

CA RAKESH CHOUDHARY, B.SC., MIMA, MICA, FICWA, FCA

CHARTERED ACCOUNTANT

Audit of Advances - Borrowers: Credit Appraisal, Sanctions, Disbursements, Credit Risk Ratings & Monitoring

WISHING ALL THE MEMBERS OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

A HAPPY STATUTORY BANK AUDIT 2012

I would like to introduce you to the Audit of Advances of borrowers, its credit appraisals, sanction norms,

disbursements, credit risk ratings and monitoring and the audit reporting of the auditing of the Advances to the borrowers.

Statutory Bank Branch Audit has undergone a paradigm change in the audit of banks and bank branches from Balance Sheet audit to transaction based audit, an assurance on the true and fair financial statements and financial reporting in compliance of the Ind Accounting Standards (Ind AS) and Standards on Auditing (SA), Auditing and Assurance Standards (AAS), Standards on Quality Control of Auditing and Audit Firms. It is the audit of the Internal Controls and the Risk Management of the Banks and its branches

with best banking practices code, the audit of the Computerised Information Systems & Technologies (CIST),

Information Systems and Technology Governance (ISTG) of the Banks and its branches. The auditor has to check, verify with substantial testing with substantive procedures of the financial statements in lines of IRAC norms i.e. Income Recognition and Classification of Advances. Audit has been for preventive vigilance for internal control of the banks and its branches with detection of fraud and Fraud Reporting to the Reserve Bank of India.

The Auditor has to focus on the errors & omissions, irregularities, material mis-statements and transaction audit of the balance on accounts of the Bank and its branches in the following areas of audit:

1. Suspense Accounts, Special Credits, Special Debits, Clearing Adjustment etc to be regularised
2. Sundry Debtors and Sundry Creditors
3. Acceptance and Repayment of Deposits
4. Interbank Reconciliation Accounts, INC (Interest not Collected), URIPY (Unrealised Interest of Previous Year) with NPA Accounts, Incomes recognized erroneously in the current period and reversed subsequently after the year end, Inappropriate recognition of incomes etc
5. Over/Understatement of Expenditures
6. Fraudulent removal of pledged stocks, Disposing of hypothecated stocks, inflating the value of stocks in stock statements and drawing excess bank finance
7. CIBIL Reports have been used or not
8. Centralised Payouts

9. Income and Expenditure Accounts
10. Balance Sheet balance on accounts
11. Advances and its Schedules
12. Salaries paid to staffs
13. Physical verification of cash and securities
14. Asset Registers
15. Exception Reports
16. Scrutiny of General Ledger Accounts
17. Documentations of all the accounts
18. Deposits and Advances
19. Restructuring and Rescheduling of Advances
20. Information Systems Audit (ISA)
21. Log Reports
22. Opening and Closing Circulars and Notifications of Reserve Bank of India
23. Certifying Undisputed Statutory Dues including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Tax Deduction at Source, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and any other statutory dues payable to statutory authorities
24. Certificates
25. Statements and Schedules
26. Memorandum of Changes
27. Certifying Long Form Audit Report (LFAR)
28. Tax Audit and
29. Bank Management Discussion and Analysis (BMDA) on opinions on Financial Statements and Financial Reporting as per Ind AS, Standard on Auditing, Ind FRS, IGAS, IFRS etc
30. Certifying Audit Report

Audit of Balance Sheet and Income & Expenditure/Profit & Loss Account of Banks

The Statutory Auditor has to check, verify and report in the Audit Report regarding the financial statements and financial reporting of the Balance Sheet of the bank as follows:

Liabilities

A. Liabilities - Deposits

1. Check the General Ledger Account and its balance on accounts and report for differences between control and subsidiary ledgers for all categories of deposit accounts and subsidiary ledger accounts.

2. a) Check balances of individual subsidiary ledgers with the balance books in case subsidiary books are maintained and report for irreconciled accounts.

b) Review unusual financial accounts as per general ledger, enquire and report any unusual and irregular accounts with Bank management discussion and analysis in the Memorandum of Changes

c) Enquire and report, whether individual cash items in excess of Rs.10.00 lakhs each have been reported to the competent authority.

d) Enquire the reasons for dormant Current accounts of Banks [Report for such Accounts and particulars of such entries with explanations & reasons recorded][See RBI Circulars for the same]

3. Check and report whether and the extent to which any overdue/matured deposits and deposits prematurely recalled, continue, as at the year-end, are being treated as Term Deposits instead of Demand Deposits.

4. Review overall withdrawals made during the year from inoperative accounts, and test, major amounts.

(Document accounts / entries tested and report wrongful or unsubstantiated items, based on Branch response to Report in LFAR non transfer of Old Inoperative/Dormant Accounts to the Central Office and subsequently to Reserve Bank of India/Central Government accounts)

5. The prudential lending policy of the bank is reviewed and checked by the auditor according to the deposits term and interest rates.

6. The prudential lending of deposits is reviewed by the auditor for NPA management which effect the profitability of the bank and restructuring of assets.

7. Review and report with financial ratio analysis the Deposits period wise with increase/decrease in deposits and the operational performance of the bank and its branches and measures taken by the bank as an accounting policy of going concern as business continuity plans of the bank.

8. Deposits are reported and disclosed in the Balance Sheet of a bank as follows:

- **Deposits**

- **Demand Deposits**

- **From Banks**

- Current Deposits
- Credit Balance in OD, CC to A/c
- Inoperative Current Deposits
- Call Deposits (should not include call borrowing)
- Matured Term Deposits
- Outstanding Interest on Term Deposit (Due but not paid)

- From Others
 - Current Deposits
 - Credit Balance in OD,CC to A/c
 - Inoperative Current Deposits
 - Call Deposits(should not include call borrowing)
 - Matured Term Deposits
 - Outstanding Interest on Term Deposit (Due but not paid)
 - Deposit Suspense
 - Insurance Premium Collection a/c
 - Other Demand Deposits,if any

- Savings Bank Deposits
 - Operative Savings Accounts
 - In-Operative Savings Account

- Term Deposits
 - From Banks
 - Fixed and Other Term Deposits
 - From Others
 - Fixed Deposits
 - Recurring Deposits
 - Home Loan Deposits
 - Certificate of Deposits(Selected Branches)
 - Stock Invest Multi Unit (SMUT) Deposit
 - Other Term Deposit
 - Mini Deposit

Total Deposits

9. Savings Bank Accounts:

a) Check, verify and report for any deviations in interest rates with various bank circulars with respective

dates of charges and interest calculation

b) Check and verify whether the Branch has Savings Bank Accounts for constituents in the negative list of the Bank. If so,

- Report such accounts with aggregate outstanding as at the year-end;
- Report interest paid on such accounts during the year.

c) Check and verify the interest provision up to the year- end based on the last date of application of interest to individual accounts. Report for differences of all the accounts in the audit report.

d) Check, verify and Report in the Audit Report the Interest provision, to the extent not /short made or computed, at the Branch up to the year end and if the Interest provision Accrued but not applied, is being treated not as Deposits but as part of Other Liabilities being inappropriate transfers.

e) Report for dormant savings accounts and action taken.

f) Report for inappropriate documentation in opening and closing of savings accounts along with the charges levied on the account.

Term Deposits

10. Check, Verify and report Term Deposits from Banks/Institutions,

a) Certificates/confirmations from the Institutions/Banks concerned; and

b) Check and verify entries for rounding off of figures.

c) Check, verify and report for all the terms and conditions, interest rates, maturity values its calculations

d) Check for matured term deposits and its renewals which are inappropriate, faulty and a fraud.

11. In case the Bank has a system of automatic renewal of deposits on due dates, as built into the system, check whether the re-credits (renewals) in the Term Deposit Ledgers are:

a) As per the Information systems, inclusive of interest accrued and due (net of payments/credits to the depositors' accounts and net of Tax Deduction at source (TDS). Check, verify and Report errors and default based on checking, with details of the renewals so made with changes in interest rate.

b) Verify and check where:

- Deposit Receipts have not been actually issued under the automatic renewal scheme. Disclose and Report deposit receipt numbers, date, terms and amount of such deposits.

- Deposit Receipts have been issued but not physically dispatched to the depositors i.e. held by the branch itself. Report Deposit Receipt number, date and amount of such deposits with reasons and explanations.

- The branch has not maintained the requisite record of the renewal while making endorsement on the old/existing receipts, i.e., without recording the same in its Deposit Registers. Disclose and Report Deposit Receipt number, date and amount of such deposits.

Loss of control over credits in respect of Deposits increase audit risk and must be reported in the LFAR as a fraud prone area, particularly if the system is lax or items are incapable of audit trail. Deposit Receipt No. and amount held physically and not dispatched and mere book adjustments through the computer system, not backed up by issuance of receipts must be incorporated in the report, as prone to the risk of misuse, if not under dual control, any fraud perpetrated is to be disclosed and reported.

