master circular which deals in detail on manner and mode of treatment of restructured advances
- f. All terms of revised sanction are complied with ( including but not limited to revision in commercial production, interest rate revision, rescheduling of repayments, additional security cover, promoters contribution enhancements, escrow requirements etc ). In case of non compliance, appropriate reclassifications have been considered

#### 42. IBC Cases

- a. Obtain the list of IBC cases if the files are still maintained at branch , in most cases the files would be transferred to Asset recovery Branches
- b. If audit is done of an Asset Recovery branch, separate procedures would apply as such branches do not sanction or disburse loans but are mainly concerned with recoveries

#### 43. Verification - CCOD Accounts

- a. Cash Credit (CC) is a short-term loan offered to companies, businesses, and financial institutions to meet their working capital requirements. An Overdraft facility is credit funding offered by Banks to individuals and companies to withdraw money from the banks in which they have accounts, even if their account balance is low, zero, or below. Generally, Cash Credit and Overdraft are considered similar credit facilities, still, there are some major differences between both of these financial instruments as discussed below: ( Source : Internet )

**(The above and the information below is very generic and need not in real terms. Including the interest rates- Overdraft can be against hypothecation of Book Debts)**

Cash Credit	Overdraft
Lower Interest Rates	Higher Interest Rates
Availed on hypothecation of stocks and inventory	Availed on the basis of account holder's financials, credit history, relationship with the bank, and investments like FDs, insurance policies, etc.
Availed for majorly business purposes like working capital	Availed for general purposes, including business-related as well
Loan amount is based on the volume of stocks and inventory	Loan amount is based on the financials and security deposits
Limit does not reduces over time	Monthly reduction in the case of Overdraft
To avail Cash Credit, a new account needs to be opened	Overdraft facility is availed on the existing account of the applicant (account holder)
Availed for a minimum of 1 year	Availed for shorter tenure like a month or quarter, maximum of 1 year (With Yearly Renewal option)
Availed by individuals, retailers, traders, manufacturers, distributors, companies, partnerships, sole proprietorships, LLPs, etc.	Availed by account holders of the respective bank
Amount sanctioning is based on the business performance and market situations	Overdraft Limit is sanctioned based on financial statements and security deposits

- b. Source for above : Internet
- c. The most important aspect in CC account is to ensure that the amount sanctioned is based on stock and book debts which are correct in value terms as this is the primary security which is available to the bank. As this is a working capital facility, this account should record all the purchase and sales related transactions and hence the debit and credit summation should be atleast 4-5 times the value of CC granted which means that the facility is used for business rotation purposes
- d. For CC and OD accounts selected, check for the following :

The details are placed below

### **Financial Statements and solvency / capability of borrower / limit**

- Unaudited financial statements have been furnished for balances < Rs XX lakh
- Audited financial statements have been furnished for balances > Rs XX lakh
- Audited financial statements have been furnished for corporate borrowers
- Income tax returns & GST returns have been furnished
- Credit Appraisal has been done on merits of business / profession and not based on collaterals offered
- In case of individuals CIBIL score to be verified and in case of corporate borrowers Credit Rating is to be obtained wherever stipulated.

### **Limit fixation and approval**

- Proposal for assessment of Working capital needs is available
- Sanction as per limits of branch and based on stock and book debts
- Interest / Charges is as per the policy of the bank

### **If immovable property has been offered as security**

- EC for continuous period is available and is clear
- Title Deeds have been deposited with the bank
- If immovable property, EM regn > Rs 25 lakhs
- Legal opinion is available and indicates clean title deeds
- Valuation report is present and is commensurate
- Valuation report is less than three years old
- In case of corporates the security if belonging to company, the same has to be created by charge registration with ROC
- Insurance policy available, adequate and comprehensive

### **Security of stock and book debts / other collaterals**

- Demand Promisory note has been furnished
- Hypothecation agreement for stocks and Drs
- Guarantee Agt has been executed properly
- ROC registration of charge for Companies for hypothecation of stock and book debts
- ROC registration of charge for Companies for hypothecation of immoveable property
- Latest ROC search report
- Others

