

**Bank Branch**

**Statutory Audit under**

**CBS Environment**

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SIRC of ICAI

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# Presentation Walkthrough

Understanding CBS Environment

Work Planning in IT Environment

Necessary Excel Skills in concluding the Audit

# 1. CBS Overview

# Bank Audit

## THEN

- NPA
- MOC
- IRAC
- DEPRECIATION
- GOSH & JILANI

## NOW

- CBS REVIEW
- SYSTEM CONFIGURATION
- FRAUD ASSESSMENT
- INTERNAL CONTROL RISK
- AUDIT DOCUMENTATION
- + NPA + MOC + IRAC +  
CERTIFICATE++

# Banking Challenges

- Where does the Banking Exists Today
  - Internet Banking
  - Mobile Banking
  - Any where operations
- Centralised Loan Processing System
- Computerised IRAC and other systems.

# Audit Challenges

- Audit Completion Period
  - Start to end in a week's time
- Staff Training & Planning
  - New Employees / Articles
- Information Technology inefficiency
  - the branch auditors do not have access to the overall IT policy, processes, controls and accounting procedures implemented by the bank.
- Domain Knowledge Deficiency
  - BASEL NORMS
  - CAPITAL ADEQUACY
  - Interest Subvention

# What we don't know at the Branch

- Accounting manual, entries, calculations and framework are built in computerised accounting systems.
- Critical IT and manual controls are centralised at HO level.
- Limited access to periodical MIS, exception reports, NPA related reports generated by the system.
- Documentation of critical processes performed for accounting and bookkeeping (IT and Manual).
- Access to primary records and entry level transactions.
- Difficulty in audit sampling due to huge population of data.
- Hard copies relating to transactions.
- Independent verification of existence of business continuity plans and disaster recovery plans.

# Bank Audit - Reporting

- Reporting to do in Bank Branch
  - Branch Auditors Main Report
  - MOC - Memorandum of changes
  - Tax Audit Report
  - Certificates
  - Long Form Audit Report
- Do not forget
  - Documentation for peer review
  - Working papers



# Audit Assurance in Bank Audit

- Audit completed in accordance of Standard on Audit issued by ICAI
- Statements are free from Material Mis-statement
- Statements show true & Fair view of the affairs of the branch
- Assessment made on 'Risk of material misstatement of the financial statement, whether due to fraud or error'
- Transactions are with in the Branch Powers
- Returns are Adequate and are in agreement with Books
- Necessary information and Explanations required for the audit has been obtained
- Auditors confidence on the over all IT Environment.

# Understand CBS

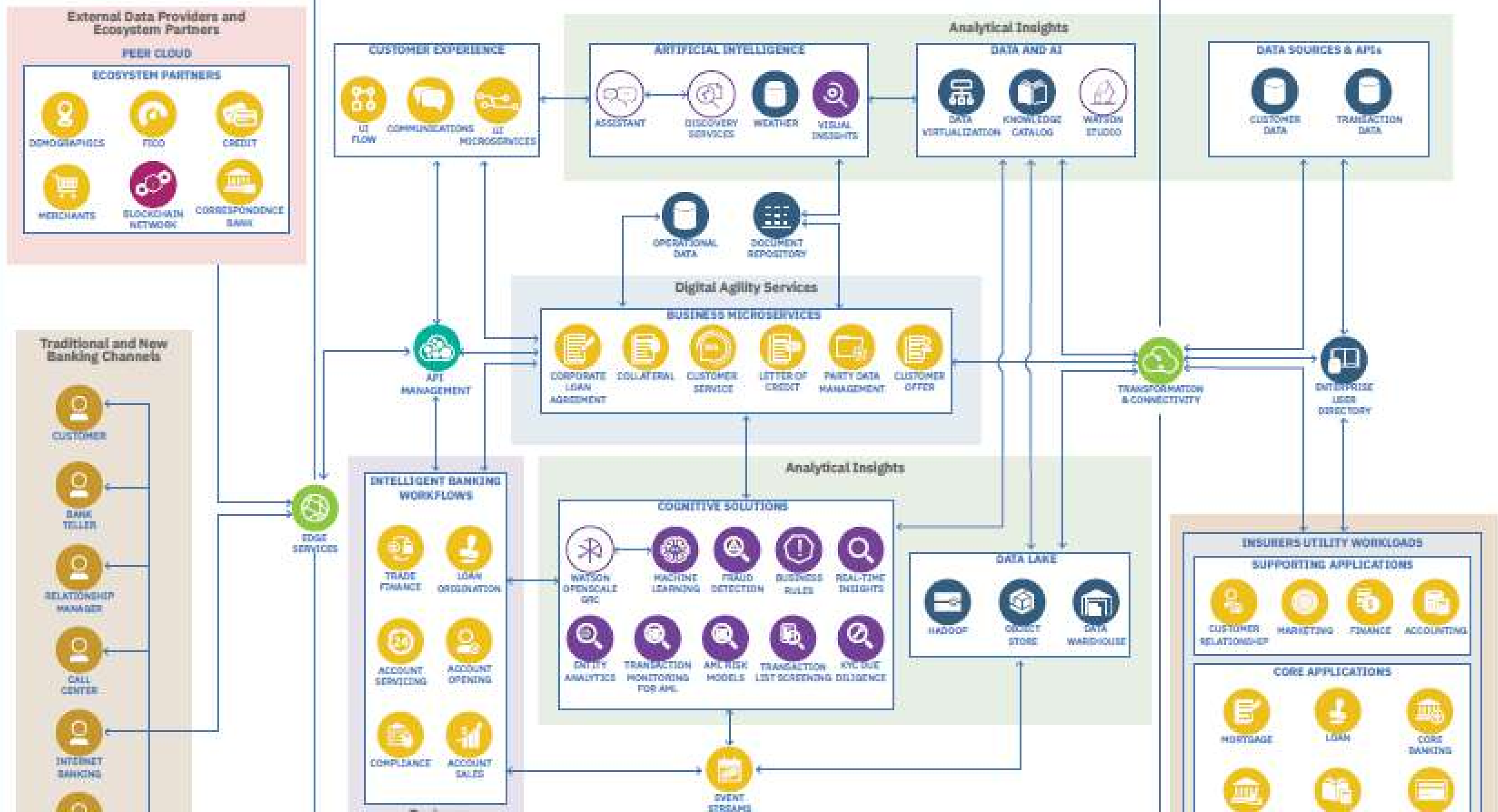
# Core Banking – Flavours!