12. Check and report whether and the extent to which Interest Accrued and not due has been recorded under the head Deposits.

B. Liabilities – Borrowings (in case the bank branch has borrowings)

1. Verify and check whether the Branch is authorised by Head Office, to borrow/retain borrowings and refinance obtained. Disclose and Report for such unauthorised borrowings / refinance in the audit report.

2. Obtain and check the amount of borrowing/ refinance as at the year-end, the balance confirmation certificate(s) from:

- a) Reserve Bank of India
- b) Other banks
- c) Other institutions and agencies:
 - Industrial Development Bank of India
 - Export Import Bank of India
 - National Bank for Agriculture and Rural Development
 - Others

3. Check and verify whether the amounts have been disclosed as required in respect of each sub-accounts head.

Disclose and Report:

- Balances not confirmed / reconciled,
- Entries, required not passed,
- Interest adjustments / provisions not made upto the year end for amounts:
 - Accrued and due to be shown as Borrowings, and
 - Accrued but not due to be shown as Other Liabilities
- Suspense and Clearing Adjustment which are inappropriate

4. Verify and Report amounts, to the extent included in Borrowings, on account of:

- a) Rediscount of bills, and
- b) Participation certificates on risk-bearing basis
(These need to be netted from the related Advances)

5. The Borrowings of the bank are disclosed and reported by banks as follows:

Borrowings (Rs.)

I In India

(a) From R.B.I

- (i) T.T Discounted
- (ii) Refinance –Export
- (iii) Others (Discretionary etc)

(b) From Other Banks

- (i) T.T Discounted with SBI & Other Banks
- (ii) All other Borrowings from Banks (including call money borrowings, participation, certificate etc.)

© From Institutions & Agencies

- (i) Refinance from IDBI/SIDBI
- (ii) Refinance from NABARD

- (iii) Refinance from National Housing Bank
- (iv) Refinance from EXIM Bank
- (v) Refinance from Others
- (vi) All other borrowings from Institutions /Agencies,including call money borrowings,
participation certificate from IDBI,NABARD,EXIM BANK,UTI,LICI etc

II Outside India

Bills Rediscounting

- (i) With IDBI/SIDBI
- (ii) With other institutions /agencies
- (iii) With Banks,if any

Secured Borrowing out of above.....

6. Report whether there are credit balances in

- a) NOSTRO Accounts
- b) VOSTRO Accounts

and the accounts are included as part of borrowings where there are no overdraft facilities or arrangements verify and Report that these must be reflected as Deposits from Banks

7.Check and verify whether Borrowings are secured and whether the Branch has indicated the same in line with the disclosure requirements

Other Liabilities and Provisions

1. Bills Payable:(Applicable where entries are retained at branches)

a)Verify and Check old/large outstandings in Bills Payable which remain unresponded/unadjusted with account transfers.

b)Verify and Check and report large unlinked debits,particularly for Drafts paid without advice(DPWA),

which,if not routed through inter-office account,comprise old entries requiring provision.

c)Verify and Check inward communications from other branches which remain unattended as regards marking-off/adjustment entries relating to drafts and other similar instruments comprising "Bills Payable".

d)Verify and Check non compliance of Head Office/controlling authority instructions,where the amounts in respect of old instruments like Pay Orders/Bankers cheques/Pay slips which are expected to be presented to the issuing branch are expected to be transferred after a time-lag to a separate/frozen accounts .

e)Obtain and check aggregate figures in respect of Bankers cheques and Pay orders as under :

<u>Particulars</u>	<u>Bankers cheques</u>	<u>Pay orders/slips</u>
	<u>No. Amount</u>	<u>No. Amount</u>
Within 6 months		
6 months - 1 year		

1-2 years

2-3 years

3 years and above

The above has to be included in the LFAR

f) Verify, check and report for confirmation in LFAR

-instruments in hand or those not dispatched

-the risk of misuse of these if not covered by proper Internal control system or dual control.

g) Verify and check Test entries made for frequent cancellation of instruments and re-issue thereof and report unusual /suspicious entries, list out and report such entries.

h) Verify and Check pending communications from the centralized department dealing with matching of entries, in case the bills payable entries are centralized, and report effect thereof on the Branch Accounts

i) Check whether, based on books/inward HO Communications, there are any unlinked debits over 1 year which require reporting for the purpose of provision.

2. Interest Accrued: (comprises interest accrued and not due)

a) Verify and Check whether interest provision made since last application thereof on

- Deposits, and
- Borrowings,

is computed up to the year-end and no part of such broken-period interest is accrued and due.

b) Verify, check and Report interest accrued and due wrongly shown.

c) Verify and Check year end entries for TDS deduction and payment

3. Others (including Provisions):

a) Verify and Check the balances and calculations of advance payments and unexpired discounts as at the year-end i.e., rebate on bills discounted. Disclose and Report non/ wrong adjustments

b) Other than in respect of usual and necessary provisions made at HO, check and report through the MOC, year-end provisions not made at the Branch for items of Branch expenditure nature, like:

- Rent,
- Rates and Municipal taxes,
- Electricity and Power bills,
- Telephone, Telegrams, telex etc.,
- Interest payable on Staff security deposits,
- Payments and provisions for employees other than for items for which H.O. makes provision,
- Repairs/maintenance bills,
- Advances to staff for expenditure
- Other known expenditure items -e.g. AMC charges

- Concurrent Audit Fees
- Advances of expenditure nature requiring provisions
- Provisions for Interest
- Inappropriate expenditures at year end

c) Check, Verify and Report whether pending bills requiring adjustment for items of the nature of capital expenditure, are adjusted, e.g.

- Cost of fixed assets acquired, if part payments have been made,
- Progress bills relating to premises under construction/renovation, etc. and report impact of depreciation

d) Cash Margins:

- Verify and ascertain whether credits are represented by actual collections in cases of advances comprising Bills Purchased and Discounted, Report mere book adjustments in audit report.
- Check and verify whether deletions are required in case of expired Guarantees /Letters of Credit where obligations have ceased

1. Check, verify and report for Inappropriate accounts account transfers with documentation and confirmations of all the balances and adjustments in Other Liabilities and Provisions accounts as are reported in Balance Sheet as follows:

Other Liabilities and Provisions

I Bills Payable

- (i) Drafts Payable Account (For H.O use)
- (ii) Pay Order Account
- (iii) Gift /Travellers' Cheque Payable A/c
- (iv) State Remittance Account
- (v) Draft A/c

II Inter Office Accounts

- (i)General Account
- (ii) Remittance in Transit Accounts
- (iii) Adjustment Account –Clearing
- (iv) Discrepancy Account – Clearing
- (v) ATM/MBB/Cash Tree Settlement A/c
- (vi) Head Office Subsidy Account
- (vii) Intersol a/c

III Interest Accrued

- (i) Interest Payable on Demand Deposits
- (ii) Interest payable on Savings Bank a/c
- (iii) Interest payable on cash certificate/RIP
- (iv) Interest Payable on Other Term Deposits

(v) Interest payable on Borrowing

(vi) Only for H.O use

IV Other Items and Provisions

(i) Tax and Excise Duty

(ii) Outstanding Salary Bills

(iii) Outstanding Bills of Expenses

(iv) Expenses accrued but not paid

(v) Marginal Deposit

(vi) Staff Security Deposit (For H.O use)

(vii) Outstanding Income Tax on salary

(viii) Commission / Discount of unmatured hundies/bills etc Received in Advance

(ix) Bonds(For H.O use)

(x) TDS on Bank Deposit

(xi) TDS on other Payment

(xii) Interest Suspense A/c

(xiii) Provision for Taxes (only for HO use)

(xiv) Provision for Depreciation on Investment (Only for H.O use)

(xv) Provisions for Bad & Doubtful Debt(Only for H.O use)

(xvi) Only for H.O use

(xvii) Provision for Unpaid printing materials

(xviii) Provision for Other Purposes(only for H.O use)

(xix) Others

V Accumulated Depreciation

VI Contra Items

VII Bills for Collection as per Contra

(a) Payable in India

(i) Received from Branches

(ii) Received from Others

(b) Payable outside India

(i) Received from Branches

(ii) Received from Others

VIII Acceptances,Endorsements etc

(i) Guarantee and Co-Acceptances given on behalf of constituents

(a) Payable In India

(b) Payable Outside India

(ii) **Letters of Credit Issued**

(a) Payable In India

(b) Payable Outside India

**IX All Other Contra Items including CDS(ITP),SPL.DEPOSIT,PPF Payable ,Stock
Invest
Issued etc**

Check,verify and Report Suspense accounts,Discrepancy clearing adjustments,Clearing Adjustment accounts,ATM/MBB/Cash Tree Settlement accounts,Head office Subsidy clearing adjustments accounts,Intersol a/c,Outstanding bills,provisions,Remittance in transit accounts with documentations and confirmations.

