

BANK BRANCH AUDIT WEBINAR

SIRC of ICAI
Planning & Documentation
2nd March 2023

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Introduction

- ▶ An annual Audit Process
- ▶ Empanelment by RBI through ICAI
- ▶ Appointment by Respective Banks from the list sent by RBI
- ▶ Governed by RBI Circulars
- ▶ Guided by ICAI through Guidance Note

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Reports & Certificates

- Regular Audit Report
- Long Form Audit Report
- Tax Audit Report
- Various Certificates such as IRAC Norms, Capital Adequacy, Ghosh & Jilani Committee

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Salient Features

- Onerous task
- Huge responsibility
- Limited time available
- Shortage of trained manpower



Resultant Need
Proper **Planning** & approach

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A PPOINTMENT & ACCEPTANCE
P LAN FOR THE AUDIT
P ROGRAMME
R EFRESHER COURSE
O RGANISE TIME EFFECTIVELY
A PPROPRIATE AUDIT TECHNIQUES
C OMPILING THE REPORT
H OUSE KEEPING – WORKING PAPERS

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APPOINTMENT & ACCEPTANCE

- ▶ Think carefully before accepting the offer to be included in the panel.
- ▶ Ensure that you do not give consent to more than one bank
- ▶ Ensure that the firm does not suffer from any disqualifications like
 - Change in the constitution of the firm
 - Being indebted to the bank for a sum exceeding Rs 1000/-
 - Holding any security of the bank carrying voting rights
- ▶ Issue an Engagement letter and obtain an acknowledgement.
- ▶ Obtain NoC from previous auditor.

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SA 210 - Audit Engagements

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PLAN FOR THE AUDIT

- ▶ Branch profiling
 - Obtain a facility wise break up of advance portfolio of the branch along with No. of accounts [Portfolio of advances.pdf](#)
 - Send a questionnaire calling for important details from the branch
- ▶ Carry out certain analytical review with data obtained
- ▶ Prepare a detailed audit checklist
- ▶ Timing – Start Date / End Date
- ▶ Manpower – Formation of team and training
- ▶ Working paper management

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SA 300 - Plan for audit of FS
SA 315 - Understanding the entity

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Program

- ▶ Audit program should cover all the areas under liabilities, assets, income, expenditure and off Balance sheet items – specially in view of PNB Fraud
- ▶ Special emphasis on verification of advances, income recognition and provisions to be made
- ▶ Carry out a compliance test of internal controls
- ▶ Identify areas of weakness
- ▶ Prepare plans for substantive testing

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Areas that require full check

- Verification of Balance Sheet and Profit & Loss account
- Verification of all closing returns with the ledgers and registers
- Verification of all large advances granted during the year
- Verification of all large NPA advances

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Advances verification

- Credit appraisal
- Sanction & disbursement
- Documentation
- Review & supervision
- Monitoring

Have a Checklist for large and other advances ***

[Large Advances.pdf](#)

[Other Advances checklist.pdf](#)

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Advances verification

- Delegated powers
- Banks advance manual, circulars, guidelines, etc.
- RBI Guidelines on lending
- Borrowers proposal and respective credit file
- RBI inspection report, concurrent audit report, inspection report & watch list (SMA)

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Refresher Course - Audit Team

Ensure that the team members are familiar with

- RBI circulars relating to income recognition, asset classification and provisioning norms
- Guidelines issued to the auditors by the banks with reference to certificates to be issued by them.
- The accounting system of the bank and the related internal controls

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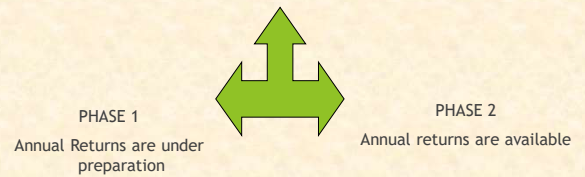
Refresher Course - Audit Team

- Salient features of the LFAR
 - Audit procedure to be adopted in a computerised environment.
 - Instruct them on not making any tick marks on the documents
 - Impress upon them that they are Ambassadors of not just your firm but the profession as a whole
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Organising - TIME - effectively

Conduct audit in two phases



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Phase 1

- Review of ALL large advances
 - Review of other advances on sample basis
 - Review of accounts already identified as NPA
 - Review of previous year NPA statement & check current status
 - Verify RBI / HO inspection report for sticky accounts
 - Review quality of credit appraisal
 - Study all accounts in the 'watch list' & SMA
 - Check stock statements, insurance, CMA data, AFS, renewals.
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Audit Techniques

- Review all exception reports
 - Obtain an overall understanding of the CBS system in operation at the branch.
 - Check whether the key controls are under dual operation
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Audit Techniques

- Obtain the data files required for review in .txt or .sdf format or excel
- Account review can be done offsite by opening the data files with MS Excel
- Use SQL (Structured Query Language) to query the database and obtain the required reports
- Audit Module of CBS environment gives lot of audit features – explore and utilise

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Compiling the Report

- Short form – expressing an opinion on the financial statements of the branch
- Long Form Audit Report (LFAR)
- Tax Audit Report
- Certificates
- Discuss the report with the branch management
- Avoid vague & general comments
- A “YES/NO/NA” answer in LFAR will not suffice. Give full details.