- Pure Core Architecture
  - . Only Central Database – Finacle
- . Core with Branch Servers
  - . Eg. Flexcube, Bancs24
  - .
- Cluster Banking Architecture
  - . Regional/Zonal Cluster Servers
  - . Central Server
- . Heterogeneous Architecture
  - . Co-existing of TBA with CBS

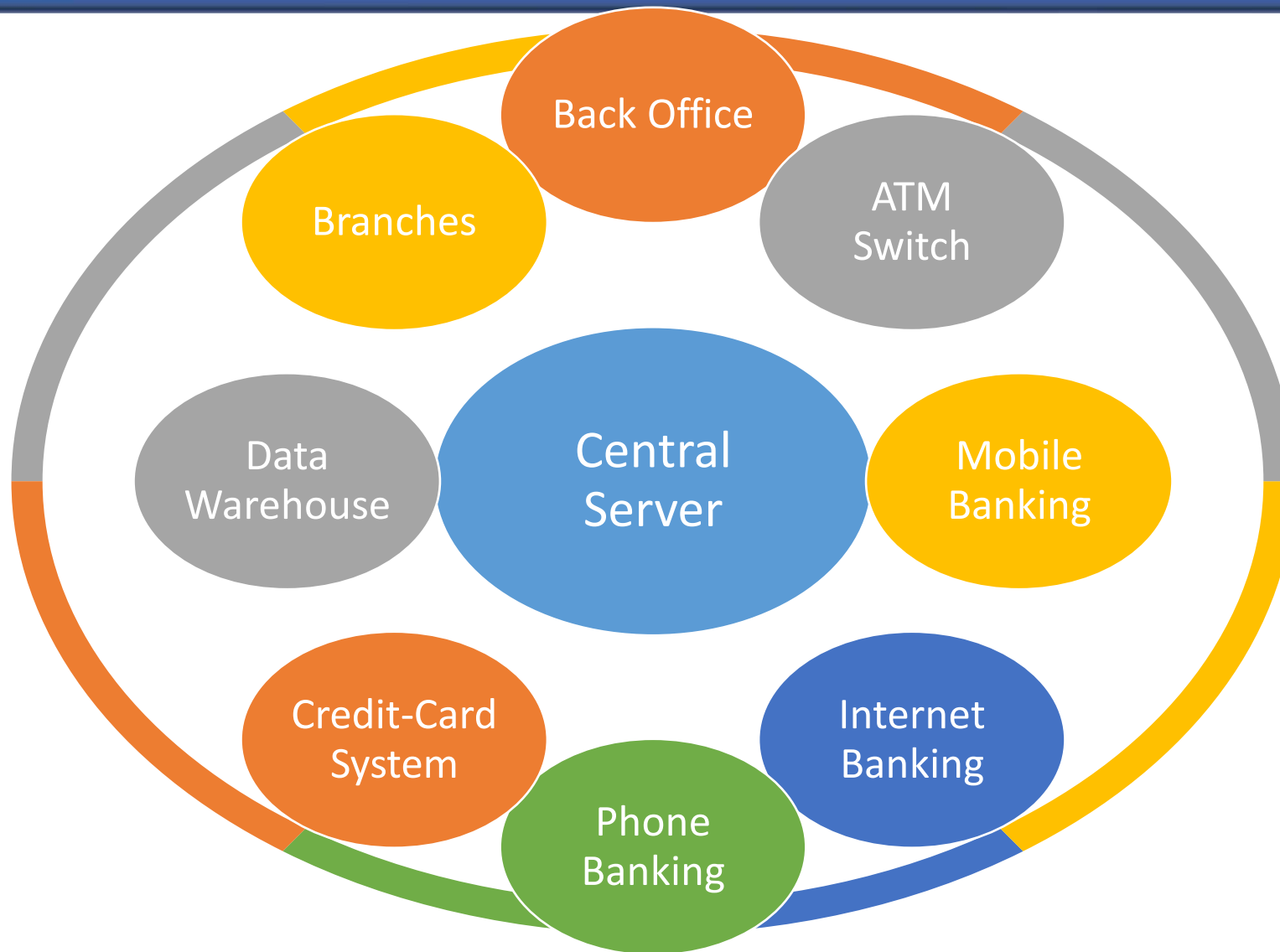
# USERS

# CLOUD

# ENTERPRISE



# Interconnected Environment



# RISKS in CBS Environment

## 1. Ownership of the Data

Data resides at the Data center and not the Branch. Who is the Owner

## 2. Authorization Process :

Anybody with access to CBS including customer can do Direct Data Entry.

## 3. User Identity Management esp. Branches having customers in large numbers, in some cases more than 5000.

## 4. Incident Handling Procedures:

1. Transactions happening in real time Environment.
2. Inadequate authentication Procedures

## RISKS in CBS Environment

5. Multiple applications and multiple versions, connected to Data Center
6. Down time in Data center = Down time in Branch.
7. Wrong Parameter at the master setup.
8. Errors in Data Migration.
9. Application Software in operation outside CBS like NPA Calculator.

# RBI expectation on CBS behaviour



# CBS – RBI says

- a) Banks must have CBS – a software which allows data sharing amongst the members in network

C – CORE = Centralised Online Real-time Exchange

B – Banking = No longer branch banking, it is bank banking

S – Solution = System which brings solution

*{Banks, Finacle, flexcube}*

- b) Asset Classification
- c) Income recognition automation
- d) Provisioning automation
- e) Capturing customer information in one place/ record center of customer info

## RBI says – IRAC Automation RBI/2020-21/37

- The System based asset classification shall be an ongoing exercise for both down-gradation and up-gradation of accounts. Banks should ensure that the asset classification status is updated as part of day end process. Banks should also be able to generate classification status report at any given point of time with actual date of classification of assets as NPAs/NPIs.

# CBS – RBI says – Risk Categorization

- Risk Categorization has direct bearing on Capital Adequacy.
- RISK CLASSIFICATION NEED NOT BE AUTOMATIC. THERE ARE MANY MANUAL ACTIONS STILL PREVAILENT.
- RBI directions state that banks should have a risk based approach which includes categorizing customers as low, medium and high risk category, based on the assessment and risk perception. This is called the Anti-Money Laundering Standards (AML) risk assessment. It has to be noted that banks do not inform customers about their risk categorization.
- Risk categorization should be done based on following parameters
  - Customer Identity
  - Social status/ financial status
  - Nature of business
  - Information about client business, etc

# CBS – RBI says – Risk Categorization

- Risk Categorization be reviewed periodically, at least once in six months
- Periodic update of KYC based on risk category
  - At least once in every two years for high risk customers
  - Once in every eight years for medium risk customers
  - Once in every ten years for low risk customers
- Periodic updating is also subject to the following conditions.
  - Fresh proofs of identity and address shall not be sought at the time of periodic updating, from customers who are categorized as 'low risk', when there is no change in status with respect to their identities and addresses and a self-certification to that effect is obtained.
  - A certified copy of the proof of address forwarded by 'low risk' customers through mail/post, etc., in case of change of address shall be acceptable.
  - Physical presence of low risk customer at the time of periodic updating shall not be insisted.

# CBS – RBI says – Asset Classification

- Bank shall not resort to manual intervention
- Exception to above may be allowed subject to minimum and temporary intervention  
*{Exceptions are for automated asset classification and not IRAC norms}*
- In case of exceptions two level authorization required  
*{Such delegation of powers for authorising the exceptions should be as per the Board approved policy of the bank (by CEO, in case of unavailability of Board) and preferably should be done from the centralised location and suitably documented.}*
- Exceptions must have audit trail and be audited by statutory and concurrent auditors
- Logs of exception to be maintained for three years  
*{i.e. manual interventions / over-rides including, but not limited to, the date and time stamp; purpose/reason; user-IDs, name and designation of those making such manual intervention and necessary account details. These logs shall also be stored for a minimum period of three years and not be tampered with during the storage period. These logs shall be system generated.}*

# CBS – RBI says – AML – Anti Money Laundering

- The fundamental feature of this module/application is that it 'reads' data from CBS and processes it for its report. This feature of 'reading' is important because many Banks boast NIL cases. This is usually because of 'mapping' error. This module looks at the wrong places and comes back with no cases to report which is misconstrued as NIL returns
- Auditor can also scrutinise the 'white listing' of cases where the branch is better suited to remove the cases of suspicious transactions based on some rules of deposit and withdrawal which are also specified by The Reserve Bank of India. The reasons for not considering the transaction as suspicious is within the realm of the branch, by identifying Retail cash business of account holder like petrol service station or grocer etc.
- Classification rules are normally set at Data Centre. But the reasons and replies definitely are of his concern to ensure these are logical and do not undermine the objectives of AML. Low AML training of Bank staff emphasizes the intervention of the Branch Auditor for AML audit.