Assets

Cash and Balances with Reserve Bank of India:

1.Cash:

a) Physically check and verify the balance on account as at the close of the accounting year and tally with the books,the following:

- i) Cash in hand (Including sub-Offices)
- ii) ATM balances with reference to the ATM Print out Rolls/scrolls/tapes
- iii) Foreign Currency
- iv) Petty Cash/Imprest balances

- v) Postage in hand (cash)
- vi) Tokens
- vii) ATM's
- viii) Business Correspondents and

in case these balances cannot be physically verified as at the year-end:

- Verify the same at a subsequent date, preferably by surprise check on the date of the first visit indicating the date (.....)
- Obtain as evidence for the audit file, balance confirmation certificates in respect of cash balances both as at 31st Marchand the date of physical verification thereof of cash in hand, ATM, Foreign Currency, Petty cash/Imprest Balances, Disclose and Report discrepancies in the MOC

b) Check and Scrutinise the cash book transactions for the last two working days of September/March and vouch large transactions. Report and disclose unusual entries in LFAR, unless these require qualification.

c) Check whether the value of foreign currency notes, if held has been converted into Rupees at correct rates, notified by the Controlling Authority, for proper disclosure of the cash balance.

d) Check entries arising from ATMs if operated by the Branch, and report unrecorded cash operations upto the day-end as at the year-end, as affecting:

- Cash in hand
- Accounts of constituents like customers and Business Correspondents
- Other Banks,

This can be done with reference to the year-end scrolls/tapes generated by the ATM and subsequent entries.

e) Check and verify the Day End Statements of Cash Balances, Opening Balances, Closing Balances and Reconciliations of Cash Balances.

f) Check and verify the retention limit authorized by the Bank's H.O to the branch and the utilisation of the outstanding balances beyond the retention limit.

g) Frauds, if any to be reported to relevant authorities i.e R.B.I, Police Department etc by Bank in FMR'S 1, 2, 3 & 4 for frauds beyond Rs.5000/-.

2 .Balances with Reserve Bank of India:

2.1 Where Branch maintains RBI Account(s):

a) Verify, check and Obtain balance confirmation certificate(s) for balance (s) as at the year-end in the account(s) of the Reserve Bank of India, for:

- Current Account, and
- Other Accounts,

and verify whether the book balance(s) as per the ledger agree(s) with those as per confirmation(s).

b) Obtain, check and verify bank reconciliation statements as at the year-end and report:

- large/old unadjusted entries,
- cash transactions remaining unresponded, and

- revenue items included in reconciliation statements remaining unadjusted, and having effect on other heads and sub-heads in the Branch Accounts.

c) Check and verify whether interest accrued to the Bank upto the year end has been adjusted including where formal entries in RBI statements are made after the year-end.

d) Check and report on a value-date basis, transactions and entries originating prior to, but responded after the year-end in R.B.I. Account (including entries for currency chest operations, originating at other Branches / Offices), particularly where such entries appear in nominal heads of accounts.

e) Check, verify and Report old debits in Reconciliation statement requiring provision.

2.2 Where the Branch does not maintain RBI Account but has a Currency Chest:

Check whether all deposits/ withdrawals to/from Currency chest upto the year-end have been reported to the link Branch maintaining RBI Accounts. Verify and Report accounting entries pertaining upto the year-end communicated after the year-end.

2.3 Penalty

Verify and Report, if there are any penalties for default in operation of the Currency chest or otherwise have been claimed by or paid to RBI

Assets

Balances with Banks and Money at Call and Short Notice:

1. Balances with Banks:

a) Check and Obtain in evidence of the year-end balances and reconciliation statements, if any, the relevant bank confirmation certificate for balances in each Bank:

Nature of Account

Name of the Banks

- Current accounts
- Deposit accounts
- Other Accounts

b) Verify and check, whether any balances with Banks on 'Deposit' Account are in odd figures and enquire as to whether any such amounts are really of the nature of deposits, or otherwise comprise only Current Account balances.

c) Check, verify and Scrutinize outstandings in the bank reconciliation statements and report:

- i) Old/large unadjusted outstanding entries particularly debit entries and balances;
- ii) Cash transactions remaining unresponded; and
- iii) Items of revenue nature not adjusted.

d) Check and report in MOC, the effect of entries originated overseas – whether debit/credit in NOSTRO Accounts, and report whether :

- the balances are as corrected and updated in foreign currencies.
- the profit / loss on valuation is correctly accounted.

e) Verify and ascertain whether and the extent to which provision is required for outstanding debit entries which are old/large over one year and which remain unexplained.

Report outstanding entries over one year as under in the MOC forming part of the Audit Report:

<u>No. of Entries</u>	<u>Amount(Rs.)</u>
-----------------------	--------------------

- Debit
- Credit

f) Check whether the year-end rates of exchange are applied to outstanding balances in foreign currencies (keep evidence on record)

2. Money at Call and Short Notice:

[Applicable only to designated branches] Check, verify and report outstanding money at call and short notice with banks and other institutions:

a) Short notice:[Outstanding Balances]

- with Banks, and/or
- with other institutions.

b) Verify the year-end balances under the relevant sub-heads, with reference to

- the relevant Deposit Receipts;
- the relevant correspondence in case of subsequent squared-up transactions;

and ascertain whether the aggregate balances comprising these as shown in the relevant register, tally with the control account as per the general ledger.

c) Verify and Check interest adjustments made upto the year-end based on the terms on which moneys were placed.

3. **Cash and Bank Balances as reported in Balance Sheet of a Bank and its branches with reconciliation statements and confirmation certificates:**

a) **Cash & Balances with RBI**

I Cash in Hand (Including Foreign Currency Notes)

II Balance with RBI

- (a) In Current Accounts
- (b) In Other Accounts

b) **Balances with Banks and Money at Call and Short Notice**

I In India

(i) Balance with State Bank of India

- (a) In Current Accounts
- (b) In Deposit Accounts

(ii) Balance with Other Banks

- (a) In Current Accounts

- (b) In Deposit Accounts
- (iii) Money at Call & Short Notice
 - (a) With Banks
 - (b) With other Institutions

II Outside India

- (i) In Current Accounts
- (ii) In Deposit Accounts
- (iii) Money at Call & Short Notice

Assets - Investments

Investments are dealt with on a centralised basis by the bank and its branches and verification procedures on behalf of the centralised office may be restricted to certain branches only, report for the policy, procedures and valuations of investments followed by the Bank.

A. Where Investments are held at branch:

1. Obtain a list of investments held by the Branch on behalf of the Head Office/Central Investment Cell and verify the contents thereof by conducting a physical verification of:

- a) Securities of the nature required to be disclosed in the Bank's annual accounts.
- b) Allotment letters/other documentary evidence held, where the securities are not available with the

Branch. Report results of the verification in the manner required by the Head Office/Central Statutory auditors.

2. Verify and report whether income collected on such investments has been recorded as income of the Branch contrary to instructions of the Bank.

B. Where value of investments is recorded at the branch other than treasury branch:

In case value of investments is recorded in the books of the Branch:

- a) Verify authority for acquiring/holding such investments;
- b) Vouch all transactions relating to acquisition/disposal of investments;
- c) Physically verify the investments with reference to documentary evidence; and
- d) Verify whether legal requirements of disclosure have been complied with.

Report adverse observations in audit report.

C. Investments are disclosed and reported in the Balance Sheet of the bank as follows:

Investments

Investments in India

- (i) Government Securities
- (ii) Other Approved Securities
- (iii) Shares
- (iv) Debentures & Bonds
- (v) Subsidiaries and /or Joint Ventures

(vi) Other Investments

II **Investment outside India**

(i) Government Securities (Including local authorities)

(ii) Subsidiaries and /or Joint Ventures

(iii) Other Investments

Assets - Advances

1. Check and Verify whether the control and subsidiary ledger accounts have been reconciled and that the Branch has prepared for audit verification:

i) Party-wise statements of advances, the classification reported as per law; and

ii) Break-up of advances which reconciles with the figures of advances in the final financial statements as at
the year-end.

iii) In case statements are system generated, ascertain whether the latest prudential applicable norms have

been incorporated in the inputs to generate the advances returns. Report adverse observations in Main Report, as these impact provisions.