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UDIN MANDATORY - ICAI

- ▶ In addition to the membership number and FRN No, the signatory must generate UDIN and display in the audit report/certificates.
- ▶ UDIN has to be generated per Assignment per Signatory.
- ▶ In Bank Branch Audit, One Branch is one assignment, hence, one UDIN for all certificates will suffice.
- ▶ Care should be taken that a list of all certificates bearing same UDIN should be compiled and handed over to management under a covering letter so that the UDIN generated cannot be misused by affixing on any other certificate which has not been signed by you.

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UDIN MANDATORY - ICAI

- ▶ In Bank Branch Audit, separate UDIN has to be taken for Tax Audit.
- ▶ Bank Branch Audit per Branch is one assignment and hence one UDIN for all certificates is enough. However, if different partners are signing different certificates then separate UDIN has to be taken per signatory for the certificates signed by them.
- ▶ While generating one UDIN for all the Certificates, some common figures /parameters should be given in 3 mandatory fields and if no common figure is there then name of the Bank and Branch, Advances, Deposits etc must be the one common field which can be correlated with all the certificates.

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CODE OF ETHICS, 2019

- ▶ Applicable from July 2020
- ▶ Revised after 2009
- ▶ Converged with IESBA Code of Ethics 2018
- ▶ Fundamental basis of Highest standards of Professional ethics and integrity
- ▶ Objectivity & Professional Scepticism - stressed

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COE - Relevance to Bank Audit

- ▶ Communication with previous auditor
- ▶ NOCLAR
- ▶ Identification of threats, evaluating and eliminating/reducing the same.
 - ▶ Self Interest Threat
 - ▶ Direct Interest by way of clients introduction/proposals, etc.
 - ▶ Close business relationship with the branch officials - any other services
 - ▶ Temporary personal assignments
 - ▶ Branch information used for personal gains
 - ▶ Loans taken from the bank on own name or in firm name or any other interested parties

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COE - Relevance to Bank Audit

- ▶ Familiarity Threat
 - ▶ May not be relevant in Bank Audits, since appointment is by independent authority. But again we need to be clear on non offering of any other services to the respective bank nor has the bank funded client's borrowings
- ▶ Intimidation Threat
 - ▶ Threatening of removal of engagement due to issue on technical matters
 - ▶ Pressured to agree with the judgement of the client
 - ▶ Acceptance of a significant gift and inducements

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COE - Relevance to Bank Audit

- ▶ Self Review Threat
 - ▶ May not be relevant in Bank Audits, where professionals are not involved.
 - ▶ But we need to be clear that we have not done any of the audits or assignments of the said bank, before accepting the audit.
- ▶ Advocacy Threat
 - ▶ May not be relevant in Bank Audits, unless and otherwise we go with the branch officials on technical issues and compromise for future advocacy threat
 - ▶ Also to confirm there are no temporary personal assignments undertaken

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AUDIT DOCUMENTATION

- ▶ As per SA 230 audit documentation is a
 - record of audit procedures performed
 - relevant audit evidence obtained and
 - conclusions reached by the auditor
- ✓ Prepare Checklists for the audit process.

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Objective of SA 230

- The primary objectives of SA 230 are two-fold :
- To have audit documentation which gives the basis for preparation of the Audit Report and
- Provides evidence of the audit planned and performed

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Form, Content and Extent of Audit Documentation

Form of Documentation :

Paper - Working papers – Borrowers statement of accounts, NPA computation sheets, supporting papers for certificates given, etc.

Electronic - System files – Exception reports, excel converted sheets, capital adequacy sheets, snap shots etc.

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Examples of Bank Branch Audit Documentation

- ❖ Audit Plan
- ❖ Audit programmes
- ❖ Checklists for LFAR, Advances, NPA verification, Tax audit, Certifications, etc. (www.casconline.org)
- ❖ Analysis done – ratio analysis, Interest variations, LFAR excess cash carrying, suspense items, etc.
- ❖ SA 580- Letter of Representation – TDS, Frauds, cont. Liab.
- ❖ Correspondence (including e-mails) regarding significant matters

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Housekeeping - Working Papers

It is necessary to prepare and keep adequate working papers to show precisely

- **What work was done and by whom**
 - **What explanations and information was given and by whom**
 - **What decision on the various points was taken and by whom**
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Housekeeping - Working Papers

- Aid in the planning and performance of the audit
 - Aid in the supervision and review of the audit work
 - Provide evidence of the audit work performed to support the auditors' opinion
 - Become the basis for drafting the auditors report
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Housekeeping - Working Papers

- **They are the property of the auditor**
 - **Need to be retained for a period of 7 years from the date of signing.**
 - **Useful when answering queries if any from the regulator or facing the Disciplinary Committee of the ICAI**
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SUMMARY

- ▶ Plan your Audit
 - ▶ Structure the activities
 - ▶ Train manpower and guide them on site
 - ▶ Exercise Due diligence
 - ▶ Complete on a timely manner
 - ▶ Interact with the branch management
 - ▶ Compile and submit the report
 - ▶ Collect the working papers
 - ▶ **HAPPY AUDITING !!!!!**
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THANK YOU

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