### **Monitoring Actions**

- Submission of stock statements on a monthly basis
- Maintenance of drawing limit based on Working capital statements
- Quarterly book debts Certified by CA if mandated
- Stock audit once a year by CA for > Rs 1 cr or as mandated

- Godown visit by banker - monthly or qtrly
- Debit and Credit summation indicates healthy operation of the Account

**Repayments / TOD / One off credits**

- Debit and Credit summation to be reviewed to ensure continuous operation
- Review of accounts featuring in Irregular report as per CBS
- One off credits to be investigated
- Drawing in excess of sanctioned limit on a continuous basis
- Consistent excess over drawing power as per sanction

**CBS Updation**

- Loan details recorded correctly in CBS
- Interest is updated correctly as per base documents
- Credit Rating has to be correctly to be fed in the system
- Test of repayments done
- Test of interest accrual done
- Test of accuracy of processing charges

**Report discrepancies in LFAR and MoC if needed**

#### 44. Verification - Housing loans

- Obtain the sample of housing loans as selected by you
- If samples are not provided report to the partner under Scope Limitation segment

**For Samples Selected verify the following :**

- Loan application is available
- Loan application is signed and properly executed
- Sanction letter is available
- Loan proposal indicating projections etc
- Title deeds lodged with bank
- Assessment of repayment capability - Sal cert / it returns / pl acct etc
- Margin at XX% ( Land cost + constrn cost )
- EC available
- Legal opinion
- Approved Building plan - CMDA
- Insurance policy
- Pledge deed
- All documents refer to the same survey number
- EM creation by deposit of title deeds
- EM registered for Rs 25 lakhs
- Direct payment to vendor of land / contractor
- If client own construction, stage payment subj to original bills cert by civil engg for work done
- Inspection of property by bank
- Final valuation cert for completed properties
- Valuation report is less than three years - available from expert
- Loan details recorded correctly in CBS
- Test of repayments done
- Test of interest accrual done
- **Report discrepancies in LFAR and MoC if needed**

#### 45. Verification – Term loans

- **Obtain the sample of Term loans as selected by you**
- **If samples are not provided report to the partner under Scope Limitation segment**
- **For Samples Selected verify the following :**
  - Loan application is available
  - Loan application is signed and properly executed
  - Sanction letter is available
  - Loan proposal indicating projections etc as well as financial / audited financial statements
  - Title deeds lodged with bank
  - Assessment of repayment capability
  - LTV ratio is maintained
  - If release against Proforma , then final invoice has been received
  - If final invoice has not been received and time has elapsed, physical verification needs to be done
  - In final invoice and proforma check for parameters such as TIN number, supplier particulars etc
  - Obtain installation certificate , if loan is for machinery
  - If for any other purpose, check proof of end use
  - Latest audited financials as per norms
  - In case of restructuring, check for the same
  - **Loan details recorded correctly in CBS**
  - Test of repayments done
  - Test of interest accrual done
  - **Report discrepancies in LFAR and MoC if needed**

#### 46. Verification – Jewel Loans

- Obtain the sample of loans as selected by you
- If samples are not provided report to the partner under Scope Limitation segment
- For Samples Selected verify the following :
  - Loan Application available and properly executed.
  - Jewel packet verified for weight and purity
  - Letter of pledge is available
  - Rate of interest updated properly
  - Loan details recorded correctly in CBS
  - Test of repayments done
  - Test of interest accrual done
  - **Report discrepancies in LFAR and MoC if needed**

##### ii. Gold Verification - ( Where Test are carried out )

- Complete the physical verification of jewels pledged for gold loans
- Document the physical verification in a count format including verified packs
- Reconcile to the records maintained for such loans
- Obtain a certificate from the branch management
- Any excess / shortage / difference must be reported in the Statutory Audit report
- No bullion stock should be held by the branch
- Check if any branches deal with gold coins sale and check controls in relation to the same