# CBS – RBI says – Baseline requirement for NPA

- Data Input
- User Access Management
- Straight Through Processing
- Back end data access restriction
- Audit Logs
- System Generated NPA
- Test Environment

# CBS – Verifying system classification of NPA

- Compare list of previous year NPA with current year
- Take report from CBS which indicate the NPA in few combination of reports like:
  1. List of loan in arrears – where more than 2 instalments due
  2. For CC/ OD review if they are “continuously overdrawn”  
{If period exceeds 90 days then NPA, random check of previous month period will determine whether account is continuously overdrawn or not}
  3. Report of account not renewed or reviewed for more than one year
  4. Report of stock statement in arrears  
{Specify the period of three months which is the trigger to downgrade the borrower’s account, this will be a ready list to validate the NPA list of the branch.}
  5. Report of overdue BP



# CBS – Charges automation

- Understanding which charges are automated and which are manual
- Where charges are manual verifying whether there could be instance of leeway being exercised by the bankers to retain party
- Risk rating of the borrower to be fed in system
- Verifying ROI in system
- Obtaining list of MCLR on various dates

## CBS – Revenue Accuracy assurance

- Interest is not levied on a particular product of the Bank
- Non responsiveness of rate to increase of PLR/TLPLR/ WCPLR etc.
- Installment holiday miscalculates the total Equal Monthly installments (EMI)
- Error in varying interest rate in a single advance account

## 2. Internal Control System in Banks

# Internal Controls

Internal Control is process effected by the management to provide reasonable assurance regarding achievement of objectives in the policy:

- Effectiveness and efficiency of operations
- Reliability in financial reporting
- Compliance with the applicable laws and regulations.

# Internal Control Procedures

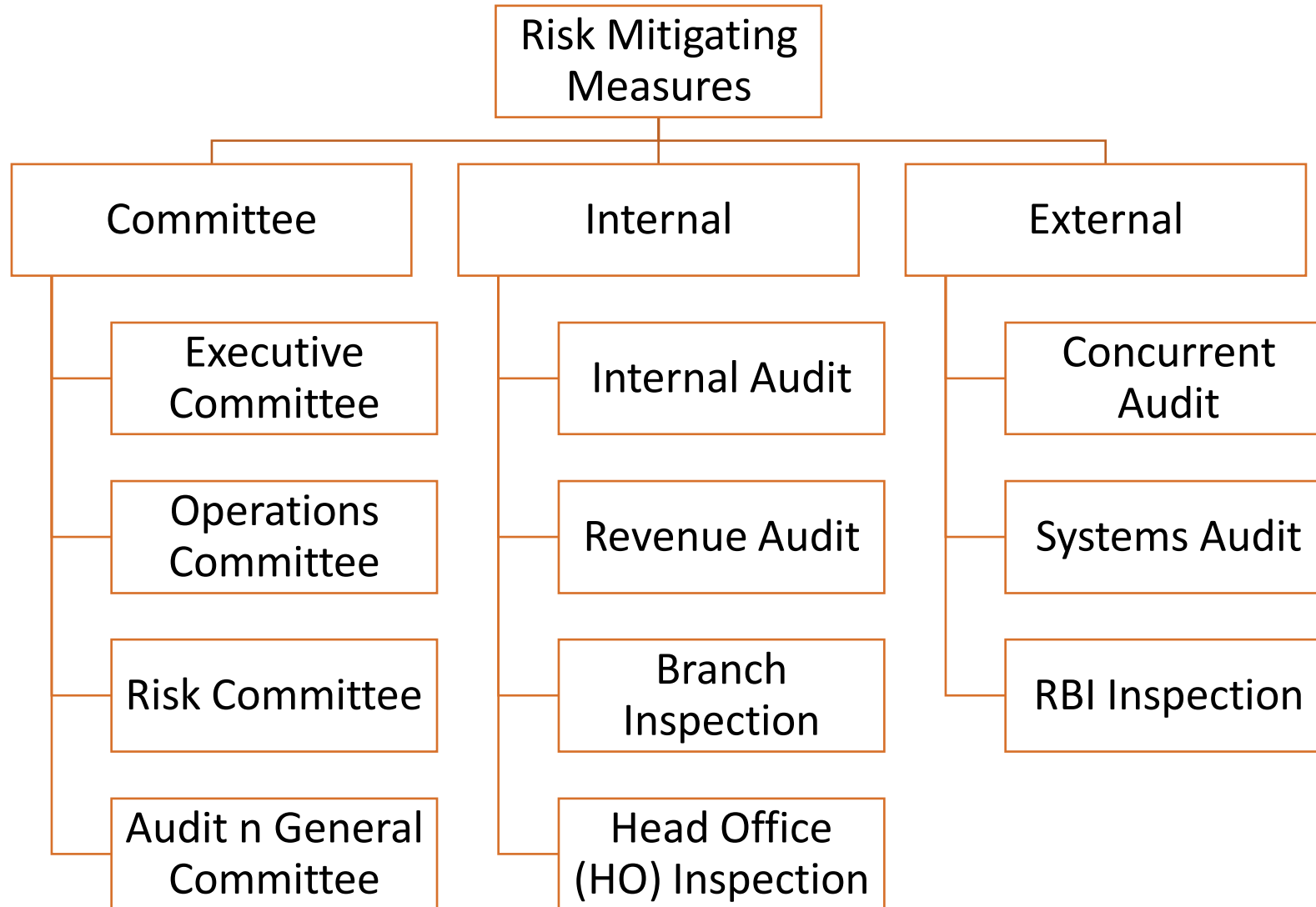
Mainly address the following aspects

1. Delegation of Powers
2. Segregation and Rotation of Duties
3. Maintenance of Adequate Records and Documents
4. Accountability for and Safeguarding of Assets
5. System Configuration and Account Mapping
6. Independent Checks
7. SOD & EOD Process

# Review

Design and Review of Risk mitigation process

# Bank RISK Management Measures



# Risk based Internal Audit

## Risk-Based Internal Audit

- to ensure that the internal audit is undertaken in the bank in a risk focused manner.
- RBI circular DBS.CO.PP.BC.14 /11.01.005/ 2003-04, dated June 26, 2004 on “Risk Based Supervision – Follow up of Risk Management Systems in Banks”



# Revenue Audit

- General Scope

- Identifying cases of leakage of revenue due to wrong computation of interest,
- Non-application of interest on time,
- Application of incorrect rates of interest/exchange/commission, non-application of penal interest,
- Non-recovery or short-recovery of service charges on guarantees and letters of credit