2. Where a Centralised Office (Loan Processing Cell) appraises advances, sanctions loans, executes and holds documents related to the Borrower, whose account/facilities are operated at the Branch, seek and evaluate, written representations to the matters as stated, and:

a) Check and Obtain confirmation from the said Office as to the number and amount of the advances accounts

b) Check that, as per the System, the Sanction Letters are issued strictly as per the documentation and that these are not merely computer generated, without authentication

c) Check and Report if and to the extent examination of the borrowal accounts could not be made due to non access to the records sought and not produced at the Branch, Report adverse observations in the Audit Report

3. Check and verify the year-end balances of Advances with reference to the sub-ledgers for each category of advances, in respect of:

a) Bills Purchased and Discounted

b) Cash Credits

- Overdrafts

- Demand Loans

- Overdrawn balances in Deposit Accounts

c) Term Loans

(Report advances to willful defaulters on the list of RBI)

Check, verify and obtain for each large borrower, the balances and the year-end status of the advances as per the Format of LFAR and report adverse features through generation of "Exception Reports"

4. Bills purchased and discounted:

a) Check closing balances as at the year-end in the accounts of the parties.

b) Conduct physical verification of bills in hand as at the year end, and on any other date in the course of audit and tally the same with the book records.

c) Check and report on:

- Bills not supported by relevant documents, or where these have been parted with in favour of drawees,
- Advances in excess of limits to any party,
- Old outstanding balances,
- Bills which are overdue/matured but not adjusted,
- Frequent returning of bills, and account where old bills are replaced by new ones to accommodate borrowers,
- Bills drawn on 'self' or on associate or inter-connected concerns,
- Bills drawn on unauthorised parties
- Adjustments not made for rediscounting of bills, and
- Bills comprising mere book adjustments(resulting in inflated figures with corresponding book adjustment towards margin money).
- Any other adverse features observed.

Based on "exception reports" to be got generated

5. Cash Credits, Overdrafts, Demand loans and Term Loans:

Select Advances and check all advances accounts in each category/sub-head as under:

- a) All large accounts i.e., those which are in excess of 5% of the aggregate advances portfolio of the branch or Rs.200 lakhs whichever is less.
- b) All accounts where provision for doubtful debts has been considered/ made/recommended upto the previous year end / half year-end/last quarter.
- c) All accounts adversely commented upon in the latest reports of the Branch auditors, RBI/ internal inspection/audit reports, concurrent audit reports etc.
- d) Accounts, where Branch Management has initiated/recommended to the higher authorities, action, if warranted, for recoveries.
- e) Report for any adverse observations of any of the accounts of cash credits, overdrafts, Demand Loans and Term Loans selecting a number of large accounts on a sample basis.

6. Record list of accounts checked and verified in the audit report, based on examination of and any adverse observations on accounts with reference to:

- a) Documentation,
- b) Security of tangible assets,
- c) Classification -Secured, guaranteed by Bank/Govt., Unsecured; and further break-up into Sector-wise classification for advances in India.

7. Verify and Check that adverse or overdrawn balances in Deposit, Savings and Current Accounts have been shown as clean/unsecured advances.

8. Verify and Check the Status report and brief history of each advance account for advances accounts being reported upon-particularly for major adverse features.Observations should be reported through an exceptional report and reported through Long Form Audit Report (LFAR).

9.Check,verify and Report advance accounts identified as having adverse features, or under restructuring,not transferred/categorized as per the new norms into:

- (a) Sub-Standard
- (b) Doubtful; and
- (c) Loss Assets.

- Report borrowal accounts where the facilities have not been reviewed/renewed or stock statements not received for a period of 180 days and such irregularity persists for 90 days and where accounts continue to be classified as “Standard”, check and report in the Main Report, income contractually accrued but not realised,to the extent not reversed in all accounts identified/ reported upon and classified as other than “Standard” .
- Report the amount of non-reversal in the Audit Report
- Report in the Audit Report,income accrued /recorded in NPAs where credits have been given to Income out of fresh facilities.

10.(a)Check and verify whether restructured account balances as per books has been properly segregated into less than Rs.1.00 Crores and more than Rs.1.00 crores for

- pending applications/proposals; and
- Others

b) Report in the Audit Report,sacrifice/ provisions required and for diminution in value,but not made in borrowal accounts involving:

i) Restructuring under Corporate Debt Restructuring (CDR)- including in pending proposals:

- a. Standard
- b. Sub Standard
- c. Doubtful

ii) Other Restructuring separately for projects in category I,II,III,including in pending proposals

- Standard
- Sub Standard
- Doubtful

iii) Other Rehabilitation cases/ one time settlement cases

iv) Funded Interest/Working Capital Term Loan usually arising from default in servicing of Borrowings

11. Advances of the Bank and its branches are reported in the Balance Sheet as follows:

Advances

I Bill Purchased and Discounted (Including Cheque Purchased)

(i) Payable in India

- (ii) Payable outside India
 - II Cash Credits,Overdrafts & Loans Payable on Demand
 - (i) Payable in India
 - (ii) Payable Outside India
 - (iii) Demand Loan to staff including O.D
 - III Term Loans
 - (i) Payable in India
 - (ii) Payable outside India
 - (iii) Term Loan to Staff
- Total Advance

Assets - Fixed Assets

1 Premises:

- a) Check and verify the opening figures of cost from the earlier year's statements/ records.
- b) Check,verify and Vouch the additions during the year
- c) Check,verify and Vouch deductions during the year
- d) Check depreciation/lease money written off upto the year-end based on the rates prescribed and the basis communicated by the controlling authority.Reference may be made to the Bank's Accounting and Depreciation Policy and notification.
- e) Check and Inspect documents of title to each property,and report:
 - Documents of title not made available
 - Capitalisation not made in respect of properties where though documentation has not been formally completed but substantial risks and rewards of ownership vest in the Bank.
- f) Check and verify whether the balance in the control account in the General Ledger tallies with that as per the subsidiary records and Fixed Assets Register.

Assets-Other Fixed Assets (including furniture and fixtures):

2. Other Fixed Assets:

- a) Check and verify opening figures of cost from the earlier year's statements/records.
- b) Check,verify and Vouch additions during last week of September and March.
- c) Check,verify and Vouch deductions upto the year-end.
- d) Check and verify depreciation written off upto the year-end based on the rates prescribed and the basis communicated by the H.O.
- e) Check and Inspect Head Office/Controlling Authority sanctions with regard to additions/deductions of assets
- f) Check and Examine nominal heads of account, like "SUSPENSE" or other similar accounts, where debits may comprise amounts paid towards acquisition of motor vehicles, computers,furniture and other items of fixed assets pending capitalisation and report whether and the extent to which capitalisation required has not been made.

- g) Check and Inspect the relevant registration books and check whether insurance covers are in force for vehicles.
- h) Check and verify disposals of assets shown under the above sub-head and the consequent profit/loss thereon.
- i) In case of renovation of branch, verify whether capital and revenue expenditure has been appropriately bifurcated and correctly accounted, on the basis of liability incurred and not on cash basis.
- j) Check and verify whether the balance in the control account in the General Ledger tallies with that as per the subsidiary records and Fixed Assets Registers.
- k) Verify and ascertain the frequency of physical verification of assets at the branch and review the discrepancies recorded between the book records and such verification.
- l) Check and verify the adequacy or otherwise of insurance cover to assets and its renewals.
- m) In respect of Computers, check whether depreciation is being charged off to the extent of 1/3rd of the cost each year.

Assets – Other Assets

1. Inter-Office Adjustments (net)

Report for non-compliances, Adverse observations and differences, if any in the Audit Report.

- a) Check and enquire into the system and the heads of accounts for which Inter branch Adjustments are recorded at the branch; and the system of communication of information to the Head office where the entries are matched for reconciliation.
- b) Check and verify whether the Daily Head Office Summaries have been prepared, as per the laid down system, and whether these have been dispatched each day that the entries take place, to the designated office as required, for matching process.
- c) Check whether the closing balance in Head Office summary tallies with that as per the General Ledger balance as at the year-end.
- d) Check and Examine inward communications from the Head Office and check compliance thereof for settlement of their queries and adjustments required to be made at the Branch.
- e) Check, verify and report inward communications from other branches/offices originating prior to but not responded upto the year-end.
- f) Check and Examine old/large entries outstanding debits in the inter branch/ office accounts and vouch large entries, particularly towards the year-end.
- g) Check and obtain reasons for outward remittance unresponded by other branches, if these have been outstanding since long.
- h) Examine and Report on originating debits in Head Office Account, not satisfactorily explained.
- i) Report, in respect of the Branch, all debit entries which are over one year old as at the Balance Sheet date under each Sub-head comprising Inter-branch Adjustments.

2. Interest Accrued: (not due)

- a) Check the basis and verify the income on investments for any broken period upto the year-end with break-up of interest:
 - accrued but not due;

- due but not collected

b) Check income accrued but not due on advances which has accrued but is not due as per arrangements

/documentation mainly for Term Loans with due dates not coinciding with year-end

c) Check and Report interest accrued other than on Investments/advances to the extent included under the above sub-head.

Report for income accrued on assets identified as non performing, including Advances.