**47. Verification – Educational loans( Illustrative )**

- **Obtain the sample of loans as selected by you**
- **If samples are not provided report to the partner under Scope Limitation segment**
- **For Samples Selected verify the following :**
  - Loan application is available
  - Loan appln is signed and properly executed
  - Sanction letter is available
  - Loan for Grad / PG
  - Loan - Inland – Foreign
  - Plus 2 pass proof
  - Assessment of repayment of parent
  - For loan to minor , parent should sign the application and all documents for self and on behalf of
  - Where minor > 18 yrs after disbursement, AOD and LOU counter signed by parent
  - Parent IT return
  - **CIBIL SCORE of the borrower**
  - Parent Salary certificate / PL acct profit
  - Ceiling based on course
  - Not given for capitation fee
  - Margin maintained at X%
  - Less than max ceiling
  - , Rs 25K no sec
  - Rs 25 - 50K - surety apart from parent
  - > Rs 100 K – collateral
  - EM creation by deposit of title deeds
  - EM registered for . Rs 25 lakhs
  - All documents refer to the same survey number
  - Valuation report is less than three years - available from expert
  - Approved plan
  - Inspection of property by bank, if collateral
  - Interest to be serviced before completion of course for loans to employed Persons
  - Valuation report is less than three years - available from expert
  - Loan details recorded correctly in CBS
  - Test of repayments done
  - Test of interest accrual done
  - **Report discrepancies in LFAR and MoC if needed**

**48. Verification – Vehicle loans**

- **Obtain the sample of loans as selected by you**
- **If samples are not provided report to the partner under Scope Limitation segment**
- **For Samples Selected verify the following**

- Loan application is available
- Loan appln is signed and properly executed
- Sanction letter is available
- DPN
- Hypothecation agreement
- Loan proposal indicating projections etc
- Financials of the borrower prior to loan date
- IT returns for period before loan sanc. Date
- RC book - certified true copy
- RC endorsed in favour of bank - Hypothecation endorsement
- Loan is sanctioned net of margin for "Cost and Accessories" not for charges
- Disbursement amount , tenure and tenor as per sanction
- Duplicate keys
- Original invoice
- Direct payment to dealer for vehicle
- Guarantor signature
- Comprehensive insurance - live now and bank clause in fav of Ind Bank
- For second hand vehicle - valn report from approved valuer
- Higher margin requirement for second hand vehicle
- Loan details recorded correctly in CBS
- Test of repayments done
- Test of interest accrual done
- **CIBIL Score of the borrower and guarantor**
- **Report discrepancies in LFAR and MoC if needed**

#### 49. Verification – Loans against Own Deposits

- Obtain the sample of loans as selected by you
- If samples are not provided report to the partner under Scope Limitation segment
- For Samples Selected verify the following :
  - a.
    - ii. Letter of pledge is available
    - iii. Nature of security - RD / FD
    - iv. Lien is marked in system against the FD
    - v. Deposit receipt is available with bank and discharged
    - vi. Loan closed after due date of deposit
    - vii. Loan details recorded correctly in CBS
    - viii. Test of repayments done
    - ix. Test of interest accrual done
    - x. **Report discrepancies in LFAR and MoC if needed**

#### 50. Verification – Loans against financial assets

- Obtain the sample of loans as selected by you

- **If samples are not provided report to the partner under Scope Limitation segment**
- **For Samples Selected verify the following :**

- i. Loan application is available
- ii. Loan appln is signed and properly executed
- iii. Loan amount original sanctioned is within powers
- iv. Securities in the name of the borrower
- v. In case security not in the name of the borrower , consent letter is available
- vi. Shares - demat and pledged noting in demat
- vii. LIC - Assignment in favour of bank and regd
- viii. Govt instruments tfd as "Sec to Ind Bank " - NSC / KVP
- ix. Loan is within margin limits of surr. Value
- x. Loan is within margin limits of mkt. Value for shares
- xi. Loan is within margin limits of face value for govt notified instmts
- xii. Shares erosion in market value
- xiii. LIC erosion in surr. Value due to unpaid premium has been cognised for
- xiv. Loan details recorded correctly in CBS
- xv. Test of repayments done
- xvi. Test of interest accrual done
- xvii. **Report discrepancies in LFAR and MoC if needed**