# Branch Inspection

Covers all important areas of functioning of the branch, including

- Efficacy of systems and procedures,
- Compliance with head office directions,
- Customer service,
- Maintenance of books and records,
- This is typically in the nature of internal audit

# Head Office (HO) Inspection

## Inspection by HO

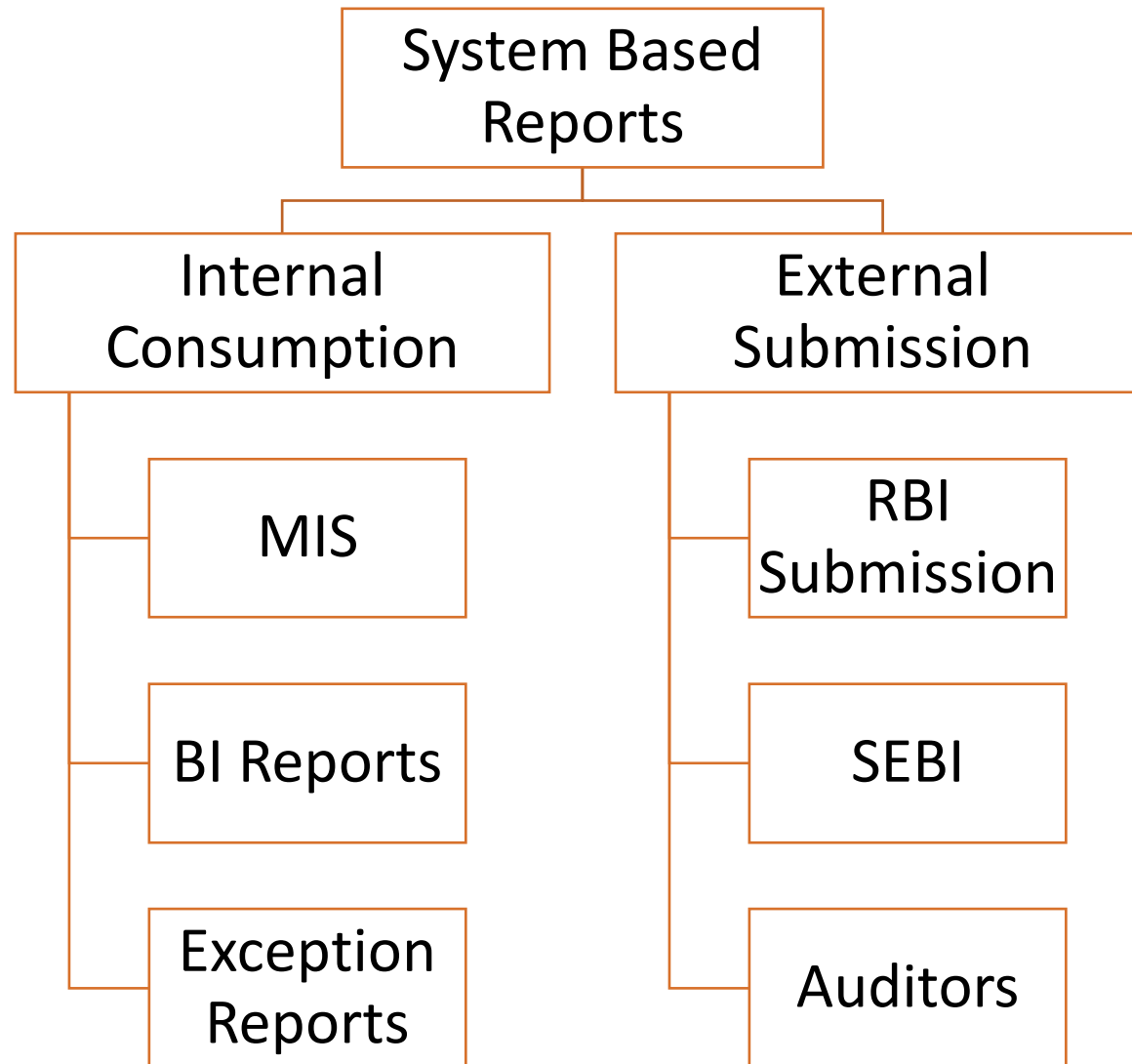
- Investment and other treasury functions,
- Functioning of the central stationery department,
- Fixed assets (if centralised),
- Inter-branch reconciliation
- Employee engagement & Training .

# Concurrent Audit

- An external Review of financial aspects of the Bank including documentation and other aspects.
- Scope defined by the management.

# Reporting activity by a Branch

# Bank Reports



# 3. Audit Planning

# Conducting of Branch Audit – Birds Eye View

- Engagement letter for Branch Statutory audit, with closing circulars.
- NOC from the previous auditor
- Pre-Audit discussion with branch
- Audit planning
- Audit Execution
- Discussion of the draft Branch audit report with bank
- Preparation of MOC and effect of the same in books of account
- Submission of Audit Report to branch +++.



# Audit Planning

# Planning Involves

## Before Start of the Audit

- Audit Scope & Coverage
- Who will do what
- Start Time & Time Required
- Resource Materials – Reference Points
- Admin – Travel + Letter Head + Stationery

# Audit Approach – Macro View

- Profile the Branch business and materiality
- Financial Assertions and relevant automation levels
  - Gain Understanding of Automation levels and maturity
  - Extent of Automation
- Compare growth/reduction in volumes under various heads
- Insights into current Banking trends
- IT Risks and Controls
  - Understanding the Control Environment
- Plan and Design your Audit Procedures
- Assessing the reporting and Regulatory risk
- Discuss, Form Opinions and Conclude

# Audit Approach - Working

- Balance sheet
  - Advances and Deposit
  - Other than A&D
- Profit and Loss Account
- Management Representation Letter
- Audit Working Papers / Supporting's
  - Certificate Issued
  - LFAR Comments
  - 3CD workings
  - Audit Report Workings
  - Qualifications Working
  - MOC Workings

# Audit Standards

- SA 210 – Agreeing the Terms of Audit Engagements
- SA 310 – Knowledge of the Business
- SA 400 – Risk Assessments and Internal Control
- SA 320 – Materiality in planning and performing an audit
- SA 530 – Audit sampling
- SA 300 – Planning an Audit of Financial Statements
- SA 220 – Quality Control for an audit of Financial Statements
- SA 500 – Audit Evidence
- SA 230 – Audit Documentation
- SA 580 – Written Representations

# Points to ask at the Start of Audit

1. Data processing and data interface between various systems.
2. Data integrity and data security.
3. Business Continuity Plans(**BCP**) and Disaster Recovery Plans (**DRP**).
4. **Accounting manual** and critical accounting entries (including month-end and year-end) and the processes and involvement of IT systems.
5. Controls over key aspects, such as, **account codes and mapping** thereof, use of various account heads including other assets and other liabilities, asset classification, income recognition, expense booking, overdue identification, month-end and year-end procedures, valuation and revaluation of various items of the financial statements, KYC, AML, etc.
6. Controls and **recording** of various e-banking and internet banking products and **channels**.
7. **Manual processing** of key transactions.
8. **Manual Interventions** in the Information Systems, more particularly those with reference to the identification, classification and provisioning of Non-Performing Assets and compensating controls designed and implemented by the bank to mitigate the risks arising from the manual interventions.
9. Access to the **audit logs/ trails** maintained for capturing events such as changes in master data/ parameters, activities carried out through administrative privileges and through backend access etc.