3. Stationery and Stamps:

a) Conduct physical verification of items of security paper stationery and report discrepancies between such inventories and book records.

b) Internal Controls

-Check whether internal controls laid down for receipts/issue and holding of stationery comprising security paper, are being followed; particularly as regards issue of stationery in proper sequential order in respect of numbered forms.

-Check whether internal controls are strictly enforced for withdrawal slips, and cheque books. Examine whether unused cheque books are returned upon closure of their accounts constituents.

-Report security paper stationery comprising inward dispatches from other offices not physically received or short received.

-Check and report whether the Branch is holding large stationery stocks, over a long period of time.

-Check whether stock of unused stamps / stamp paper is intact and tallies with the relevant register.

-Extensive use of withdrawal Slips and not cheques, examine large withdrawals from Accounts, newly opened accounts, if made by other than cheques issued by the Account holder. Report for unusual items and observations in the audit report.

Examine and enquire into reasons for frequent use of Withdrawal Slips / Bankers cheques by Account holders.

Which may be done with reference to consumption of such slips at the Branch.

4. Others:

a) Suspense, Sundries or other similar heads of account:

- Obtain year-wise break-up of entries outstanding as at the year-end for scrutiny; and

- Report provisions required for old outstanding unadjusted amounts,

- Report year-wise summary in the long form audit report.

- Check entries at debit relating to clearing transactions outstanding and ascertain reasons for old entries

Report for accounts requiring provision.

b) Staff advances (Non-interest bearing):

Ascertain the types of advances to staff requiring disclosure under this sub-head and the normal terms on which such advances are made and

- Check balancing of the relevant ledgers,
- Test advances representing 1% in value on account of housing loans with reference to the relevant documentation.
- Test 1% of the other advances at least 3 Accounts.

Report for the particulars of the accounts tested and its observations.

- Check whether in the cases tested whether the bank has obtained documents including the letter of lien on terminal benefits relevant to the type of advances.

c) Security Deposits:

- Check and Vouch for deposits made during the year - Check whether any adjustments are pending for old/existing deposits (e.g. OYT Deposits, Rent Deposits)

d) Prepaid Discount on Bills Rediscounted:

In respect of Bills Rediscounted as at the year-end, check calculation of prepaid discount attributable to the period beyond the year-end.

e) Premises under Construction:

-Check and verify the adjustments upto the year-end of progress bills vis-à-vis the relevant contracts/controlling authority.

-Check whether capitalisation, where required, has been made so that depreciation thereon can be considered.

f) Other Fixed Assets pending Capitalisation:

- Check whether capitalisation, where required, has been made, so that depreciation thereon can be considered.

- Ascertain reasons for old outstanding balances in Advances relating to the acquisition of fixed assets to ensure that these do not require adjustments.

g) Others:

- Generally scrutinise old/large entries outstanding in accounts falling under any sub-head relating to the

above head, to ensure that:

- adjustments, if any, required are reported,

- provisions, if any, are made for amounts considered doubtful of recovery.

- Scrutinise and report whether any outstanding entries relate to any other specific head of account

particularly 'Advances' - in case any debit relates to the account of any borrower.

Off Balance Sheet Items – Contingent Liabilities

1.a) Claims against the bank not acknowledged as debts:

Obtain a list of updated claims lodged against the bank and check status thereof based on correspondence /

communications and whether the claims have been contested/not acknowledged.

b) Scrutinise details of major law charges and report whether any expenditure has nexus to any claims/disputes/litigation matters having financial implications involving possible liability not acknowledged.

c) Check whether any claims outstanding as at the previous year-end have been omitted/ignored unless liability in respect thereof has ceased.

d) Seek information on claims recorded in the post-balance sheet period to ensure that no items relating to the year under audit have been ignored.

2. Liability for partly paid investments:

Check whether liability on account of partly paid investments has been disclosed at correct figures.

3. Liability on account of outstanding forward exchange contracts:

a) Check register(s) relating to the outstanding forward exchange contracts to ensure that all transactions contracted for upto the year-end have been correctly recorded.

b) Check basis of year-end foreign currency translation with reference to Head Office/controlling authority communications.

c) Check whether the Branch has recorded the net profit/loss upto the year-end as per R.B.I./FEDAI instructions for the time being in force.

4. Guarantees given on behalf of constituents:

a) Check and scrutinise the guarantee register(s) to ensure that guarantee documents issued are sequentially and expeditiously recorded includes letters of comfort.

b) Check the list of outstanding guarantees with the relevant registers to ascertain whether all outstanding amounts are included as at the year-end.

c) Check whether the amount of expired guarantees, where the claim period has also expired, is not included; and if included, whether the bank has recovered the commission thereon upto the year-end.

d) Check whether contingent liability includes liability in respect of invoked guarantees where action was warranted by the Management to invoke counter-guarantees, appropriation of securities/

margins/marketing lien on accounts to protect the interest of the Bank.

e) Check and ascertain whether the Branch has disclosed contingent liability net/ gross of cash margins/security available, contrary to HO instructions

In case of guarantee obligations involving foreign currencies, check whether liability is based on translation of foreign currencies at correct rates applicable.

5. Acceptances, endorsements and other obligations:

a) Letters of credit:

- check outstanding Letters of credit balances with reference to the relevant L.C. Registers maintained;

- check whether margins/security obtained is as per the terms and conditions in the cases examined.

b) Bills accepted:

- check whether recoveries are being made from customers upon the maturity of the bills accepted by the Bank to provide assurance to the payees

6. Bills rediscounted:

- Verify whether contingent liability is shown only on account of outstanding bills rediscounted and

where upon maturity of bills adjustments were not made.

- Examine entries recorded in the post balance sheet period as regards reversal adjustments of bills

rediscounted to the extent these relate back to adjustments for the year under audit.

- Obtain and check confirmation certificates from the parties rediscounting the bills (R.B.I./ I.D.B.I.

/D.F.H.I. and other institutions/banks)

- Check inter-branch transactions towards the year-end to ensure that items relating to bills

rediscounted are adjusted to the extent included therein.

7. General:

Obtain from the Branch Management a representation to the effect that all known liabilities have been duly incorporated upto the year-end and that there are no contingent liabilities except to the extent disclosed in the branch returns submitted for audit.

Review major contingent liabilities recorded at the Branch and report any discrepancies affecting the disclosure in the Balance Sheet.

Bills for Collection

1. Check whether bills in hand as physically verified as at the year-end and/or at a subsequent date(.....):

- a) are complete in all respects and duly supported by the relevant documents as required; and
- b) that particulars thereof tally with the those entered in the relevant Bills Register(s) maintained for the purpose.

2. Scrutinize the age-wise details of the pending bills, and ascertain reasons for retaining bills:

- a) beyond the normal dates of retention; or
- b) contrary to instructions of the constituents; or
- c) which have been frequently returned, and for which the customers have not been charged.

3. Check in the post-balance sheet period, whether entries have been marked-off based on collections made in respect of bills under collection as at the year-end: and enquire into outstanding entries not squared up on due dates

4. Check and report whether bills under collection include amounts comprising bills drawn on other branches of the bank i.e. inter-branch bills.

5. Check and report whether year-end bills expressed in foreign currencies have been converted at rates as stipulated by Head Office/controlling authority.

6. Check totals in the Bills Register(s) and ensure that correct figures appear against the above head in the Balance Sheet.

Disclosure in Balance Sheet

Fixed Assets and other Assets are disclosed and reported in balance sheet of a bank is as follows:

Fixed Assets:

- I Premises at Cost
- II Other Fixed Assets (at Cost)

Other Assets:

I Inter Office Accounts:

- (i)General Account
- (ii) Suspense Account,HO & Branches
- (iii) RTGS /NEFT Settlement A/c
- (iv) T.T. in Transit a/c
- (v) Adjustment A/c -Clearing
- (vi) Discrepancy A/c-Clearing
- (vii) ATM/MBB/Cash Tree Settlement A/c
- (viii) Intersol A/c
- (ix) Head Office Subsidy A/c
- (x) Bad Debts written off
- (xi) Others

II Interest Accrued:

- (i) On Investment (For H.O.use)
- (ii) On Advances to Others
- (iii) On Advances to Staff
- (iv) On Others (for H.O use)

III Tax Paid in Advance /Deducted at Source

IV Stationary and Stamps

- (i) Stationary & Forms(For H.O use)
- (ii) Stamp & Imprest Postage A/c

V Others:

- (i) Temporary Advance(to Staff)
- (ii) Suspense A/c
- (iii) Temporary Advance (to others)
- (iv) Temporary Construction & Strong Room in hired premises
- (v) Security Deposit for Meter, Franking Machine, Telex, Telephone
- (vi) Telephone & House Rent etc paid in advance
- (vii) Commission, Rent etc Receivable
- (viii) Capital work in progress
- (ix) Pension Receivable

- (x) Clearing Cheque Returned A/C
- (xi) Suspense –Draft Paid
- (xii) Draft Account
- (xiii) Interest Subvention Receivable on Export Finance
- (xiv) Festival Advances(Including intt.free staff loan)
- (xv) Other Items

Income & Expenditure /Profit & Loss Accounts

Income - Interest Earned

1. Interest/Discount on Advances/Bills:

a) Large Advances: (percentage sampling checked and documented)

(with balances above 5% of the aggregate branch advances as at the year-end):

Check and calculate interest charged in borrowers' accounts:

- for all the quarters ended as on 31.3.20.....
- for major differences as observed in the quarters checked and report for the same.