## 51. Verification of Bank Guarantees

- a. A bank guarantee is a written contract given by a bank on the behalf of a customer. By issuing this guarantee, a bank takes responsibility for payment of a sum of money in case, if it is not paid by the customer on whose behalf the guarantee has been issued. In return, a bank gets a commission for issuing the guarantee
- b. Verification process
  - i. Obtain a list of all guarantees issued and also those pending as at year end
  - ii. Request letter from party
  - iii. Sanction within overall **approved sanction limits of the borrower**
  - iv. Guarantee executed in prescribed format
  - v. Documentation is complete
  - vi. Approval by a higher authority
  - vii. Margin money as stipulated has been maintained
  - viii. BG confirmed by the beneficiary
  - ix. Income received and accounted as per norms
  - x. Collateral security collected as per terms of sanction
  - xi. Reversal of guarantee on the expiry date
  - xii. Reconciliation with BGL Trial Balance
  - xiii. List of guarantees invoked by the counterparty and paid by the bank to be recorded as a liability and not as contingent

## 52. Verification of Letters of Credit

- a. 'Letters of Credit' also known as 'Documentary Credits' is the most commonly accepted instrument of settling international trade payments. A Letter of Credit is an arrangement whereby Bank acting at the request of a customer (Importer / Buyer), undertakes to pay for the goods / services, to a third party (Exporter / Beneficiary) by a given date, on documents being presented in compliance with the conditions laid down
- b. The main parties to an LC are
  - i) APPLICANT / OPENER – the buyer of the goods / services (Importer) on whose behalf the credit is issued
  - ii) ISSUING BANK - the Bank which issues the credit and undertakes to make the payment on behalf of the applicant as per terms of the L/C.
  - iii) BENEFICIARY - the seller of the goods / services (exporter) in whose favour the credit is issued and who obtains payment on presentation of documents complying with the terms and conditions of the LC
  - iv) Other parties include Advising bank, Confirming bank, nominated bank, reimbursing bank and transferring bank
- c. **Verification Process**
  - a. Obtain total list of LC's issued during the year and status of closure
  - b. Goods to be imported can be physically brought to India under the Foreign Trade Policy
  - c. Valid import licence issued by competent authority should be submitted by the importer, if required and should be valid in terms of date
  - d. Payments are to be made in strict conformity with FEMA regulations
  - e. An Import LC should be opened only on behalf of bank's own customers. "Know Your Customer" (KYC) rules should be observed while handling import transaction
  - f. Credit Assessment - Ability Of The Applicant to be reviewed
  - g. Credit Report on Overseas Seller may be reviewed –
  - h. LC Value should be within overall sanctioned limits of the borrower as per sanction terms
  - i. Credit standing and capability of the overseas supplier to ship the goods as per the requirements is to be assessed by the branches
  - j. Exchange Risk – Importer ( as per policy ) may be encouraged to obtain a forward contract as may be necessary to hedge the exposure

- k. Original letter from DGFT allotting an IEC Number is to be scrutinized and a certified copy to be kept on record for all customers desiring to open LCs for import purposes.
- l. LC application form to be verified
- m. Underlying contract or indent to be verified
- n. Substantiation that goods are freely importable furnishing therein ITC(HS) classification number or licence copy
- o. Insurance policy or cover note if the imports are on FOB or C&F basis as per bank policy
- p. Declaration under FEMA
- q. The LC application cum agreement form is adequately stamped as per respective State Stamp Duty Act/Laws
- r. The LC application is signed by an authorised signatory of the firm, company etc.
- s. The LC application is complete in all respects with clear and consistent instructions
- t. The beneficiary of the LC should not be importer himself or his nominee or his buying agent
- u. The beneficiary should be either a manufacturer, supplier or shipper of the goods
- v. Standard Clauses In LC should be ensured as per bank approved format