# Points to ask at the Start of Audit

10. List containing **exceptions** granted to the system driven asset classification, along with the **multi-level authorisation** for the same, time stamps and reasons for such exceptions and audit trails captured for the same.
11. **MIS reports** being generated and the periodicity thereof.
12. **Hard copies** being generated and the periodicity thereof.
13. Process of generating information related to various **disclosures in the financial statements** and the involvement of the IT systems.
14. **Major exception reports** and the process of generation thereof along with logic embedded in generation of such reports.
15. Major **IT related issues** (including frauds and failures) faced and resolved/unresolved during the year, such as, data/system corruption, system break-down, etc., having a bearing on the preparation and presentation of financial statements.
16. Significant **observations of internal auditors, concurrent auditors**, system auditors, RBI inspection, internal inspection, etc., related to computerised accounting and overall IT systems.
17. **Customer complaints** related to mistakes in transactions (interest application, balances, etc.).

# CBS Weakness in Advances Mgmt.



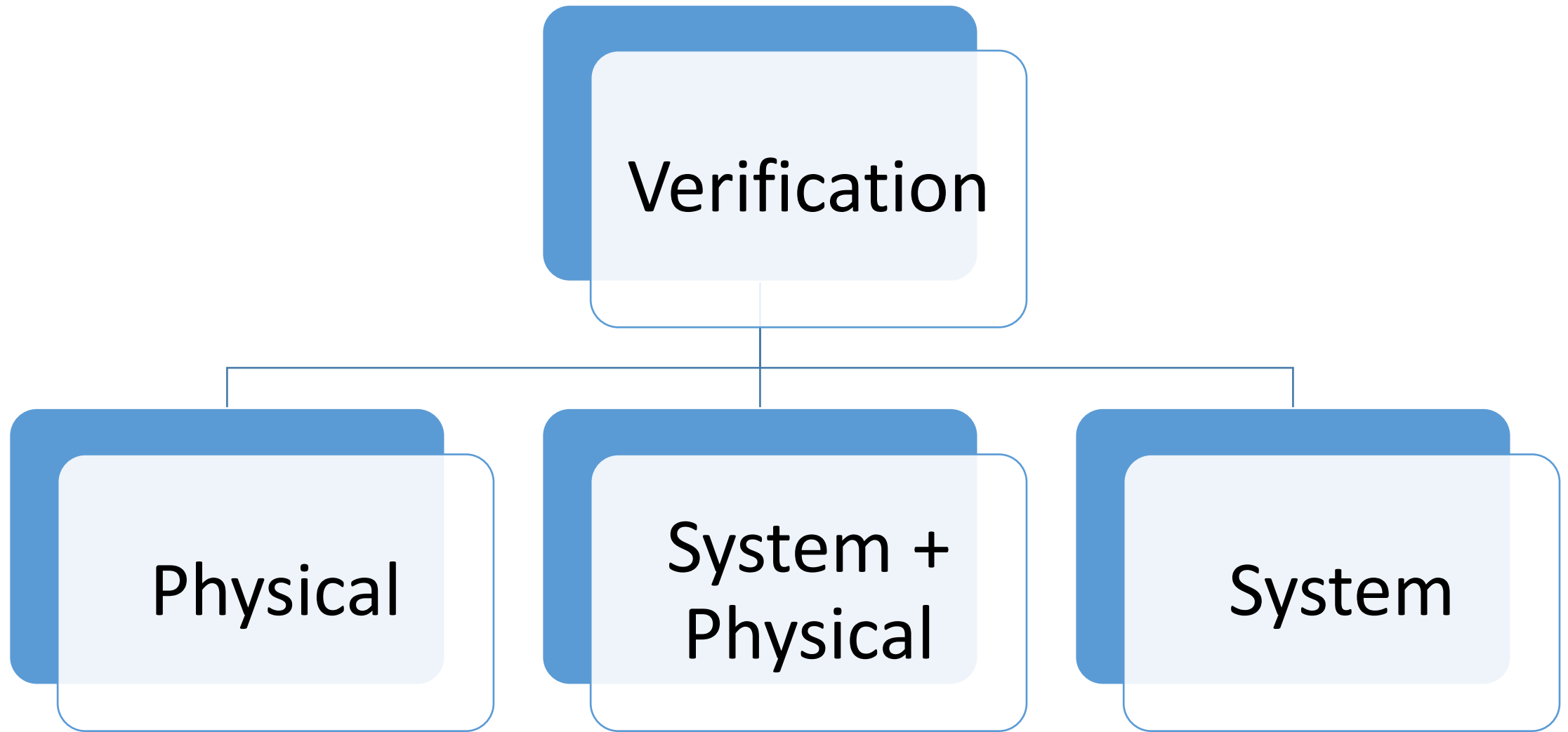
# CBS Weakness – DP Calculation

1. DP calculated on the basis of manual returns is entered in the CBS. Except for maximum sanctioned limit/DP, there is no other application control on quality of returns.
2. There is lack of independent application systems to assess the quality of stock statements and periodical returns.
3. Validation controls are weak with respect to DP limits.
4. Controls around validation of borrowers' financial statement are weak.
5. Audited financial statements content is Manually entered into spreadsheet template as a part of CMA data for critical ratio analysis related to liquidity, profitability, and other ratios.
6. Application controls for analysis of financial statements are weak.

# IRAC Classifications control weaknesses in the CBS

- The basis of IRAC classification is dependent on fields such as
  - Loan Sanction Date, Period of Loan, Rate of interest, moratorium, nature of facility, priority sector, terms of re-schedulement, etc.,
  - which are at times updated manually at the branch and not through centralised / automated process.
- Periodic validation of IRAC classification,
  - especially in case of doubtful or loss assets wherein at times it is observed that the same is not system driven but updated manually at the branch.
- Manual interventions/ subjective considerations in the process of restructuring
  - of the advances and monitoring the Date of Commencement of Commercial Operations (DCCO) in respect of infrastructure and non infrastructure project loans.
- In case of multiple loans sanctioned against a common security,
  - there is a possibility of updation of common security at multiple loan account level as independent security.
  - This results in over statement of security amount and lower amount of provisioning. In case of consortium advance, the security value (attributable to the share of bank) should only be updated. If the entire security is updated, it results into over statement of the security.

# Audit Planning



# Physical Verification

- Portion of Audit to be done manually
  - Review of Cash Balance
  - Securities held at Branch including Gold Loans.
  - Loan Documentation.
  - External Confirmation including borrowers Loans.
  - Reading of the Other Audit Reports

# System + Physical

- Use of Computer and also Physical documents
  - Vouchers + Expenses Debited
  - FD Lien Marking
  - Sanction Ticket + Terms
  - TDS & Service Tax Returns/GST Returns
  - LC /BG documents with the Module & corresponding commission charged - Financial Vs. Performance

# System

- Review in the CBS only
  - Interest change application
  - Customer database – Unique Accounts
  - Regular + Exception Reports
  - Loan Account Ledgers
  - Standing Instructions
  - Clearing Ledger Accounts (Inter branch / HO)

# Exception & Adhoc Reports

A goldmine for the auditor!.....

