

The Institute of Chartered Accountants of India (Set up by an Act of Parliament)



Women & Young Members Excellence Committee

Organises

यशस्विनी - An IDOL-Live Webinar



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Bank Branch Audit

This presentation provides a comprehensive overview of bank branch audit procedures, designed for bank auditors and employees. It covers major categories of checks, pre-audit procedures, and essential documentation. By CA Meera Joisher.

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Advance Audit Checks

Pre-Audit

Planning stage

Cash Review

Transaction checks

Advances Check

Loan scrutiny
Pre-sanction checks
Post Sanction Checks

Advance Auditing: A three step process for a thorough audit check.



Pre-Audit Procedures





Initial Communication

Branch Head

Audit initiation

Pre-Audit Procedures: Document Review

Reviewing critical documents is a key component of pre-audit procedures. Demand previous year's statutory audit report, at least the last 3-4 months of concurrent audit reports, internal audit reports, RBI audit report, forensic audit report, systems audit report, etc. Creating an authority letter for the audit team and compiling a comprehensive list of advances further enhances the preparation.

Previous Audit Reports

Reviewing statutory, concurrent, internal, RBI, forensic, and systems audit reports.

Authority Letter

Creating an official authorization for the audit team.

List of Advances

Compiling a complete list of advances for verification.



Pre-Audit Procedures: Guidelines & Resources

Staying informed is essential for effective pre-audit procedures. Obtain closing guidelines received from RBI and the bank's HO, along with several circulars and guidelines issued by the bank throughout the year. Leveraging ICAI resources for checklists, different letters, and guidance notes ensures a thorough and compliant audit process. Proper utilization of guidelines and resources helps the auditor to adhere to rules.

RBI & HO Guidelines

Obtaining closing guidelines for the audit period.

2 ____ Bank Circulars & Guidelines

Reviewing all relevant circulars and guidelines issued by the bank.

____ ICAI Resources

Utilizing checklists, letters, and guidance notes from ICAI.





The Credit Function: Key Checks

1 Loaning Powers

Exercising authorized lending limits and approving loans

3 Documentation

Ensuring completeness and accuracy of loan documents

2 Pre-Sanction Appraisal

Thorough evaluation of loan applications

4 Disbursements

Ensuring Disbursement is done only after Complete procedures



Post-Sanction But Pre-Disbursement Checks



Creation of Charges



Creation of Mortgage

Post-sanction activities are critical for protecting the bank's interests. This includes the creation of charges on assets provided as security and the establishment of mortgages for property-backed loans. Regular monitoring and follow-up are essential to ensure the borrower adheres to the loan terms and that any potential issues are identified and addressed promptly. Effective post-sanction management is key to minimizing credit risk.

Scrutiny of Non-Funded Limits and Forex Functions

Non-Fund Based Limits

Verify limits and reversals

FOREX Functions

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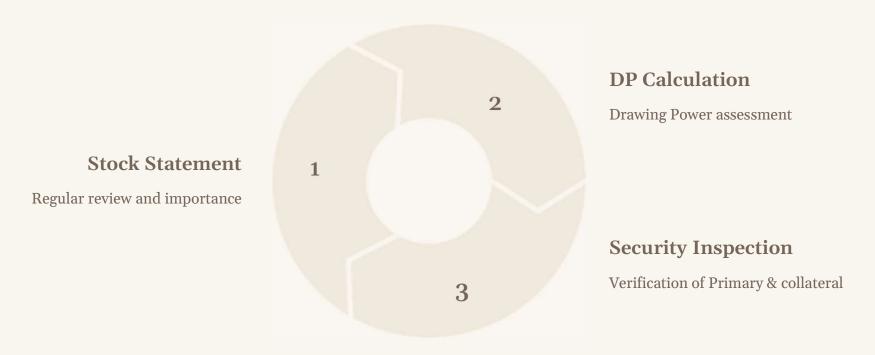
Internal Procedures

Adherence to bank policies

Non-funded limits require careful scrutiny to ensure proper treatment of reversals and compliance with internal procedures. FOREX functions must adhere strictly to FEMA (Foreign Exchange Management Act) guidelines and the bank's internal policies to prevent regulatory breaches. These checks are vital for maintaining the integrity of international transactions and mitigating associated risks.



Checking of Advances: Security and Collateral



The security and collateral aspects of advances require rigorous checking. Regular stock statement reviews are crucial for assessing the value of pledged assets, while accurate DP (Drawing Power) calculations determine the borrower's access to funds. Physical inspection of security ensures the collateral exists and is in good condition. These measures safeguard the bank's interests in case of default.

Financial Statement Analysis and Fund Usage

Financial Statements

Siphoning of Funds - Related Parties

Fund Use

Analyzing financial statements is essential to assess the borrower's financial health and repayment capacity. It's crucial to check the relationship between the financial statements and the account operation. Scrutinizing transactions involving related parties helps identify potential conflicts of interest and prevent the syphoning of funds. Verifying the intended use of borrowed funds ensures they align with the loan's purpose and enhances accountability.