**53. NPA Review**

**a. NPA Overview and movement**

Account ref	NPA 2022-23
Opening NPA	
Add : Additions	
Add : Additions MoC	
Less : Repayments	
<b>Add : Legal Costs etc</b>	<b>Not permitted ?</b>
Closing NPA	

**b. NPA review**

- a. The NPA file was obtained from CBS as at date of audit
- b. The Specially Marked Accounts files were obtained
- c. The irregular files were obtained
- d. The files were cross referenced to the loan balance and CCOD file
- e. Clean loans – top value were test checked to ensure that there are no impairments
- f. Loans featuring in any of the above reports – NPA / SMA and IRR were considered for the review
- g. The accounts were reviewed individually with the Branch manager to determine the extent of slippage, possibility of recovery and the need for reclassification

- h. Additionally, accounts identified as potential NPA based on documentation / security lapses were also considered for the review and rectification before the Balance Sheet date
  - i. Restructured accounts listing was obtained and reviewed in detail
- c. NPA Movement statement**
- a. Obtain the NPA movement statement from the branch
  - b. Check opening NPA with reference to the previous year audited financial statements
  - c. Check additions
  - d. Check deletions
  - e. Closing balance should tie to the closing NPA report
  - f. All cases of deletions should be verified for payment by the borrower or for restructuring

## **Part E – Audit – Cash Balances**

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### **54. Procedure for Audit of Cash Balances**

- a. Obtain list of cash balances held – Branch / ATM's etc
- b. Physical verification of cash at branch as at year end or close date
- c. Roll back / roll forward testing and reconciliation to balance as at March 31, 2023
- d. Cash count at ATM and reconciliation with books
- e. Segregation of duties of the cashier who should not perform other conflicting functions
- f. Joint Custody of cash and Review of Cash key register
- g. Cash Vouchers to be signed by authorized signatory
- h. Verification of high value receipts
- i. Balances held in excess of retention limit
- j. Insurance Cover for cash in hand and cash in transit if held at branch and wherever held at Head Office, note down and report the same in LFAR accordingly.

## **Part F – Audit – Money at Call and Short notice**

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### **55. Procedures for Money at Call and Short Notice ( if applicable to branch only )**

- a. Compliance with instructions of HO
- b. Review Balance sheet to identify money at call and short notice
- c. Any Money at call and short notice held by the branch
- d. Year end balances have been reconciled
- e. Interest accrual to be verified

## **Part G – Audit – Balances with RBI, SBI and other banks**

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### **56. Verification of Balances with RBI, SBI and other banks**

- a. Obtain list of balances as per Bank general Ledger
- b. In respect of balances held with foreign locations , forex conversion to be ensured as per bank policy
- c. Obtain certificate of balance confirmations in respect of such balances
- d. Check interest and accruals on such balances
- e. Review the reconciliation statement
- f. Where difference exists between balance and amount as confirmed, the difference to be documented and verified as under and All aged items should be properly investigated
  - o Cash transactions
  - o Revenue transactions
  - o Unreconciled debits and credits

## **Part H – Audit – Fixed Assets**

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### **57. Audit of fixed assets**

- a. Obtain the fixed assets register and reconcile to BGL balance sheet
- b. Perform test check to confirm existence of assets
- c. For acquisitions check for
  - a. Authorisation for purchase
  - b. Invoices received
  - c. Capitalisation date
  - d. Amount as capitalized
- d. For Disposals check for
  - a. Authorisation
  - b. Basis of sale

- c. Amount realized
- d. Accounting for loss or profit on sale
- e. Check for idle assets viz assets not in use and obsolete assets and provisions therefor
- f. Identify if any assets have been acquired in satisfaction of debts and ensure compliance with bank policy
- g. In case any immovable properties are held by the branch , ensure compliance with bank policy

## **Part I - Audit - SB and Deposits**

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### **58. KYC Norms**

- a. Obtain a copy of the KYC / AML guidelines as applicable to the branch ( bank )
- b. Review compliance with reference to such norms in respect of customers of the bank
- c. Any non compliances to be reported