# Exception Reports

1. Debit/Credit balance change
2. Maturity record deleted
3. Automatically generated accounts
4. Inactive accounts
5. Dormant accounts reactivated
6. Excess allowed over the limits/drawing power
7. Irregular term loan accounts with number of arrears of instalments and interest with amounts
8. Debits to income head account
9. Debits to head office accounts



# Exception Reports

- 10. Overdue bills and bills returned
- 11. Withdrawals against clearings
- 12. Time barred demand promissory notes
- 13. Unchecked transactions
- 14. Sign-on attempt from two terminals
- 15. Exit to operating system
- 16. Password errors
- 17. Sign-on reports
- 18. Sign-off reports

# Exception Reports

19. Deposit accounts debit balances
20. Debit balance accounts without interest rate
21. Loans and advances credit balances
22. Temporary overdrafts allowed beyond the sanction period
23. Items pending in clearing
24. Inter-branch transactions with age-wise details
25. Late cash report
26. Account validation report
27. Cash Value Notes missing number control report

# Exception Reports

- 28. List of deposit accounts exceeding limit with wrong interest parameters
- 29. Value date Reports – FD Renewal etc.
- 30. Duplicate FD Printing
- 31. Transfer operations without critical details
- 32. TDS outstanding/unflagged/exempt report
- 33. Funded Operative accounts
- 34. Flagged Deposit accounts for safe custody
- 35. Authorization and limit reports
- 36. In-operative/dormant account transaction reports
- 37. Manual debits to interest paid account

# Exception Reports

- 39. Direct GL entry exception reports
- 40. Exceptional SL txns.
- 41. Exceptional Parameter Changes
- 42. Wrongly linked FD accounts
- 43. Exceptional Direct GL
- 44. EOD (End of Day) Exception Reports

# 4. Audit Execution

# Flex cube Reports

Know how to generate reports

# Few Important Reports- Flex cube

Sl.No.	Description of Reports	Report Code in Flexi cube
1.	Loan Balancing Report – Term Loans	LN707
2.	Product wise/ Customer wise Listing – Term Loans	LN632
3.	Loans Trial Balance	LN615
4.	Account wise Overdue Report	LN690
5.	List of Loan Accounts opened & closed	LN631
6.	OD Account Detailed report	CH129
7.	OCC Balancing report	CH606
8.	Account wise Listing NPA class for OCC Accounts	CH601
9.	Excess allowed over the limits/drawing power	CH602
10.	Negative balances in SB accounts / TODs / Credit card transactions verification	CH621
11.	Unchecked transactions	GL 616
12.	Stock Statement Summary Reports	BAM74

# Few Important Reports- Flexicube

Sl.No.	Description of Reports	Report Code in Flexi cube
13.	Sign-on reports & Sign-off reports	SM 5008
14.	Debit balance accounts without interest rate ( Filter 0% using this report)	LN632
15.	Direct GL entry exception reports	GL 003



# Business Objects (BO Reports)

Sl.No.	Description of Reports	Report Code in Flexi cube
1.	Detailed Minor Subsidiaries Balancing Report	120018
2.	Detailed Balancing Report – Deposits	120007
3.	Overdue Matured Deposits	170002
4.	List of NPA Accounts	280027
5.	Sector wise Balancing Report	280037
6.	Day Book Cum Trial Balance	20170406_162
7.	Debits to income head account GEN CHARGES MONITORING REPORT BO REPORT	220014
8.	Time barred demand promissory notes	PRR 12 BO
9.	Loans and advances credit balances	124934
10.	EOD (End of Day) Exception Reports	350001 TO 350006 AND 350010

# On Screen & Navigation - Flexicube

	Description of Reports	Report Code in Flexi cube
1.	GL Extract of the Party	LN604
2.	Deposit accounts	TD021
3.	Checking Party Ledger Accounts for Loans	LM10
4.	Master view of Repayment schedule and ROI for Term loans	LN522
5.	Master view of Repay sch and ROI for CC/OD	CHM07
6.	Account trans for SB/CC/CA/OCC	CH031
7.	Generate GL report	7775
8.	View the report	7778
9.	Generate a GL	GL008

## Few Sample GL codes

	Description of GL	GL code
1.	GC - MISC- OTH FURNISH DET IN ANX	420083090
2.	GC - MISC- WRITE OFF EXP ADV	420083140
3.	GC - LEGAL EXPCASES OUT OF COURT	420082010
4.	GC - MISC- WRITE-OFF FOR ADVANCES	420083110
5.	GC - GENERATOR AND LIGHTING EXPENSE	420020300

# Finacle Reports

# Credit Operations - Finacle

	Description of Reports	Report Code in Finacle
1.	Inquiry into scheme parameters for loans	HLAGSPI
2.	Fee Charged	HLFEEI
3.	Fee Waived	HLAWFEE
4.	Repayment Schedule Enquiry	HLRPSI
5.	Repayment Schedule Report	HLARSH
6.	Loans Overdue Position Inquiry	HLAOPI
7.	Loans Overdue Demand Reminder/Report	HLAODR
8.	Payment History	HLPAYH
9.	Prepayment History	HLPREPH
10.	Loans Collection and Position Report	HLAPOS

# Exception Reports - Finacle

	Description of Reports	Report Code in <b>Finacle</b>
1.	Financial Transaction Inquiry (Deleted transactions list)	HFTI
2.	Approval & Ratification by the Higher authority – <b>Cross Check</b>	HTEI
3.	Exceptions Overridden by a particular officer (Business Rules overridden) – Reason for overriding Various fields for analysis Eg – Date; Approving officer etc.	<b>HEXCPRPT</b>
4.	Exception Reports – Discretionary Powers	<b>HEXCDM</b>
5.	Customer Limit details	HCULMTI
6.	Preferential Interest details inquiry	HINTTI
7.	Interest Adjustment Register Maintenance	HIARM
8.	Interest Report for Accounts	HAINTRPT
9.	Customer Interest Report ( Customer wise details)	HCUIR

# Interest & Charges - Finacle

	Description of Reports	Report Code in Finacle
1.	Event based Charges – Account Opening, Closing, BG etc Customer Charges Inquiry	HCCI
2.	Inquiry of Fee Details	IFD
3.	Charges Income Report	HCHGIR
4.	Concession in charges – Summary details of a Customer – both fund based & non fund based	HCUSUM
5.	Interest Version Slab Maintenance	HIVSM
6.	Account Interest details Enquiry	HAITINQ

# Miscellaneous - Finacle

	Description of Reports	Report Code in <b>Finacle</b>
1.	Bank Guarantees Issued <b>Documentary Credit Contingent Liabilities</b>	HGI DCQRY
2.	Asset Classification	HASSET
3.	Non fund facilities Creation View Individual reporting	HLNM HLTL HLNDI
4.	Asset Classification – change in classification	HASCAL
5.	List all the transactions in the account – For eg- Dr natured account there are Cr entries For eg- Cr natured account there are Dr entries	HACLINQ