Insurance, Temporary Overdrafts, and Annual Reviews

Insurance Coverage	Adequacy of cover size; all perils
Temporary Overdraft (TOD)	Compliance with policies
LAD/AOD	Adherence to guidelines
Review Frequency	Annual vs. short review necessity

Comprehensive insurance coverage is vital to protect the bank's assets against potential losses. Reviewing the cover size and ensuring it includes all relevant perils is crucial. Temporary overdrafts (TODs) must comply with bank policies and regulatory guidelines. Adherence to LAD (Late Acceptance Discount) and AOD (Authority Over Draft) guidelines is essential. Determining the appropriate review frequency, whether annual or shorter, ensures timely monitoring and risk management.

Non-Performing Asset (NPA) Identification

Accurate NPA identification is crucial for maintaining financial stability. NPAs arise from fund-based and compliance-based norms.

Fund-Based Norms

- Interest not served for 90 days.
- EMI not paid for 90 days.
- Overdue payments due to actual overdraw or lack of Drawing Power (DP) for 90 days.

Compliance-Based Norms

- Failure to submit stock statements.
- Failure to submit financial statements.

Provisioning for NPA accounts is essential, but NPA treatment is not required for advances secured against term deposits, NSC, KVP, IVP, and LIP. Detecting irregularities early on is vital for mitigating financial losses and upholding regulatory standards.



Thorough Checking of Deposits

The integrity of deposit accounts is paramount to banking security and regulatory compliance. It is important to maintain KYC compliance, perform regular account checks, and carefully check new accounts, especially those with quick mortality.



KYC Compliance

Ensuring all accounts adhere to Know Your Customer guidelines.



Regular Account Checks

Monitoring for suspicious activities and compliance.



New Account Scrutiny

Examining new accounts, particularly for quick mortality patterns.

Monitoring transactions in **inoperative or dormant** accounts, including renewals, is critical. Also, **investigate debit balances** in savings and current accounts, including interest charges. By staying vigilant, auditors help prevent fraud and financial crimes.

KYC: An Imperative Checkpoint

Know Your Customer (KYC) checks are critical to preventing financial crimes. Ensure KYC compliance by matching personal information across multiple documents, accepting one document for all types of information to avoid duplicate or clashing identities. Monitoring transactions according to AML guidelines is also essential.



Identity Verification

Ensuring no repeat or clashing identities.



Form 60 Scrutiny

Determining if Form 60 is sufficient.



Original Verification

Importance of verifying originals.

Quick mortality in new accounts should raise red flags. Form 60 may not always be sufficient, necessitating thorough verification of originals. These measures enhance security and compliance.



Addressing Income Leakage

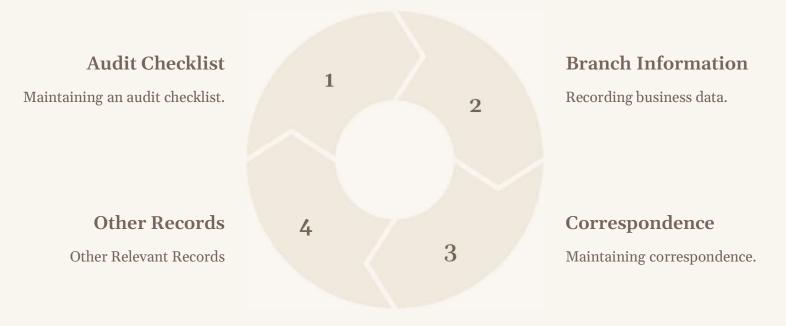
Income leakage can significantly impact a bank's profitability. Auditors should refer to the **latest leakage charts and circulars**, paying close attention to interest, fees, and charges.



Distinguish between system-based and human-intervened charges, and examine government business commissions. Scrutinize income on investments, including excess cash deposits with head office or cross banks. By identifying and addressing these areas, auditors can mitigate income leakage.

Comprehensive Documentation Practices

Maintaining thorough documentation is vital for transparency and accountability. Concurrent auditors should keep **all working papers used in finalizing reports** on record.



Permanent audit files should include various letters, audit checklists, information regarding branch business, data, nodal officer details, branch status, and correspondence with the bank on any matter. These files are essential for future reference and compliance checks.

Maintaining Current Audit Files

Current audit files should include all papers relevant to the concurrent audit. This includes the branch audit program and the branch's statement as of the report date.



Include periodic correspondence with the concerned departmental officer, details of big borrowers and depositors, and circulars received from the head office of the audited bank. Proper documentation supports audit findings and facilitates effective communication with stakeholders.

Key Updates

Thorough review of the updates issues by RBI is crucial for checking the latest adaptation to the updates.

Penal Charges instead of Penal Interest (w.e.f. 01/04/2024)

Key Fact Statement (sanctioned on or after 01/10/24) – Retail & MSME loans

Fair Practice Code for Lenders (29/04/24) – Interest from date of actual disbursement & others

Gold Loans – Irregular practices



Questions & Answers



THANK YOU

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