### **59. Verification of SB A/c and Deposits**

- **Obtain the total statement of all deposit accounts ( SB / RD / FD etc )**
- **Obtain the list of deposit samples to be verified**
- **If samples are not provided report to the partner under Scope Limitation segment**
- **For sample, following to be verified and documented**
- Date of deposit
- If SB acct holder, give SB ref
- Application form and complete
- Photograph
- ID proof and age proof
- Address Proof
- Introducer
- Pan copy
- Pan related documentation
- Rate as per norm
- CBS updation done correctly
- Interest Computation is accurate
- Deposit file has been reviewed for interest rates on a substantive basis (sanity checks)

## **Part J - Sundry Liabilities and Assets**

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### **Procedures for Sundry Liabilities and Asset Balances**

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- a. Does the scrutiny of accounts under various sub-heads reveal odd balances?
- b. Report the number of items and aggregate of amount of old outstanding items pending for 3 or more years and to report items outstanding more than one year
- c. Check unidentified deposits e.g. Excess cash found in the branch etc.,

**Part K - Audit - Profit and Loss Account – Analytical review procedures**

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**60. Analytical Review Procedures**

Description	2022-23	2021-22	% Change	2022-23	2021-22	% Change
	Amount Rs . lakhs	Amount Rs . Lakhs		Nos	Nos	
Total Advances						
Total Deposits						
Interest on advances						
Interest on deposits						
Other Incomes						
Profit / Loss						
NPA Amount						
<b>Ratios</b>						
Interest to advances						
Interest to deposits						

**61. Interest Income and Expense**

**a. Fund based**

- Obtain the schedule of charges and interest rates for different categories of liability products
- Prepare a schedule of total income of the bank
- The checking of interest of large loan accounts will be completed in the above audit procedures
- Tabulate the value checked against the total income
- Extend verification if the value of interest verified if necessary

**b. Fee based**

- Discuss with the manager and obtain an understanding of the various fee based products
  - Obtain the schedule of charges and interest rates for different categories of fee based liability products
  - Check the guarantees register and verify accuracy of computation of income
  - Obtain a list of all packing credit and other facilities and verify accuracy of computation of income
  - Extend verification if the value of interest verified if necessary
- c. Interest accruals for income and expenses would have already been verified for the samples selected for loans, CCOD and deposits
- d. Obtain bank circular on interest rates and check if the same have been configured correctly in the system
- e. Test check master data in the system with reference to physical sanction letters / deposit applications etc
- f. Additionally select accounts ( say 50-75) and test check the accuracy of computations

**62. Other Expenses**

Ensure that for sample of expenses , these are

- Properly Authorised
- Supported with original back up documents
- Amount is accurate
- Accounted in the correct head of account

**Part L – Stationery and Stamps**

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- Obtain schedule of Stationery Stocks
- Ensure that the physical balance tallies with the above schedule.
- Suspense Accounts/Sundry Assets.
- Obtain an schedule/return of suspense account and verify the items for long outstanding items.
- Report unusual/long outstanding items.
- Verify transfer to H.O during the year
- Does the scrutiny of accounts under various sub-heads reveal balances, which in your opinion are not recoverable and would require provision/ write off.

## Part M - Fraud Risk Review

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### Fraud Risk Review

For the top 10 - 20 Accounts of the Branch, review Advance accounts with reference to the below mentioned parameters and report any unusual or suspicious trends

In case of very large accounts of the branch which may be systemically important to the branch due to the large value of exposure , check for the following

- a. Address / phone number / Mail id
- b. Last AGM date
- c. Last financial statements as filed
- d. Director names ( perform further search on other companies where they are directors)
- e. Obtain the last three years of financial statements and auditors reports as well as charges which have been created
- f. Perform a Review of the account as well as the financial statements for important aspects set out in the below matrix. In case there is a predominance of any of the below mentioned indicators in any loan accounts and these are continued to be classified as Standard Accounts, then appropriate inquiries need to be made by the auditor