# Generate Financial Statements

# Balance Sheet

LIABILITIES	Return No.	CODE	Rs.	ASSETS	Return No.	CODE	Rs.
7. DEPOSITS	10	1,460	1,45,49,77,653	18. CASH AND BALANCE WITH RBI	13	3500	18,80,109
8. BORROWINGS	11	1,990	-	19. BALANCE WITH OTHER BANKS AND MONEY AT CALL & SHORT NOTICE	14	3800	-
9. OTHER LIABILITIES AND PROVISIONS	12	2,600	93,03,359	20. BILLS PURCHASED	2	4000	-
10. SUNDRY DEPOSITS	2	2,330	24,35,349	21. ADVANCES INCLUDING AGRICULTURE	2	4100	21,92,57,143
11. LOCAL CLEARING & CASH REMITTANCE	2	2,500	-	22. SUNDRY ASSET	15	4510	39,61,607
12. DDS ACCOUNT	2	2,510	-	23. BRANCH ADJUSTMENT ACCOUNT	16	5000	58,400
13. HEAD OFFICE ACCOUNT	2	2,520	-	24. LOCAL CLEARING & CASH	2	5500	-
14. HO INTEREST RECEIVABLES	2	2,540	-	25. DDS ACCOUNT	2	5510	-
15. ATM INTER BRANCH	2	2,550	-	26. HEAD OFFICE ACCOUNT	2	5520	-
16. DEBIT CARD INTER BRANCH ACCOUNT	2	2,560	-	27. HO INTEREST PAYABLE	2	5540	-
17. HO-CBS INTER BRANCH	2	2,570	-	28. ATM INTER BRANCH	2	5550	-
18. NET PROFIT		2,900	-	29. DEBIT CARD INTER BRANCH	2	5560	-
				30. HO-CBS INTER BRANCH	2	5570	1,16,49,45,867
				31. NET LOSS		5900	7,66,13,235
<b>TOTAL</b>		<b>3,000</b>	<b>1,46,67,16,362</b>	<b>TOTAL</b>		<b>6000</b>	<b>1,46,67,16,362</b>
31. CONTINGENT LIABILITIES & BILLS FOR COLLECTION	17	8,910	28,44,425				

# Balance sheet other than A&D

LIABILITIES	GL_ACCOUNT NO.	AMOUNT	ASSETS	GL_ACCOUNT NO.	AMOUNT
<b>DEMAND DEPOSITS</b>			<b>CASH ON HAND</b>		
SUBSIDY AMOUNT	2025505017	4,40,000.00	CASH ON HAND	1204505001	-6,88,223.00
BRANCH ACCOUNT	2025505009	6,41,999.50	CA WITH STATE BANK OF MYSORE	1027505010	-4,53,233.86
<b>SUNDRY DEPOSITS</b>			<b>BILL PURCHASED AND DISCOUNTED</b>		
SUNDRY DEPOSIT	2025505001	8,727.00	DD PURCHASEDCHEQUES-OTH BANKS	1085505001	-13,800.00
EXCESS CASH FOUND	2025505010	500.00	<b>INTER OFFICE ADJUSTMENT</b>		
<b>DEMAND DRAFTS</b>			AGENCY CLEARING GENERAL AC	1102505001	-65,924.00
<b>CKGB DD</b>			HEAD OFFICE	2025505007	-10,76,27,590.07
CKGB DD A/C	2025505027	2,30,15,961.00	CORE INTERBRANCH A/C	1106505001	-57,78,398.17
CKGB DD	2144505001	1,94,44,192.00	BRANCH CLEARING GENERAL AC	1106505002	-7,58,27,948.11
<b>GPO/SDD</b>			<b>TOTAL INTER OFFICE ADJUSTMENT</b>		
SBM DD	2025505026	29,55,648.00	LEGAL CHARGES	1224505021	-750.00
GPO FOR CKGB	2239505004	91,78,284.00	INT INCENTIVE RECBL FROM GOI	1228505041	-1,23,298.00
GPO ISSUED ACCOUNT	2239505003	21,65,368.00			
<b>OTHER LIABILITIES</b>					
INT NOT COLLECTED A/C- IND	2249070601	30,973.00			
SUNDRY OTHERS	2025505024	40,778.00			

# Balance sheet Advances Recon

- Daybook Vs. Balance Sheet Vs. Supporting Sheet

Type	Amount
CC OD	4,58,33,569.76
Term Loan	4,06,03,294.88
Cheque Purchased	13,800.00
SB Debit Balance	5,086.00
Total	8,64,55,750.64
BS	(8,64,55,750.64)
Diff	-

# Deposit Recon

<b>DEMAND DEPOSITS</b>	<b>GL Code</b>	<b>Amount</b>
SUBSIDY AMOUNT	2025505017	10,69,245.00
<b>SUNDRY DEPOSITS</b>		
SUNDRY DEPOSIT	2025505001	3,184.00
BRANCH BUILDING RENT	2025505012	350.00
<b>CURRENT ACCOUNT</b>		
CURRENT A/C-PERI	2001070601	30,11,719.85
<b>CREDIT BALANCE IN CC/OD</b>		
CASH CREDIT-PERI	2002070601	142.00
OVERDRAFT-PERI	2003070601	8,006.21
<b>SAVINGS BANK ACCOUNTS</b>		
SAVING BANK ACCOUNT-STF	2006030601	15,543.20
SAVING BANK ACCOUNT-GROUP	2006500301	9,266.00
SAVING BANK ACCOUNT-INSTN	2006500901	7,855.00
SAVING BANK ACCOUNT-OTH	2006505001	37,151.00
SAVING BANK ACCOUNT-PERI	2006070601	1,55,60,615.56
<b>TOTAL DEMAND DEPOSITS</b>		
<b>TERM DEPOSITS ACCOUNTS</b>		
TERM DEP-PERI	2010070601	12,21,634.00
TERM DEP-GROUP	2010500301	4,40,856.00
<b>RECURRING DEPOSITS ACCOUNT</b>		
RD-STF	2014030601	7,500.00
RD-GROUP	2014500301	5,200.00
RD-PERI	2014070601	1,87,200.75
<b>SAVINGS CERTIFICATE ACCOUNTS</b>		
SPECIALTD-STF	2011030601	63,440.00
SPECIALTD-GROUP	2011500301	10,98,301.00
SPECIALTD-OTH	2011505001	2,07,800.00
SPECIALTD-PERI	2011070601	1,58,08,888.00
<b>TOTAL DEPOSITS : -----</b>		<b>3,87,63,897.57</b>
As per BS		38763897.57
	Diff	0.00

# Profit and loss account

# Profit and Loss Account for the year.....

EXPENDITURE	Return No.	CODE	Rs.	INCOME	Return No.	CODE	Rs.
1. INTEREST EXPENDED	5	7,000	9,66,22,453	4. INTEREST COLLECTED	8	9210	2,65,45,045
2. GENERAL CHARGES	6	8,110	89,07,375	5. COMMISSION EXCHANGE BROKERAGE AND OTHER INCOME	9	9480	23,71,547
				6. NET LOSS		9500	7,66,13,235
<b>TOTAL</b>		<b>9,000</b>	<b>10,55,29,827</b>	<b>TOTAL</b>		<b>9600</b>	<b>10,55,29,827</b>