Accounts must be listed in the audit report with details of borrowers accounts.

b) Other Advances:

i) Term Loans: (percentage sampling checked and documented)

- Check and calculate interest for all the quarters
- Report for observations on interest on Term Loans in the audit report.

ii) Cash Credits,Overdrafts,Demand Loans etc. (percentage sampling checked and documented)

-Check and verify interest charged in each category of advances covered by the above sub-accounts for all the months

-Report whether interest has been short/excess charged from borrowers based on application of wrong credit

rating- List such Accounts and report in the Audit Report.

c)Check and verify whether interest adjustments required upto the year end,and arising from income audit/inspection audit/concurrent audit and/or similar audit reports,have been made.

d)Check whether Interest accrued includes income in respect of accounts classified as NPAs.

e)Check and verify whether, in the accounts examined interest has been recorded as income on Non-Performing Accounts contrary to RBI norms

Adverse observations must be incorporated in the Report stating the unrealized amount recognised as income in NPAs.

f) Examine nature of debits in Income account to check whether these are appropriate.

Check and vouch all large debits and record the same in the Audit Report.

g) Check and examine whether changes in the rates of Interest computations through the system are made on effective dates

2. Interest earned /Discount on advances/bills are reported in balance sheet of the bank as follows: (percentage sampling checked and documented)

I Interest Earned:

- (i) Interest /Discount on Advances /Bills:
 - Bills Purchased & Discounted including Cheque purchased
- (ii) Cash Credits, Overdraft & Loans
 - Payable on demand
- (iii) Term Loans
- (iv) From Credit Institutions
- (v) From Hire Purchase/Leasing Finance Companies
- (vi) From Export Credit

II Income on Investments:

- (i) Government Securities
- (ii) Other Approved Securities
- (iii) Shares
- (iv) Debentures and Bonds
- (v) Subsidiaries and /or Joint Ventures
- (vi) Other Investments

III Interest on balances with Reserve Bank of India and other inter bank funds:

- (i) Balance with R.B.I
- (ii) Balance with S.B.I
- (iii) Balance with other Banks
- (iv) Money at call or Short Notice

IV Other Interest/Discount, if any

2. Income on Investments: (percentage sampling checked and documented)

Check and verify the authority/basis for recording income on investments, in the branch returns.

Check and verify the valuations of Investments and its ownership

3. Interest on balances with Reserve Bank of India and other inter-bank funds: (percentage sampling checked and documented)

Check and verify the authority/basis for recording income on investments, in the branch returns.

4. Others:

Test check interest on :

- staff advances given by the bank as employer/banker,
- security deposits,

- other claims,
- other items,

which comprise assets recorded under the head "Other Assets" in the Balance Sheet. Record and report for accounts checked in the Audit Report.

5. Check inter-branch interest with reference to HO advice(s).

Income – Other Income (percentage sampling checked and documented)

1. Commission, Exchange and Brokerage:

a) Test check commission on:

- Bills for collection - for bills in hand as at the year-end
- Letters of credit - 10% of the largest ones in value
- Guarantees - 10% of the largest ones in value

b) Check and vouch entries each in excess of 2% of the aggregate in each income head in which commission, exchange and brokerage, is recorded.

c) Check and ascertain reasons for major discrepancies between locker rent collected and that normally due on the basis of lockers let out.

d) Check that adjustments to the extent required, have been made in the accounts in compliance of the latest reports of:

- Branch Inspection Audit,
- Income/Revenue Audit,
- Concurrent Audit, and
- Special Audit.

e) Interest earned /Discount on advances/bills are reported in balance sheet of the bank as follows:

Other Income:

Commission, Exchange and Brokerage:

(i) **Commission :**

- (a) Bills & Cheques (Inland) for collection
- (b) Bills & Cheques (Foreign) for collection
- (c) Letter of Credit (Inland)
- (d) Letter of Credit (Foreign-Import)
- (e) Letter of Credit (Foreign-Export)
- (f) Letter of Guarantee(Inland)
- (g) Letter of Guarantee(Foreign)
- (h) Bills & Cheques(Inland) purchased/discounted
- (i) Bills & Cheques(Foreign) purchased/discounted
- (j) Turnover Commission on Government work
- (k) Others, if any

(ii) **Exchange :**

- (a) P.O.,D.D.,M.T.,T.T. etc (Inland)
- (b) P.O.,D.D.,M.T.,T.T. etc (Foreign)
- (iii) Brokerage
- (iv) Underwriting Commission,fees etc Merchant Banking activities

2. Profit on sale of investments less Loss:

Check authority/basis for recording in the Branch returns,the profit/loss on sale of investments- and vouch the transactions with all the detailed documentation and confirmation.

3. Profit on sale of land, buildings and other assets (less Loss):

a) Check authority for disposal of:

- fixed assets, if any, sold during the year under audit; and
- non-banking assets acquired in satisfaction of claims.

b) Check and Vouch transactions in evidence of profit/loss recorded by the Branch in respect of assets, as aforesaid.

c) Report if any assets have been revalued and entries recorded in respect thereof at the Branch level.

4. Profit on exchange transactions (less Loss):

a) Check that the year-end outstanding entries are converted at appropriate rates of exchange as communicated by the Controlling authority,for recording profit/loss on exchange transactions.

b) Test and check large transactions,each in excess of 2% of the aggregate in the ledger,and check whether these are recorded in compliance with the directions of the controlling authority.

c) Check and Scrutinize the transactions recorded in the post-Balance sheet period to ensure that no material items have been ignored upto the year-end.

d) Enquire and check unusually large entries involving huge gains/losses for the year and whether these pertain to the Branch or another linked office.

5. Miscellaneous Income: (percentage sampling checked and documented)

a) Check and ascertain whether any premises or part thereof is let out,and if so, whether rent recoveries are recorded upto the year-end at the rates as applicable.

b)Check accounts,each in excess of 5% of the aggregate amount in the income sub-heads relating to 'Miscellaneous income' and report in the audit report.

6.Profit on sale on Investments,land,Building and other assets is reported in Balance Sheet as follows:

- I Profit on sale of Investments,Land,Building and other assets
 - (i) Investments(For H.O.use)
 - (ii) Land,Building and Other Assets
- II Profit on Revaluation of Assets
(For H.O. use)
- III Profit on Exchange Transactions :

- IV Income earned by way of dividends etc from subsidiaries/companies and/or joint ventures
 - abroad /In India
- V Miscellaneous Income:
 - (i) Incidental Charges
 - (ii) Godown Charges
 - (iii) Sale proceed of old newspaper etc
 - (iv) Bad Debts written off realised
 - (v) Safe custody charges & locker charges
 - (vi) Clearing House Charges
 - (vii) Service Charges(Including Processing Charges)
 - (viii) Income from Non Banking Assets (For H.O use)
 - (ix) Others

Audit Programme –Expenditure

Interest Expended:

Check,verify and report for Interest rates and calculations on the Computerised Information Systems with circulars,notifications of the banks and RBI with check on documentation.Check and generate 'exception' reports on adverse observations on general ledger accounts.

1.Interest on Deposits:

Test check and verify for each category of deposits,interest as based on the system and check if modifications in applicable rates are made from the effective dates with check on calculations of interest with deposit receipt and other documentations :

a) Savings Bank Deposits:

(i)If interest test is applied at periodic intervals at the Branch, check whether the excess/short adjustment upto the date the last application was so made,has been adjusted.

(ii)Check compliance of Head Office instructions as to the date upto which interest is required to be adjusted to the savings bank accounts and the manner/basis of further provision/accrual of interest upto the year-end.

(iii)Test check few sample accounts per ledger and list out the accounts checked in the audit report.

(iv) Check and ascertain whether an over-all check of interest calculations(based on the control account in the General ledger for the year) reveals any major variation in the expenditure recorded.

(v)Check,verify and report for Interest suspense account and its adjustment entries at year end.

b) Term Loans:

(i)Check interest on year-end Term Loans from Banks/institutions (100%).

(ii)Check that interest provision is made on each category of term deposits.

(iii)Check few accounts in each subsidiary ledger in-depth.