Warning Indicators	
1. Non submission of reports to the bank on time and evasive replies	
2. Movement of an account from one bank to another	
3. Request received from the borrower to postpone the inspection of the godown for flimsy reasons.	
4. Adverse industry regulations	
5. Adverse industry performance	
6. Emerging trends threatening the industry ( example - aggregators )	
7. Decline in share price if listed entity	
8. Material discrepancies in the annual report	
9. Significant inconsistencies within the annual report (between various sections)	
10. Poor disclosure of materially adverse information and no qualification by the statutory auditors	
11. Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet	
12. Decline in share price if listed entity	
13. Frequent change in accounting period and/or accounting policies	
14. Claims not acknowledged as debt high	
15. Substantial increase in unbilled revenue year after year.	
16. Inflated Balance Sheets evidenced by significant year over year change as compared to past data	
17. Qualifications and Significant Matters of emphasis in the audit report	
18. Any Key Audit Matters in the Audit Report	
19. Any significant matters reported in the Auditors Report on Internal Financial Controls over Financial Reporting	
20. CARO qualifications by the auditor / No CARO at all ?	
21. Non maintenance / proper updation of books of accounts	
22. Frequent changes in auditors ( average tenure would ideally be 5 years after the Companies Act 2013 )	
23. AGM not held , Financial Statements not approved	
24. Financial Statements not prepared / not audited and filed with Income Tax and Companies Act before the relevant due dates	
25. Financial statements not approved by the BoD / Delays	
26. Significant disclosures under the head of Pending litigation in the Auditors report	
27. Any instances of misplaced / accounting and other records destroyed	
28. Audits not performed although they are mandated by law	
29. Non compliances with General laws and regulations as evident from the audit report	

Warning Indicators	
30. Default in undisputed payment to the statutory bodies as declared in the Annual report.	
31. Raid by Income tax /sales tax/ central excise duty officials	
32. Non registration under relevant laws such as GST although the thresholds have been exceeded	
33. Foreign bills remaining outstanding with the bank for a long time and tendency for bills to remain overdue.	
34. Delay observed in payment of outstanding dues.	
35. Frequent invocation of BGs and devolvement of LCs.	
36. Under insured or over insured inventory.	
37. Funds coming from other banks to liquidate the outstanding loan amount unless in normal course.	
38. In merchanting trade, import leg not revealed to the bank.	
39. Funding of the interest by sanctioning additional facilities.	
40. Critical issues highlighted in the stock audit report.	
41. Frequent request for general purpose loans.	
42. Frequent ad hoc sanctions.	
43. Significant movements in inventory, disproportionately differing vis-a-vis change in the turnover.	
44. Significant movements in receivables, disproportionately differing vis-à-vis change in the turnover and/or increase in ageing of the receivables	
45. Disproportionate change in other current assets	
46. Significant increase in working capital borrowing as percentage of turnover	
47. Increase in Fixed Assets, without corresponding increase in long term sources (when project is implemented).	
48. Bouncing of high value cheques	
49. Significant pile up of slow moving / non moving inventory	
50. Delayed or missed employee payroll payments	
51. Payment defaults in other banks by the borrower	
52. Payment defaults by group concerns to other banks by the borrower	
53. Onerous Clause in issue of BG / LC / Standby LC	
54. Increased need for LC / Guarantees / supplier advances as compared to past indicating a decline in the credit worthiness of the borrower	
55. Bill of entry reference not updated for Outward remittances made for import transactions within a reasonable time	
56. Frequent Roll over of Packing credit	
57. Dispute on title of collateral securities.	
58. Exclusive collateral charged to a number of lenders without NOC of existing charge holders.	