Prepare detailed working with schedules

# TB Comparison – Pivot { YOY / MOM }

Profit and Loss Account	FY 21-22	FY 20-21
<b>Income</b>	<b>(10,47,69,86,131)</b>	<b>(11,92,79,58,463)</b>
COMMISSION RECEIVED	(1,05,53,30,083)	(69,01,22,600)
EXCHANGE RECEIVED	(1,33,262)	(2,03,343)
FOREIGN EXCHANGE REMUNERATION	(5,00,55,123)	(3,35,57,887)
INTEREST RECEIVED	(9,44,52,81,451)	(11,27,99,34,682)
OTHER INTEREST	(4,46,90,516)	(2,05,50,427)
GST ON COMMISSION & EXCHANGE RECEIVED	11,85,02,442	9,63,59,085
OTHER INCOME	2,452	51,061
MISCELLANEOUS INCOME	(590)	330
<b>Expenses</b>	<b>1,19,22,99,486</b>	<b>1,00,56,68,656</b>
ANY OTHER INTEREST EXPENDED	7,077	
AUDIT EXPENSES	6,68,887	4,80,631
DEPRICIAITON	50,69,586	49,46,399
INSURANCE	13,83,388	8,00,157
INTEREST PAYMENTS	1,00,98,87,720	86,48,33,722
LEGAL & PROFESSIONAL CHARGES	37,000	50,350
OTHER EXPENDITURE	3,12,88,365	96,79,542
PAYMENTS TO AND PROV. FOR EMPLOYEES	11,37,03,125	9,32,88,373
POSTAGES, TELEGRAMS, TELEX & TELEPHONES	12,89,843	8,56,666
PRINTING & STATIONARY	19,86,955	16,98,627
RENT TAXES AND LIGHTING	2,38,17,942	2,56,45,617
REPAIRS & MAINTENANCE TO BANK'S PROPERTY	31,59,599	33,88,573
<b>Grand Total</b>	<b>(9,28,46,86,645)</b>	<b>(10,92,22,89,807)</b>



# Possible Exceptions

- Schedules not matching
- Reports that can be used
  - Detailed Minor Subsidiaries balancing report/GL Balancing Report as on 31st March
- Long pending Advances & Deposits (Migration Suspense)
- Trends not matching

## Some items Not Dealt @ Branch

- Provision for Standard Assets & Non Performing Assets .
- Provision for Taxation (Income Tax and Wealth Tax)
- Provision for Pension, Gratuity and Leave encashment etc..
- Provision for Audit Fees including TA/HA for Auditors including Branch Auditors
- Provision for Depreciation on Premises and Furniture & Fixtures
- Provision for Interest on Overdue Deposit
- Provision for bonus

# Broad Areas for Review

- Balance Sheet - Schedules
  - Advances
  - Deposits
  - Sundry Assets
  - Sundry Liabilities
- Contingent Liabilities
- Inter Branch Reconciliation
- Cash & Bank Reconciliation

# Broad Areas for Review

- P&L
  - Income Head
  - Expenditure Heads
- Closing circular issued by Bank's head office
- Review of
  - Previous years Auditor report + LFAR
  - Inspection + Concurrent + RBI + any other report

# Audit Procedures

ADVANCES

## Advances – Accounts to Verify

- Large Advances – OS > 5% of Total Advance (or) Rs 2 Cr – 100%
- Sanctioned During the year – Sample
- Adversely Commented by other Auditors – 100%
- Moved out of NPA – 100%

# Advances – What to Verify

**Credit  
Appraisal**



**Sanctioning /  
Disbursement**



**Documentation**



**Review /  
Monitoring /  
Supervision**

# Advances – How to pick samples- Flexicube

**Loan  
Balancing  
Report**



**LN 707**



**CH129/CH606**



**OD/OCC  
Balancing  
Reports**



# Credit Appraisal

- Understand Branch powers for each category of Loan
- New Loan
  - Application form for Loan
  - Documents supporting the Need of Loan
- Renewal / Enhancement
  - Application
  - Reporting to Controlling Authority

# Documentation

- Loan Specific Documentation as per the Bank Policy
- Conditions specified in the Sanction Letter
- Mapping of information in the sanction letter with System
- Marking of Lien against Deposits where ever needed.

# Review / Monitoring

- List of Accounts not Renewed
  - > 6 months
  - > 1 year
- Collection of Stock / Book Debts / Financial Statements.
- Periodical Physical Verifications + Stock Audits.
- Timely Valuation of Securities.

# Audit Procedures

DEPOSITS

# Deposits

- Sample Check – Documents
  - KYC – NEW ACCOUNTS
  - NRE, NRNR, FCNR, RFC – Opening Account Forms Conditions
  - Original receipts for matured deposits paid
- Review
  - Correctness of rate of interest on fresh as well as renewed deposits
  - Renewals/Rate of interest for the overdue period
  - Payment of interest on matured deposits done as per Bank's policy

# Deposits

- Report on window dressing
  - Large deposits made at the year end - Verify transaction of last 2 days for
  - Trend Analysis
  - Transfers from loan / overdraft / cash credit accounts to current / deposit accounts.
  - Purchase of cheques/bills and credited to current/deposit account

# Audit Procedures

CASH , FA, BRS

# Physical Verification - Cash

- Verify cash held as on date of commencement of audit (preferable)
- Tally the day's cash with Cash Scroll
- Review records to check branch staff verifying cash independent of the cashier.
- Amounts held are within cash retention limit.
- Ensure there is the custody of joint key holders.
- Movement from chest is properly recorded and authorized.
- Cash remittances (both inward and outward) are made with adequate escort staff and accounted / acknowledged within reasonable time.
- Ensure that adequate insurance cover is available for the cash holding.



# Physical Verification

- Security & Stationery

- Ensure that adequate control is exercised over the security items, stationery, stamps, etc..
- Closing Stock recorded is adequate and appropriate

- Bank Reconciliation

- Bank reconciliation statement and ensure that the balances agree with corresponding Bank statements

# Fixed Asset

- Additions during the year are reported
- Physical Verification of Assets
- Computation of Depreciation, Bank Specific.
- Adequate Insurance is obtained
- Physically present but not recorded in FA Register/Inventory High Value Report

# Audit Procedures

P&L

# Interest

- Check the Interest Rate applied
  - Sanction Letter - Incomes
  - Deposit Certificate - Expenses
- Trend Analysis
  - Previous Income & Expenses with Business Portfolio
- Short debit of interest/ commission on advances with special emphasis on penal interest, commitment charges, processing fees etc..

## PnL – Other Expenses

- Scrutinize general expenses register/ledger for unusual items
- Adequate provisions created for expenses incurred but not paid.
- Test check the procedure followed and amount charged off to profit and loss account towards stationery consumed during the year
- Ensure that all expenses in excess of delegated power have been ratified by competent authority
- Ensure that TDS is effected as per rules on all applicable payments.

# Audit Procedures

IRAC

# Income recognition

# Policy

- PA – Accrual
- NPA – Receipt Basis
- Exceptions
  - advances against Term Deposits, National Savings Certificates (NSCs), Indira Vikas Patras (IVPs), Kisan Vikas Patras (KVPs) and Life policies
  - Central Government Guaranteed Accounts



# Q&A

# Excel Formulas helpful in Bank Branch Audits

1. Import of Data from CSV to Excel + Clean unwanted Data
2. Split data Text to Columns
3. Conditional Formatting
  1. Identify Duplicate
  2. Highlight Exceptions
4. Formatting
  1. Date Over come MM/DD/YY
  2. ‘ Number Style
5. Pivot Tables
6. If Formula
7. Concatenation
8. Graphs
9. Sum If
10. VLOOKUP
11. Flash Fill

Thank You

For Clarifications, mail to  
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