(iv) Check on an over-all basis the computation of interest with reference to the average balances in the Term deposits in each category-enquire into major variances.

(v) Check whether interest is provided on matured/overdue deposits upto the year-end, and if so, the basis thereof.

(vi) Check, verify and report for Interest suspense account and its adjustment entries at year end.

c) General:

Check compliance of reports relating to Income/expenditure control audit in Relation to interest on deposits and Interest Suspense accounts.

d) Check, verify and Report for Interest, if paid, on any Current Account balances and authority to pay the same.

2. Interest on R.B.I./Inter-Bank Borrowings:

Check authority/basis on which the branch has recorded interest with calculations on the above as per terms and conditions agreed with banks and Reserve Bank of India.

3. Others:

Check, verify and report for interest /discount (100%) on borrowing/refinance from financial institutions if borrowings are authorised by Head Office.

Check interest on non-risk bearing participation certificates(100%), if participation is authorised by H.O.

Operating Expenses

1. Payments to and Provisions for employees:

a) Check, verify, rectify and report for salaries/allowances for all the months.

b) Check major variances in such salaries, allowances in any month; and enquire into reasons for the same.

c) Report whether pursuant to any award/settlement or otherwise any arrears of remuneration are due but not adjusted.

d) Check for any advances to staff with salaries, deductions and necessary documentations.

2. Rent, taxes and Lighting:

a) Check rent for all the months and verify whether adjustments have been made for the full year on account of rent at the rates as applicable and as per agreement in force.

b) If agreement has expired, check provision for accelerated demand/claim; and report no provision/adjustment on the same

c) Report whether Rent includes House Rent Allowance to employees.

d) Report municipal rates/taxes not paid/adjusted in respect of the Branch, for the year under audit

e) Report any disputed liability on this account upto the year end.

3. Printing and Stationery:

- Check items, each in excess of 5% of the total expenditure recorded at the branch.
- Check and report if any articles of stationery have been shown in the Branch statements

4. Advertisement and Publicity:

Check items, each in excess of 5% of the total expenditure recorded at the branch.

5. Depreciation on Bank's Property:

- a) Check H.O. instructions as regards adjustment of depreciation on the fixed assets of the Branch.
- b) Check whether depreciation on fixed assets, has been adjusted at the applicable rates and in the manner required by Head Office.
- c) Report unadjusted depreciation on assets acquired but not capitalized.

6. Law Charges:

Check law charges general ledger accounts, each in excess of 5% of the total expenditure recorded at the branch.

7. Postage, Telegrams, Telephones etc.

- a) Check, verify and report general ledger accounts of postage, telegrams, telephones, each in excess of 5% of the total expenditure recorded at the branch.
- b) Check whether OYT deposits have been written off in accordance with the system in force.

8. Repairs and Maintenance

Check, verify and report for general ledger accounts of Repairs and Maintenance, each in excess of 5% of the total expenditure recorded at the branch.

9. Expenditure and Interest expended is reported in the Balance Sheet of the bank as follows:

Expenditures

1. Interest Expended:
 - I Interest on Deposits
 - (i) Savings Bank Deposits
 - (ii) Term Deposits
 - II Interest on Reserve Bank of India /Interbank Borrowings
 - (i) Paid/Payable to R.B.I
 - (a) T.T. Discounted
 - (b) Refinance available
 - © Others, if any
 - (ii) Paid/Payable for T.T. Discounted with S.B.I & Other Banks
 - (iii) Paid /Payable for other borrowings from Banks (including call money)
 - (iv) Paid/Payable for Bills Discounted with Banks, if any
 - III Interest on Others (Other than Bank)
 - (i) Paid/Payable for Refinance availed from
 - (a) IDBI/SIDBI
 - (b) NABARD
 - © NATIONAL HOUSING BANK
 - (d) EXIM BANK
 - (e) Other Institutions, if any

- (ii) Paid/Payable for all other borrowings from Institutions/Agencies like IDBI, NABARD, UTI, LIC, etc
- (iii) Paid/Payable for Bills Rediscounted with
 - (a) IDBI/SIDBI
 - (b) From Other Agencies/Institutions
- (iv) Any other interest paid/payable

2. Operating Expenses

I Payment to and Provisions for employees :

- (i) Establishment expenses

II Rent, Taxes and Lighting (For H.O use)

- (i) Rent on Office Premises
- (ii) Rent on residential premises

- (iii) Rent on Godown etc

- (iv) Municipal Taxes

- (v) Electric Charges, lighting etc

III Printing & Stationary:

- (i) Stationary
- (ii) Printing & Book Binding

IV Advertisement & Publicity

- (i) Advertisement (non-publicity)
- (ii) Publicity Expenses

V Depreciation on Bank's Property:

- (i) Premises
- (ii) Other Fixed Assets
- (iii) Other Assets

VI Directors Fees ,Allowances and Expenses:

(For H.O use)

VII Auditor's Fees and Expenses Including Branch Auditors' Fees and Expenses

VIII Law Charges:

IX Postage, Telegrams, Telephones etc

- (i) Postage/Telegram/Courier
- (ii) Telephone & STD Charges
- (iii) Leased Line Rental
- (iv) Telex

X Repairs & Maintenance:

- (i) Repairs to Bank's own building & premises
- (ii) Other Repairs
- (iii) Lift Maintenance
- (iv) Car Maintenance
- (v) Van Maintenance

XI Insurance (For H.O use)

XII Loss on sale and Revaluation of Investments, Land, Building and Other Assets:

- (i) Loss on Sale of Investments
- (ii) Loss on Sale of Land, Building and other Assets
- (iii) Loss on Revaluation of Investments
- (iv) Loss on Exchange Transaction

XIII Other Expenditure:

- (i) Stamps
- (ii) Bad Debts Written Off (For H.O use)
- (iii) Remittance Expenses, Commission and Other Bank Charges
- (iv) Agency charges & Commission
- (v) Clearing House Charges
- (vi) Newspapers and Periodicals
- (vii) Charity and Donation (For H.O use)
- (viii) Subscriptions to Chambers etc (For controlling offices)
- (ix) Licence Fees (Trade, Gun, Vehicle etc)
- (x) Sanitation
- (xi) Entertainment
- (xii) Travelling Allowance
- (xiii) Travelling Expenses
- (xiv) Conveyance Expenses
- (xv) Misc. Loss Written off
- (xvi) Godown Charges, if debit
- (xvii) Freight, Coolie and other labour charges
- (xviii) Service Charges
- (xix) Meeting Expenses
- (xx) Currency Chest Operation Expenses
- (xxi) Ex-Gratia to Employees
- (xxii) Provisions & Contingencies (For H.O use)
- (xxiii) Other Petty Expenses

General

1. General Ledger Accounts:

- a) Check and verify all opening balances in the General ledger and the balances in the Balance sheet of the bank.
- b) Review and check large cash transactions as generated through "Exception Reports" and report in the audit report
- c) Check all closing balances, after ensuring that those have been inked, and initialed by the authorized signatory in case of manual accounts, and see that the final statements are in agreement with the books of accounts and the balance sheet.
- d) Review the day end and year end transactions as at 31-3-20... for any unusual entries that require reporting.
- e) Check, verify and confirm the balances of all general ledger accounts with account holders, Balance Sheet and Income & Expenditure account of the bank.

2. Safe Custody:

- a) Test and check whether securities/parcels/packages of the customers kept in safe custody with the branch are intact and as per entries made in the Safe Custody Register maintained.
- b) Check whether the seals are intact in respect of sealed covers of customers. The contents of such covers are not required to be verified by opening the seals.
- c) Test check whether the system warrants safe custody items being returned with proper acknowledgements from the recipients.
- d) Test check income on account of safe custody charges with the account holders and general ledger accounts
- e) Check lockers and locker rents with the documents, customers and general ledger accounts

3.a) Frauds/Vigilance Cases: Check and scrutinise the list of cases recorded at the Branch including those reported/recorded after the year-end for considering in the long form audit report, any major items reported in audit report:

- For frauds
 - For Vigilance cases
 - Customers' complaints for unauthorized debits to their accounts pending enquiry other than above
- b) Ascertain and check whether adequate provision has been made/recommended for debits arising at the branch on account of frauds reported/recorded.
 - c) Check and verify forms and returns FMR-1/2/3/4 filed with RBI and other concerned authorities with follow ups and recoveries made and recorded.

4. Corresponding Comparative Figures:

- a) Check and Enquire from the Branch Management the reasons for disproportionate unusual/large variations under income or expenditure heads as compared to the corresponding financial figures of the earlier year.
- b) Review the trends between:

- the interest earned in relation to advances and outlay of funds; and
- expenditure by way of interest vis-a-vis the Deposits and other liabilities,
- current and preceding year's aggregate of
 - Interest Suspense
 - Unapplied Interest and ascertain from the management, reasons for divergent trends.