Warning Indicators	
59. Concealment of certain vital documents like master agreement, insurance coverage.	
60. Liabilities appearing in ROC search report, not reported by the borrower in its annual report	
61. Same collateral charged to a number of lenders	
62. Heavy cash withdrawal in loan accounts. Invoices devoid of TAN and other details.	
63. LCs issued for local trade I related party transactions without underlying trade transaction	
64. Non production of original bills for verification upon request.	
65. No internal auditor appointed although the Company is covered under Section 138 of the Companies Act	
66. Any matters reported as required under Section 143(12) of the Companies Act for Fraud Reporting	
67. Any significant matters reported under Sec 138 Vigil Mechanism	
68. Significant control issues reported in Internal Audit report	
69. Financing the unit far away from the branch	
70. Not routing of sales proceeds through consortium / member bank/ lenders to the company.	
71. High value RTGS payment to unrelated parties.	
72. Frequent change in the scope of the project to be undertaken by the borrower	
73. Costing of the project which is in wide variance with standard cost of installation of the project	
74. Significant Aging of balances in Capital advances / Work in Progress	
75. Assets not purchased / installed as per Plan submitted to bank for credit appraisal	
76. Significant reduction in scale of operations	
77. Reduction in stake of promoters / directors	
78. Resignation of the key personnel and frequent changes in the management	
79. Significant reduction in manpower	
80. Resignations of independent directors	
81. Independent directors / KMP not appointed although required by law	
82. Significant reduction in the stake of promoter / director or increase in the encumbered shares of promoter/director.	
83. Large number of transactions with inter-connected companies and large outstanding from such companies	
84. Substantial related party transactions	
85. Floating front / associate companies by investing borrowed money	

**Part N - Maintenance of Work papers**

S No	Task	Done By	Reviewed by
1.	Appointment letter from bank		
2.	No objection from retiring auditor		
3.	Letter to previous auditor		
4.	Representation Letter		
5.	Branch Auditors Report		
6.	Memorandum of Changes		
7.	Certified financial statements & Schedules		
8.	Long Form Audit Report		
9.	Certificates as per index attached		
10.	Tax Audit report Sec 44AB of Income tax Act		
11.	Audit team and time spent		
12.	Bank Officials met and discussed		
13.	Central Statutory Auditors & discussions		
14.	Scope Limitations, if any		
15.	Significant audit notes		
16.	RBI circulars		
17.	Bank Circulars		
18.	Standard Operating Procedure Manual		
19.	Guidance Note of ICAI		
20.	Review Audit reports of the previous year		
21.	Concurrent, Revenue Audit & Inspection reports		
22.	Stock audits of borrower accounts		
23.	Frauds reported in previous & present years		
24.	Suspense Accounts		
25.	Adverse information in public domain		
26.	Component wise working papers		
27.	Audit working papers - Tax audit		
28.	Independent Valuation details		
29.	Large advances checklist as audited		
30.	Any other Working papers		

**Part O - Important References**

- **RBI master circular - April 1, 2023 -**  
**[https://www.rbi.org.in/scripts/BS\\_ViewMasCirculardetails.aspx?id=12472](https://www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=12472)**

Master circular RBI/2023-24/06 DOR.STR.REC.3/21.04.048/2023-24 dated April 01, 2023

- **Guidance Note on Bank Branch audit as issued by the ICAI - <https://www.icaai.org/post/guidance-note-on-audit-of-banks-2024-edition>**
- **Other RBI Directions**

**RBI/2021-22/125 DOR.STR.REC.68/21.04.048/2021-22 dated Nov 12, 2021.**

**RBI/2021-22/158 DOR.STR.REC.85/ 21.04.048/2021-22 dated Feb 12, 2022**

- **Branch Audit guidance document as received from the HO / CO**
- **Bank Authority levels for sanction limits**
- **Standard operating procedures of the Bank**

### **Appendices to this Document**

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Appendix 1 - Acceptance letter

Acceptance letter as furnished to the bank based on bank instructions

Appendix 2 - Engagement Letter On letterhead of the firm as per Guidance note

Appendix 3 & 4-Communication with the previous Auditor and Response received

Appendix 5 : Management Representation Letter from ICAI Guidance Note

Appendix 6 : Detailed Checklists for Audit and Audit Programs