Report and record results of enquiry/ review, if not satisfactorily explained.

c) Check for subsidies account with notifications and circulars in the Balance Sheet and Income & Expenditure Statements e.g Interest Subventions on priority sectors etc

d) Check and verify contra accounts in Balance Sheet and Income & Expenditure Statements.

The Statutory Auditor has to audit the Loans and Advances of the Bank and its branches as per credit limit sanctioned by the Head Office considering the credit risk appraisal report of the borrowers with its proposals.

It has to look into the Credit Risk Ratings and the CIBIL report of the borrowers and check the borrowers credit limit and interest rates. The auditor has to check the documentation of the loan agreements with loan registration numbers, borrowers financial statements, audit report of the borrower, securities/Stock/Assets pledged/hypothecated for the same by the borrower.

Check, verify, enquire confirm and report the Deficiencies found in sanctioning of loans & Advances and monitoring of borrowal accounts by banks/financial Institutions in the Audit Report

I. Deficiencies at the stage of sanction of Loans and Advances and Credit Appraisal:

- o The Auditor has to check the Loan Agreement and the loan registration number registered with the Reserve Bank of India alongwith other documentations of the bank with the borrower.
- o The Auditor should check, verify and report the deficiencies in the appraisal of credit proposals, high projections of the borrowing company not critically analysed by the sanctioning authorities, the borrowers' credit requirements not properly assessed. The credit limits are sanctioned on the basis of appraisal made by the H.O of the bank having no separate assessment for credit risk ratings. The auditor has to look into instances where term loans are sanctioned without insisting on the project report, cost of project and means of finance.
- o The auditor has to check the additional loans sanctioned to the existing borrowers at the time of mid-term review of the projects, additional loans are sanctioned without proper appreciation of the market conditions and the factors which led to time and cost overruns in the projects by the sanctioning authorities.
- o The Auditor should check, verify and report the deficiencies of the sanctioning authorities overlooking the irregularities and material misstatements pointed out by the lower level functionaries in the borrowal accounts or in the accounts of the group companies based on stock verification reports, audit reports, etc. and sanctioned the credit facilities. They do not take into account the fact that some existing accounts of the borrower are irregular, audit objections not cleared, estimates inordinately inflated and the vital issues either not commented upon or wrongly commented in the inspection / audit report itself.
- o The Auditor should check the sanctioning authorities who are not given full facts about the borrowers and the projects by the officials of the controlling office/ branch because the branch does not make proper scrutiny of the borrowing company's antecedents and verify the claims of achievements by them.

- The Auditor should check the sanctioning authorities having adequate facts about the unsatisfactory position of the borrowal accounts and yet facilities were sanctioned overlooking the deficiencies which the auditor is required to report.
- The Auditor should check the instances where the sanction itself is not justified on the basis of projections made by the borrowers and valuation of securities offered by them.
- The Auditor has to verify the sanctions which are deviating from the laid down policy on extending finance for capital expenditure / long term working capital. Facilities sanctioned by the bank's board in violation of its own internal norms.
- The Auditor should check the Sanctioning authorities overlooking the fact at the time of take over of accounts of the borrowing company which had irregular accounts with the previous bank/s.
- The Auditor should check the adhoc limits sanctioned frequently even if the company had regular limits and its accounts were running irregularly, limits being sanctioned by branch/Zonal Office/Central Office level functionaries in excess of their delegated powers. Revival packages were also sanctioned by the Regional authorities in respect of credit limits originally sanctioned by the bank's Head Office Committee.
- The Auditor should check and verify the terms and conditions prescribed at the time of sanction of loan facilities are subsequently relaxed by the sanctioning authorities themselves while disbursing funds without any justification and permission from concerned authorities in the bank for such relaxation.
- The Auditor should check, verify and report the sanctioning authorities acts on extraneous influences, rather than deciding on the merits of the case. The borrowal account finally converting into a non-performing asset which has to be reported to by the Auditor.

II. Check, verify, enquire, confirm and report the Deficiencies at the monitoring stage of Loans and Advances

- The Auditor has to check, verify and report the Loans / advances as released by the branch officials in blatant violation of the terms and conditions of the sanction laid down by the Central Office.
- The Auditor should check, verify and report that no proper monitoring of the end-use of the funds by the borrowers are noticed cases of such diversion of funds in larger accounts are not reported to the bank's Board for their information and decisions which has to be reported by the Auditor.
- The Auditor should check the monitoring of the company's financial standing with reference to the financial indicators like Debt Equity Ratios, Turnover Ratios, Profitability, net worth, assets, stocks etc not carried out effectively has to be checked by the Auditor and ascertain the reasons behind the same and reported in the Audit Report .
- The Auditor should not give undue reliance on the certificates given by the Valuers without co-relating them with other relevant procedures are noticed. For example, in the case of projects under implementation, reliance is placed on the certificates without adequate monitoring of the progress of construction through site visits.

- The Auditor has to report the inadequacies of certificates for verification of inventories, there are inadequate correlation of the figures with audited financial statements and also inadequate follow-up on deficiencies reported.
 - The Auditor has to report about the borrower company producing forged expenditure certificates from the Chartered Accountants.
 - The Auditor should report about the deficiencies in lack of proper monitoring with regard to very important terms and conditions of the term loan sanction such as, tie up of funds, stipulation of promoter's contribution, etc leading to disproportionate lending by the banks/FIs.
 - The Auditor should check and verify the working capital limits failure to detect disappearance of stocks given as security results in misappropriation of funds / sale of stock and realization of receivables without the knowledge of banks/FIs.
 - The Auditor has to look into the managements failure to ensure adequacy of the security offered by the borrowers, failure to verify whether the same asset was mortgaged to another bank / FI.
 - The Auditor should report that Periodical reviews of accounts have not been undertaken after the funds are lent by the banks / FIs.
 - The Auditor has to check if proper assessment of the financial standing of the projects has been carried out or not, when the bank / FI takes over an account from another bank.
 - The Auditor should check and verify for accounts with excess drawings permitted by the branch / Regional Office level functionaries, in the borrowal accounts as ratified by the Head Office in a routine manner without examining the need for such permissions frequently.
 - Limits are sanctioned or allowed to be interchanged indiscriminately by the branch officials without proper authority, should be reported by the Auditor.
 - The Auditor should check the cases pertaining to term loans for financing projects, important terms and conditions of the sanction stipulated by the Board of Directors such as induction of technical directors, constitution of Audit Committees and independent project monitoring committees are not taken seriously, non compliance even at the stage of the release of the final instalment of the loan sanctioned is not taken seriously, the Auditor has to report for such deficiencies and non compliances of governance.
-
- The Auditor should report for many cases of diversion of funds facilitated by opening of accounts with other banks wherein the sale proceeds/proceeds of realized book debts are credited, without the knowledge of the lending bank. With a view to prevent such malpractices, the lending bank should obtain a certificate from the borrowers on a quarterly basis furnishing details of accounts opened with other banks.
 - The Auditor should report for any externalities noticed that the banks rely on the certificates of valuation given by the external valuers which in some cases were subsequently found to have shown grossly inflated values.
 - The Auditor should report for non implementation of immediate action where the malafides/gross negligence on the part of dealing officials are noticed and administrative action is either not initiated well in time or not initiated at all.

- The Auditor should report prima-facie cases against the dealing officials and appropriate action taken or not in terms of CVC guidelines for their inclusion in the list of officers with doubtful integrity should be initiated by banks / FIs in consultation with the CBI.
- The Auditor should check, verify and report the systemic failures while processing loan applications,
where there is no application of mind by the bank officials in observance of compliance with the stipulated terms and conditions by the borrowers resulting in certain serious defaults causing systemic failure of the financial sector.
- The Auditor should report for the inadequacies of credit risk management which needs for building up officials with proper educational background ,training and continuous educational programs to take care of large projects and credit risk management being financed by the banks / FIs.
- The Auditor should report for the credit exposures of each borrowers which causes financial loss to the lending institution ipso facto that in respect of project finance, disbursements are not made by the lending institution in proportion to the funds disbursed by the promoter /borrower. The promoter / borrower is unable to bring in or raise the funds which he is required to provide in terms of the sanction and consequently, in order to protect the investment already made, the lending institution has to provide additional funds not envisaged in the original proposal. The same situation persists when there are cost over-runs, whereby the exposure of the lending institution gets increased.

BY

CA RAKESH CHOUDHARY, B.SC., MIMA, MICA, FICWA, FCA

CHARTERED ACCOUNTANT

STC-1/804, SUN TOWER, SHIPRA SUN CITY, INDIRAPURAM, GHAZIABAD-201014, UP,

INDIA. E.Mail: rakeshchoudhary1@indiatimes.com M: [919868500351](tel:919868500351)